

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2011

Or

**TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period _____ to _____

Commission file # 033-00737

CNB CORPORATION

(Exact name of registrant as specified in its charter)

Michigan

(State or other jurisdiction of incorporation or organization)

38-2662386

(I.R.S. Employer Identification No.)

303 North Main Street, Cheboygan MI 49721
(Address of principal executive offices, including Zip Code)

(231) 627-7111

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 or the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Do not check if smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act).

Yes

No

As of August 3, 2011 there were 1,212,098 shares of the issuer's common stock outstanding.

CNB CORPORATION
Index

PART I - FINANCIAL INFORMATION

Item 1 – Financial Statements (Condensed):

| | |
|--|---------------|
| <u>Consolidated Balance Sheets – June 30, 2011 and December 31, 2010</u> | <u>3</u> |
| <u>Consolidated Statements of Income – Three and Six Months Ended June 30, 2011 and 2010</u> | <u>4</u> |
| <u>Consolidated Statements of Cash Flows - Six Months Ended June 30, 2011 and 2010</u> | <u>5</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>6 – 16</u> |

| | |
|---|----------------|
| <u>Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>17 – 21</u> |
|---|----------------|

| | |
|--|-----------|
| <u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u> | <u>21</u> |
|--|-----------|

| | |
|---|----------------|
| <u>Item 4 – Controls and Procedures</u> | <u>21 – 22</u> |
|---|----------------|

PART II - OTHER INFORMATION

| | |
|-----------------------------------|-----------|
| <u>Item 1 – Legal Proceedings</u> | <u>22</u> |
|-----------------------------------|-----------|

| | |
|-------------------------------|-----------|
| <u>Item 1A – Risk Factors</u> | <u>22</u> |
|-------------------------------|-----------|

| | |
|---|-----------|
| <u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>22</u> |
|---|-----------|

| | |
|---|-----------|
| <u>Item 3 – Defaults Upon Senior Securities</u> | <u>22</u> |
|---|-----------|

| | |
|--|-----------|
| <u>Item 4 – (Removed and Reserved)</u> | <u>22</u> |
|--|-----------|

| | |
|-----------------------------------|-----------|
| <u>Item 5 – Other Information</u> | <u>22</u> |
|-----------------------------------|-----------|

| | |
|--|-----------|
| <u>Item 6 – Exhibits and Reports on Form 8-K</u> | <u>22</u> |
|--|-----------|

| | |
|-------------------|-----------|
| <u>Signatures</u> | <u>23</u> |
|-------------------|-----------|

| | |
|----------------------|-----------|
| <u>Exhibit Index</u> | <u>24</u> |
|----------------------|-----------|

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (CONDENSED)

CONSOLIDATED BALANCE SHEETS (dollars in thousands, except per share data)

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|--|---------------------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$ 3,842 | \$ 3,958 |
| Interest-bearing deposits with other financial institutions | 11,082 | 18,595 |
| Total cash and cash equivalents | 14,924 | 22,553 |
| Time Deposits with other financial institutions | 9,807 | 9,626 |
| Securities available for sale | 71,065 | 66,588 |
| Securities held to maturity (market value of \$7,699 in 2011 and \$8,727 in 2010) | 7,116 | 8,442 |
| Other securities | 997 | 999 |
| Loans, held for sale | 917 | 386 |
| Loans, net of allowance for loan losses of \$2,090 in 2011 and \$2,354 in 2010 | 123,947 | 128,776 |
| Premises and equipment, net | 5,334 | 5,499 |
| Other real estate owned | 4,449 | 2,180 |
| Other assets | 9,699 | 10,049 |
| Total assets | <u>\$ 248,255</u> | <u>\$ 255,098</u> |
| LIABILITIES | | |
| Deposits | | |
| Noninterest-bearing | \$ 46,631 | \$ 42,106 |
| Interest-bearing | 175,970 | 188,060 |
| Total deposits | 222,601 | 230,166 |
| Other liabilities | 4,353 | 4,291 |
| Total liabilities | 226,954 | 234,457 |
| SHAREHOLDERS' EQUITY | | |
| Common stock - \$2.50 par value; 2,000,000 shares authorized; and 1,212,098 shares issued and outstanding in 2011 and 2010 | | |
| | 3,030 | 3,030 |
| Additional paid-in capital | 19,499 | 19,499 |
| Accumulated deficit | (855) | (1,137) |
| Accumulated other comprehensive loss, net of tax | (373) | (751) |
| Total shareholders' equity | <u>21,301</u> | <u>20,641</u> |
| Total liabilities and shareholders' equity | <u>\$ 248,255</u> | <u>\$ 255,098</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (dollars in thousands, except per share data)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2011 (Unaudited) | 2010 | 2011 | 2010 |
| INTEREST INCOME | | | | |
| Loans, including fees | \$ 1,946 | \$ 2,232 | \$ 3,884 | \$ 4,466 |
| Securities | | | | |
| Taxable | 268 | 261 | 549 | 476 |
| Tax exempt | 117 | 133 | 246 | 278 |
| Other interest income | 49 | 56 | 106 | 115 |
| Total interest income | 2,380 | 2,682 | 4,785 | 5,335 |
| INTEREST EXPENSE ON DEPOSITS | 386 | 542 | 792 | 1,129 |
| NET INTEREST INCOME | 1,994 | 2,140 | 3,993 | 4,206 |
| Provision for loan losses | 400 | 150 | 700 | 375 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 1,594 | 1,990 | 3,293 | 3,831 |
| NONINTEREST INCOME | | | | |
| Service charges and fees | 261 | 269 | 498 | 515 |
| Net realized gains from sales of loans | 40 | 50 | 67 | 80 |
| Loan servicing fees, net of amortization | 23 | 25 | 46 | 45 |
| Gains on life insurance proceeds | - | 189 | - | 189 |
| Gain on the sale of investment securities | - | 5 | - | 5 |
| Other income | 147 | 88 | 274 | 170 |
| Total noninterest income | 471 | 626 | 885 | 1,004 |
| NONINTEREST EXPENSES | | | | |
| Salaries and employee benefits | 1,004 | 975 | 1,966 | 1,959 |
| Deferred compensation | 63 | 47 | 127 | 108 |
| Occupancy | 238 | 240 | 502 | 496 |
| Legal and professional | 201 | 188 | 348 | 363 |
| FDIC Premiums | 80 | 134 | 219 | 262 |
| ORE losses and carrying costs | 164 | 151 | 204 | 265 |
| Other expenses | 263 | 231 | 563 | 481 |
| Total noninterest expense | 2,013 | 1,966 | 3,929 | 3,934 |
| INCOME BEFORE INCOME TAXES | 52 | 650 | 249 | 901 |
| Income tax expense (benefit) | (46) | 103 | (33) | 129 |
| NET INCOME | \$ 98 | \$ 547 | \$ 282 | \$ 772 |
| TOTAL COMPREHENSIVE INCOME | \$ 348 | \$ 596 | \$ 660 | \$ 773 |
| Return on average assets (annualized) | 0.16% | 0.89% | 0.22% | 0.62% |
| Return on average equity (annualized) | 1.86% | 10.61% | 2.70% | 7.47% |
| Basic earnings per share | \$ 0.08 | \$ 0.45 | \$ 0.23 | \$ 0.64 |
| Diluted earnings per share | \$ 0.08 | \$ 0.45 | \$ 0.23 | \$ 0.64 |
| Dividends declared per share | \$ - | \$ - | \$ - | \$ - |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in thousands).

| | Six months ended June 30, | |
|---|---------------------------|-----------|
| | 2011 | 2010 |
| | (Unaudited) | |
| Cash flows from operating activities | | |
| Net Income | \$ 282 | \$ 772 |
| Adjustments to reconcile net income to net cash from operating activities | | |
| Depreciation, amortization and accretion, net | 340 | 309 |
| Provision for loan losses | 700 | 375 |
| Loans originated for sale | (4,461) | (4,853) |
| Proceeds from sales of loans originated for sale | 3,584 | 4,299 |
| Gain on sales of loans | (67) | (80) |
| Gain on sales of other real estate owned properties | (23) | - |
| Other real estate owned writedowns/losses | 142 | 125 |
| Increase in deferred tax benefit | (195) | (204) |
| Decrease in other assets | 895 | 275 |
| Increase (decrease) in other liabilities | 62 | (61) |
| Total adjustments | 977 | 185 |
| Net cash provided by operating activities | 1,259 | 957 |
| Cash flows from investing activities | | |
| Proceeds from sales of securities available for sale | - | 420 |
| Proceeds from maturities of securities available for sale | 12,682 | 24,086 |
| Purchase of securities available for sale | (16,712) | (27,847) |
| Proceeds from maturities of securities held to maturity | 1,326 | 3,437 |
| Purchase of securities held to maturity | - | (960) |
| Proceeds from sales of other securities | 2 | - |
| Proceeds from maturities of time deposits | 1,812 | 1,054 |
| Purchase of time deposits | (1,993) | (1,180) |
| Net change in portfolio loans | 1,610 | 6,581 |
| Premises and equipment expenditures | (50) | (58) |
| Net cash (used in) provided by investing activities | (1,323) | 5,533 |
| Cash flows from financing activities | | |
| Net decrease in deposits | (7,565) | (5,202) |
| Purchases of common stock | - | (15) |
| Net cash used in financing activities | (7,565) | (5,217) |
| Net change in cash and cash equivalents | (7,629) | 1,273 |
| Cash and cash equivalents at beginning of year | 22,553 | 17,247 |
| Cash and cash equivalents at end of period | \$ 14,924 | \$ 18,520 |
| Cash paid during the period for: | | |
| Interest | \$ 805 | \$ 1,141 |
| Income taxes | - | - |
| Non-cash transactions: | | |
| Transfer from loans to other real estate owned | 2,905 | 376 |

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FORWARD-LOOKING STATEMENTS

When used in this filing and in future filings involving the Company with the Securities and Exchange Commission, in the Company's press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases, "anticipate," "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "project," or similar expressions are intended to identify, "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in the Company's market area, and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as to the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward-looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

Note 1-Basis of Presentation

The consolidated financial statements for June 30, 2011 and December 31, 2010 include CNB Corporation ("Company") and its wholly-owned subsidiary, Citizens National Bank of Cheboygan ("Bank"). All significant intercompany accounts and transactions are eliminated in the consolidation process. The statements have been prepared by management without an audit by independent certified public accountants. However, these statements reflect all adjustments (consisting of normal recurring accruals) and disclosures which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented and should be read in conjunction with the notes to the consolidated financial statements included in the CNB Corporation's Form 10-K for the year ended December 31, 2010.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

Because the results of operations are so closely related to and responsive to changes in economic conditions, the results for any interim period are not necessarily indicative of the results that can be expected for the entire year.

Note 2 – New Accounting Standards

In April 2011, the FASB issued, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring, amends FASB ASC 310-40, Receivables — Troubled Debt Restructurings by Creditors because of inconsistencies in practice and the increased volume of debt modifications. The standard provides additional clarifying guidance in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring qualifies as a troubled debt restructuring. The effective date is for the first interim or annual period ending after June 15, 2011 to be applied retrospectively to restructurings taking place on or after the beginning of the fiscal year of adoption, with early application allowed. As a result of the clarifying guidance, receivables that are newly considered impaired for which impairment was previously measured using a general allowance for credit losses may be identified. In respect of such receivables, disclosure is required of (1) the total recorded investment in such receivables, and (2) the related allowance for credit losses as of the end of the period of adoption. For purposes of measuring impairment of those receivables, the effective date is for the first interim or annual period beginning on or after

June 15, 2011 to be applied prospectively. The Company is analyzing the impact on the standard and will adopt the requirements in the third quarter of 2011.

FASB ASU 2010-06, Improving Disclosures about Fair Value Measurements. The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2010-06 to amend ASC 820, Fair Value Measurement and Disclosures (“ASC 820”), to require additional disclosures regarding fair value measurements. Specifically, the ASU requires disclosure of the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers; the reasons for any transfers in or out of Level 3; and information in the reconciliation of recurring Level 3 measurements about gross purchases, sales, issuances and settlements. Except for the requirement to disclose purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements on a gross basis, all the amendments to ASC 820 made by ASU 2010-06 were effective for the Corporation on January 1, 2010. The requirement to separately disclose purchases, sales, issuances and settlements of recurring Level 3 measurements was effective for the Corporation as of January 1, 2011. All required disclosures are incorporated into Note 6 (Fair Value Measurement).

FASB ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the FASB issued ASU 2010-20, which requires new qualitative and quantitative disclosures on the allowance for credit losses, credit quality, impaired loans, modifications and nonaccrual and past due financing receivables. The guidance requires that an entity provide disclosures facilitating financial statement users’ evaluation of the nature of credit risk inherent in the entity’s portfolio of financing receivables (i.e., loans), how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. These required disclosures are to be presented on a disaggregated basis at the portfolio segment and the class of financing receivables level. As it relates to disclosures as of the end of a reporting period, ASU 2010-20 was effective for the Company as of December 31, 2010. Disclosures that relate to activity during a reporting period were required for the Company in the period beginning January 1, 2011 and are incorporated into Note 4 (Loans) and Note 5 (Allowance for Loan Losses). In January 2011, the FASB temporarily deferred the effective date for disclosures about troubled debt restructurings under ASU 2010-20. See ASU 2011-2 below which requires disclosures about troubled debt restructurings under ASU 2010-20 on a prospective basis beginning in the quarter ended September 30, 2011.

FASB ASU 2011-02, A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring. In April 2011, the FASB issued ASU 2011-02, which provides additional guidance to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. The amendments in this update are effective for the Corporation beginning in the quarter ended September 30, 2011 and are to be applied retrospectively to January 1, 2011. In addition, the modification disclosures described in ASU 2010-20, which were subsequently deferred by ASU 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings, will be effective on a prospective basis beginning in the quarter ended September 30, 2011. The Company has not completed evaluating the impact of ASU 2011-02 on its consolidated financial statements.

The FASB has issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the IASB (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRSs. The amendments to the Codification in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The impact of adoption of this ASU is not expected to be material.

FASB ASU 2011-05, Presentation of Comprehensive Income. In June 2011, the FASB issued ASU 2011-05, which provides entities with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive

income, along with a total for other comprehensive income, and a total amount for comprehensive income. Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This update should be applied retrospectively effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We anticipate this statement will be adopted with our 2012 annual financial statements.

Note 3 – Securities

The securities portfolio increased \$3.1 million since December 31, 2010. The available for sale portfolio increased to 89.7% of the investment portfolio at June 30, 2011 compared to 87.6% at December 31, 2010.

The fair values and related unrealized gains and losses for securities available for sale were as follows, in thousands of dollars:

| | <u>Fair Value</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> |
|----------------------------|-------------------|-------------------------------|--------------------------------|
| Available for Sale | | | |
| June 30, 2011 | | | |
| U.S. Government and agency | \$ 44,979 | \$ 230 | \$ (7) |
| Mortgage-backed | 14,130 | 233 | (19) |
| State and municipal | 9,744 | 295 | (3) |
| Corporate Obligations | 1,018 | 19 | - |
| Auction rate securities | 1,000 | - | - |
| Preferred Shares | 194 | 172 | - |
| | <u>\$ 71,065</u> | <u>\$ 949</u> | <u>\$ (29)</u> |
| December 31, 2010 | | | |
| U.S. Government and agency | \$ 38,100 | \$ 133 | \$ (123) |
| Mortgage-backed | 15,902 | 139 | (24) |
| State and municipal | 10,527 | 216 | (32) |
| Corporate Obligations | 1,023 | 24 | - |
| Auction rate securities | 1,000 | - | - |
| Preferred Shares | 36 | 14 | - |
| | <u>\$ 66,588</u> | <u>\$ 526</u> | <u>\$ (179)</u> |

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows, in thousands of dollars:

| | <u>Carrying Amount</u> | <u>Gross Unrecognized Gains</u> | <u>Gross Unrecognized Losses</u> | <u>Fair Value</u> |
|--------------------------|------------------------|---------------------------------|----------------------------------|-------------------|
| Held to Maturity | | | | |
| June 30, 2011 | | | | |
| State and municipal | \$ 7,116 | \$ 582 | \$ - | \$ 7,699 |
| December 31, 2010 | | | | |
| State and municipal | \$ 8,442 | \$ 285 | \$ - | \$ 8,727 |

The carrying amount and fair value of securities by contractual maturity at June 30, 2011 are shown below, in thousands of dollars.

| | Available for sale Fair Value | Held to Maturity Carrying Amount | Fair Value |
|----------------------------|--|---|-----------------|
| Due in one year or less | \$ 17,381 | \$ 306 | \$ 311 |
| Due from one to five years | 35,528 | 4,306 | 4,601 |
| Due from five to ten years | 2,370 | 1,894 | 2,093 |
| Due after ten years | 462 | 610 | 694 |
| Subtotal | <u>55,741</u> | <u>7,116</u> | <u>7,699</u> |
| Mortgage-backed securities | 14,130 | - | - |
| Auction Rate Securities | 1,000 | - | - |
| Preferred Shares | 194 | - | - |
| | <u>\$ 71,065</u> | <u>\$ 7,116</u> | <u>\$ 7,699</u> |

Note 4 – Loans

The table below shows total loans outstanding by type, in thousands of dollars, at June 30, 2011 and December 31, 2010 and their percentages of the total loan portfolio. All loans are domestic.

| | June 30, 2011 | | December 31, 2010 | |
|-------------------------------------|-------------------|----------------|-------------------|----------------|
| | Balance | % of total | Balance | % of total |
| Portfolio loans: | | | | |
| Residential real estate | \$ 66,069 | 52.32% | \$ 67,309 | 51.24% |
| Consumer | 5,422 | 4.29% | 6,016 | 4.58% |
| Commercial real estate | 49,444 | 39.16% | 52,654 | 40.09% |
| Commercial | 5,336 | 4.23% | 5,375 | 4.09% |
| Gross Loans | <u>126,271</u> | <u>100.00%</u> | <u>131,354</u> | <u>100.00%</u> |
| Deferred loan origination fees, net | (234) | | (224) | |
| Allowance for loan losses | (2,090) | | (2,354) | |
| Loans, net | <u>\$ 123,947</u> | | <u>\$ 128,776</u> | |

Net portfolio loans at June 30, 2011 decreased \$5.1 million from December 31, 2010. During the first six months of 2011 and over the most recent twelve months total loans has decreased as a result of slowing loan demand, charge-offs, and the Company's effective use of loan sales and servicing to mitigate interest rate risk. The Company generally sells its fixed long-term mortgages on the secondary market. Since December 31, 2010 commercial real estate mortgages have decreased \$3.2 million while consumer mortgages have decreased \$1.2 million. This decrease in commercial real estate mortgage loans is primarily due to the foreclosure of a large commercial mortgage loan. The foreclosure process transferred the loan balance from a commercial mortgage loan to other real estate owned. Minimal loan demand is expected to continue and overall total loan growth is not expected in 2011.

A quarterly review of loan concentrations at June 30, 2011 indicates the pattern of loans in the portfolio has not changed significantly. There is no individual industry with more than a 10% concentration. However, all tourism related businesses, when combined, total 14.9% of total loans. For purposes of this definition, tourism related businesses includes loans to motels, hotels, restaurants, novelty & gift shops, golf course, marine and campgrounds.

The Company uses a seven grade risk rating system to monitor the ongoing credit quality of its commercial loan portfolio. These loan ratings rank the credit quality of a borrower by measuring liquidity, debt capacity, and payment behavior as shown in the borrower's financial statements. The loan ratings also measure the quality of

the borrower's management and the repayment support offered by any guarantors. A summary of the Company's loan ratings (or, characteristics of the loans within each rating) follows:

Credit Quality Indicators

Risk Ratings 1-3 (Pass) — All loans in risk ratings 1— 3 are considered to be acceptable credit risks by the Company and are grouped for purposes of allowance for loan loss considerations and financial reporting. The three ratings essentially represent a ranking of loans that are all viewed to be of acceptable credit quality, taking into consideration the various factors mentioned above, but with varying degrees of financial strength, debt coverage, management and factors that could impact credit quality.

Risk Rating 4 (Special Mention) — A special mention business credit has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the Company's credit position at some future date. Special mention business credits are not adversely ranked and do not expose the Company to sufficient risk to warrant adverse ranking.

Risk Rating 5 (Substandard) — A substandard business credit is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Business credit classified as substandard must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. If the likelihood of full collection of interest and principal may be in doubt; such loans are placed on nonaccrual status.

Risk Rating 6 (Doubtful) — A business credit rated as doubtful has all the weaknesses inherent in substandard as risk rating 5 with the added characteristic that the weaknesses make collection or liquidation in full, on the basis or currently existing fact, conditions, and values, highly questionable and improbable. Due to the high probability of loss, nonaccrual treatment is required for doubtful rated loans.

Risk Rating 7 (Loss) — A business credit rated as loss is considered uncollectible and of such little value that it's continuance as a collectable loan is not warranted. This rating does not necessarily result in absolutely no recovery or salvage value, but rather it is not practical or desirable to defer charging off even if partial recovery may be a consideration in the future.

The following table presents the recorded investment of loans in the commercial loan portfolio by risk rating categories:

| | Commercial | | Commercial Real Estate | |
|--------------|-------------------|----------------------|-------------------------------|----------------------|
| | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 |
| | (In thousands) | | | |
| 1 | \$ 148 | \$ 18 | \$ 949 | \$ 148 |
| 2 | 1,586 | 1,334 | 4,047 | 5,166 |
| 3 | 2,994 | 3,318 | 30,050 | 28,903 |
| 4 | 24 | 35 | 6,845 | 4,582 |
| 5 | 584 | 670 | 7,553 | 13,855 |
| 6 | - | - | - | - |
| 7 | - | - | - | - |
| Total | \$ 5,336 | \$ 5,375 | \$ 49,444 | \$ 52,654 |

The Company evaluates the credit quality of loans in the residential loan portfolio based primarily on the aging status of the loan and payment activity. The following schedule presents the recorded investment of loans in the residential loan portfolio based on the credit risk profile of loans in a pass, special mention and substandard rating:

Residential

| June 30, 2011 | December 31, 2010 |
|------------------|----------------------|
| (In thousands) | |

Grade:

| | | |
|-----------------|-----------|-----------|
| Pass | \$ 65,499 | \$ 66,884 |
| Special mention | 118 | - |
| Substandard | 452 | 425 |
| Total | \$ 66,069 | \$ 67,309 |

The Company evaluates the credit quality of loans in the consumer loan portfolio, based primarily on the aging status of the loan. Accordingly loans past due as to principal or interest 90 days or more are considered in a nonperforming status for purposes of credit quality evaluation. The following schedule presents the recorded investment of loans in the consumer loan portfolio based on the credit risk profile of loans in a performing status and loans in a nonperforming status:

| | | Consumer | |
|---------------|----------|------------------|----------------------|
| | | June 30, 2011 | December 31, 2010 |
| | | (In thousands) | |
| Performing | \$ 5,422 | \$ 6,008 | |
| Nonperforming | - | 8 | |
| Total | \$ 5,422 | \$ 6,016 | |

Note 5 – Allowance for Loan Losses

The following is a summary of transactions in the allowance for loan losses for the three and six month periods ending June 30, in thousands of dollars:

| | Three Months Ended | | Six Month Ended | |
|---------------------------|--------------------|----------|------------------|----------|
| | June 30, 2011 | 2010 | June 30, 2011 | 2010 |
| Beginning balance | \$ 1,845 | \$ 3,038 | \$ 2,354 | \$ 2,863 |
| Provision for loan losses | 400 | 150 | 700 | 375 |
| Charge-offs | (280) | (2,069) | (1,130) | (2,131) |
| Recoveries | 125 | 95 | 166 | 107 |
| Ending balance | \$ 2,090 | \$ 1,214 | \$ 2,090 | \$ 1,214 |

The following schedule presents, by loan type, the changes in the allowance for the period ending June 30 and details regarding the balance in the allowance and the recorded investment in loans at June 30 by impairment evaluation method (in thousands).

| | Commercial | Commercial Real Estate | Consumer | Residential | Unallocated | Total |
|---|--------------|---------------------------|--------------|---------------|--------------|-----------------|
| For the six months ended June 30, 2011 | | | | | | |
| Allowance for credit losses: | | | | | | |
| Beginning balance | \$ 43 | \$ 2,000 | \$ 107 | \$ 186 | \$ 18 | \$ 2,354 |
| Charge-offs | - | (1,009) | (50) | (71) | - | (1,130) |
| Recoveries | - | 126 | 12 | 28 | - | 166 |
| Provision | 49 | 558 | 8 | 37 | 48 | 700 |
| Ending Balance | <u>\$ 92</u> | <u>\$ 1,675</u> | <u>\$ 77</u> | <u>\$ 180</u> | <u>\$ 66</u> | <u>\$ 2,090</u> |
| Ending balance: individually evaluated for impairment | <u>\$ 77</u> | <u>\$ 606</u> | <u>\$ -</u> | <u>\$ 33</u> | <u>\$ -</u> | <u>\$ 716</u> |
| Ending balance: collectively evaluated for impairment | <u>\$ 15</u> | <u>\$ 1,069</u> | <u>\$ 77</u> | <u>\$ 147</u> | <u>\$ 66</u> | <u>\$ 1,374</u> |

For the six months ended June 30, 2010
Allowance for credit losses:

| | | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|-----------------|
| Beginning balance | \$ 116 | \$ 2,277 | \$ 107 | \$ 343 | \$ 20 | \$ 2,863 |
| Charge-offs | (285) | (1,747) | (61) | (38) | - | (2,131) |
| Recoveries | - | 43 | 22 | 42 | - | 107 |
| Provision | 315 | 31 | 57 | (145) | 117 | 375 |
| Ending Balance | <u>\$ 146</u> | <u>\$ 604</u> | <u>\$ 125</u> | <u>\$ 202</u> | <u>\$ 137</u> | <u>\$ 1,214</u> |
| Ending balance: individually evaluated for impairment | <u>\$ 108</u> | <u>\$ 29</u> | <u>\$ 10</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 147</u> |
| Ending balance: collectively evaluated for impairment | <u>\$ 38</u> | <u>\$ 575</u> | <u>\$ 115</u> | <u>\$ 202</u> | <u>\$ 137</u> | <u>\$ 1,067</u> |

Net charge-offs for the year to date period totaled \$964,000 as of June 30, 2011 compared to \$2.0 million at June 30, 2010. The majority of the net charge offs from 2010 was related to 5 loans; all 5 loans had a specific allocation in the allowance for loan losses prior to being charged off.

The balance of the allowance for loan loss at June 30, 2011 is \$2.1 million compared to \$1.2 million at June 30, 2010. Management performs an analysis of the adequacy of the allowance on a regular basis. Based on the most recent analysis, management believes the current level to be adequate to provide for potential losses. As exhibited in the credit quality section below, the Company has started to see decreases in its levels of nonperforming loans.

Management continually monitors its allowance for loan losses and as a result of this monitoring process recorded a loan loss provision of \$700,000 for the first six months of 2011 compared to the prior year amount of \$375,000 in the first six months of 2010. The amount of provision for loan losses recognized by the Company is based on management's evaluation as to the amount required to maintain an allowance adequate to provide for potential losses inherent in the loan portfolio.

Note 6 – Fair Value Measurements

The following tables present information about the Company’s assets measured at fair value on a recurring basis at June 30, 2011, and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company’s assessment of the significance of particular inputs to these fair value measurements required judgment and considers factors specific to each asset or liability.

Disclosures concerning assets measured at fair value are as follows:

| Assets | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance |
|---|--|--|---|------------------|
| June 30, 2011 | | | | |
| Investment securities-available-for-sale: | | | | |
| U.S. Government and agency | \$ 44,979 | \$ - | \$ - | \$ 44,979 |
| Mortgage-backed | 14,130 | - | - | 14,130 |
| State and municipal | - | - | 9,744 | 9,744 |
| Corporate Obligations | 1,018 | - | - | 1,018 |
| Auction rate securities | - | - | 1,000 | 1,000 |
| Preferred Shares | 194 | - | - | 194 |
| | <u>\$ 60,321</u> | <u>\$ -</u> | <u>\$ 10,744</u> | <u>\$ 71,065</u> |
| December 31, 2010 | | | | |
| Investment securities-available-for-sale: | | | | |
| U.S. Government and agency | \$ 38,100 | \$ - | \$ - | \$ 38,100 |
| Mortgage-backed | 15,902 | - | - | 15,902 |
| State and municipal | - | - | 10,527 | 10,527 |
| Corporate Obligations | 1,023 | - | - | 1,023 |
| Auction rate securities | - | - | 1,000 | 1,000 |
| Preferred Shares | 36 | - | - | 36 |
| | <u>\$ 55,061</u> | <u>\$ -</u> | <u>\$ 11,527</u> | <u>\$ 66,588</u> |

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis
(dollars in thousands)

| | Investment securities available-for-sale: | |
|--|---|-----------------|
| | 2011 | 2010 |
| Balance at January 1, | \$ 11,527 | \$ 8,836 |
| Total realized and unrealized gains (losses) included in income | - | 5 |
| Total unrealized gains (losses) included in other comprehensive income | 108 | (52) |
| Net purchases, sales, calls and maturities | (891) | (2,625) |
| Net transfers in/out of Level 3 | - | - |
| Balance at June 30, | <u>\$ 10,744</u> | <u>\$ 6,164</u> |

Available-for-sale investment securities categorized as Level 3 assets primarily consist of bonds issued by local municipalities and an auction rate security which has no recent trades. The Company estimates the fair value of these assets based on the present value of expected future cash flows using management's best estimate of key assumptions, including forecasted interest yield and payment rates, credit quality and a discount rate commensurate with the current market and other risks involved.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Assets Measured at Fair Value on a Nonrecurring Basis
(dollars in thousands)

| Assets | <u>Balance</u> | <u>Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> | <u>Total Losses for the Period</u> |
|--------------------------|----------------|--|--|--|------------------------------------|
| June 30, 2011 | | | | | |
| Impaired loans | \$ 66 | | | \$ 66 | \$ (30) |
| Other real estate owned | 698 | | | 698 | (74) |
| December 31, 2010 | | | | | |
| Impaired loans | \$ 2,343 | | | \$ 2,343 | \$ (890) |
| Other real estate owned | 978 | | | 978 | (346) |

Loans categorized as Level 3 assets consist of non-homogeneous loans that are considered impaired. The Company estimates the fair value of the loans based on using management's best estimate of key assumptions. These assumptions include future payment ability and estimated realizable values of available collateral (typically based on outside appraisals). The impaired loan losses for the period ending June 30, 2011 represents charge-offs of loan balances written down through the allowance for loan losses.

The Company's other real estate owned is held at an estimated fair value and that value changes periodically with the real estate market. Losses for the period associated with other real estate owned represent valuation adjustments and are write downs through the income statement.

Note 7 – Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments. The carrying amount is considered to estimate fair value for cash and variable rate loans or deposits that reprice frequently and fully. Securities fair values are based on quoted market prices or, if no quotes are available, on the rate and term of the security and on information about the issuer. For fixed rate loans or deposits and for variable loans or deposits with infrequent repricing or repricing limits, the fair value is estimated by discounted

cash flow analysis or underlying collateral values, where applicable. The fair value of off-balance sheet items approximates cost and is not considered significant to this presentation.

The estimated values of financial instruments were:

| | June 30, 2011 | | December 31, 2010 | |
|---|-----------------|-------------|-------------------|-------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| (In thousands) | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 14,924 | \$ 14,924 | \$ 22,553 | \$ 22,553 |
| Time Deposits with other financial institutions | 9,807 | 9,807 | 9,626 | 9,626 |
| Securities available for sale | 71,065 | 71,065 | 66,588 | 66,588 |
| Securities held to maturity | 7,116 | 7,699 | 8,442 | 8,727 |
| Other securities | 997 | 997 | 999 | 999 |
| Loans held for sale | 917 | 930 | 386 | 392 |
| Loans, net | 123,947 | 126,475 | 128,776 | 130,286 |
| Accrued interest receivable on loans | 468 | 468 | 433 | 433 |
| Liabilities | | | | |
| Deposits: | | | | |
| Noninterest-bearing | \$ (46,631) | \$ (46,631) | \$ (42,106) | \$ (42,106) |
| Interest bearing | (175,970) | (176,180) | (188,060) | (188,329) |
| Accrued interest payable on deposits | (46) | (46) | (59) | (59) |

Note 8 – Stock Options

The Company adopted a stock option plan in May 1996 under which the stock options may be issued at market prices to employees. The plan states that no grant or award shall be made under the plan more than ten years from the date of adoption of the plan and therefore the plan ended in 2006. Stock options were used to reward certain officers and provide them with an additional equity interest. Options were issued for 10 year periods and have varying vesting schedules. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. The Company has a policy of issuing new shares to satisfy option exercises. There were no modification of awards during the periods ended June 30, 2011 and 2010.

Due to the plan end date, there are no options available for grant as of June 30, 2011 and 2010.

Information about options outstanding and options exercisable follows:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|------------------------------|---------------------|---------------------------------|---|---------------------------|
| Balance at January 1, 2011 | 4,462 | \$ 48.57 | | 0 |
| Options exercised | - | - | | |
| Options expired | - | - | | |
| Options forfeited | - | - | | |
| Balance at June 30, 2011 | 4,462 | \$ 48.57 | 2.5 years | \$ - |
| Exercisable at June 30, 2011 | 4,462 | \$ 48.57 | | |

There were no options exercised during the six months ended June 30, 2011 and 2010 therefore the aggregate intrinsic value of options exercised was \$0 for both periods. There were no shares vested for the same periods. Also, there was no cash received or tax benefits realized from option exercises during the same periods

There have been no significant changes in the Company's critical accounting policies since December 31, 2010.

Note 9 – Earnings Per Share

Basic earnings per share are calculated solely on weighted-average common shares outstanding. Diluted earnings per share will reflect the potential dilution of stock options and other common stock equivalents. For the three and six month periods ending June 30, 2011 the weighted average shares outstanding in calculating basic and diluted earnings per share were 1,212,098. For the three and six month periods ending June 30, 2010 the weighted average shares outstanding in calculating basic and diluted earnings per share were 1,213,021 and 1,213,308. As of June 30, 2011 and 2010 there were 10,231 options not considered in the three and six month earnings per share calculations because they were antidilutive.

ITEM 2-MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion provides information about the consolidated financial condition and results of operations of CNB Corporation ("Company") and its wholly owned subsidiary, Citizens National Bank of Cheboygan ("Bank") for the six month period ending June 30, 2011.

Critical Accounting Policies

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in fact and circumstances. Facts and circumstances which could affect these judgments include, but without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and determining the fair value of securities. The Company's critical accounting policies are described in the Management Discussion and Analysis section of its 2010 Annual Report.

Financial Condition

As of June 30, 2011 total assets of the company were \$248.3 million which represents a decrease of \$6.8 million or 2.7% from December 31, 2010. The Company recognized a decrease in the loan portfolio of \$5.1 million or 3.9% while deposits decreased \$7.6 million.

Credit Quality

The Company has experienced a decrease in the quality of its loan portfolio in recent years as a result of persisting strain on the Michigan economy and the results of recognizing and working out of problem commercial real estate credits. Since December 31, 2010 the Company has experienced improvements in the delinquencies, non accruals and substandard assets. The Company maintains an acceptable level of asset quality as a result of actively managing delinquencies, nonperforming assets, and potential loan problems. The Company performs an ongoing review of all large credits to watch for any deterioration in quality. Nonperforming assets are comprised of: (1) loans accounted for on a nonaccrual basis; (2) loans contractually past due 90 days or more as to interest or principal payments (but not included in nonaccrual loans in (1) above); (3) other loans whose terms have been renegotiated to provide a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower (exclusive of loans in (1) or (2) above); and (4) other real estate owned properties. The aggregate amount of nonperforming assets is shown in the table below.

| | June 30, 2011 | December 31, 2010 |
|--------------------------------|------------------|----------------------|
| Nonaccrual | \$ 2,984 | \$ 6,892 |
| Loans past due 90 days or more | 13 | 99 |
| Troubled debt restructurings | 501 | 233 |
| Other real estate owned | 4,449 | 2,180 |
| Total nonperforming assets | <u>\$ 7,947</u> | <u>\$ 9,404</u> |
| Percent of total assets | 3.20% | 3.69% |

At June 30, 2011, total nonperforming assets decreased by \$1.5 million from December 31, 2010. The overall decrease in nonperforming assets is due to the final resolution of a large volume of these problem assets combine with no identification of additional problem assets. Final resolution of nonperforming assets has come in the form of loan charge-offs and sales of other real estate owned. The Bank is closely monitoring and managing nonperforming assets. Nonaccrual loans decreased \$3.9 million since December 31, 2010. Offsetting the decrease in nonaccrual loans was an increase to other real estate owned. Other real estate

owned increased to \$4.4 million at June 30, 2011. During the first quarter of 2011 a large nonperforming loan, previously on nonaccrual status was foreclosed and the balance was transferred into other real estate owned. Loans past due 90 days and still accruing are loans that management considers to be collectable including accrued interest. Uncertainty in the local economic conditions continues to contribute to the weakness in credit quality.

Because of the continuing efforts to identify and analyze the overall amount of credit risk in the Company's loan portfolio, the Company expects the level of non-performing assets to remain at current levels throughout the remainder of 2011. The Bank believes it is adequately reserved on these loans.

Detail of the loans on nonaccrual status by loan type is presented in the table below:

| | June 30, 2011 | December 31, 2010 |
|------------------------|------------------|----------------------|
| | (In thousands) | |
| Commercial | \$ 481 | \$ 503 |
| Commercial real estate | 2,397 | 6,363 |
| Consumer | - | - |
| Residential | 106 | 26 |
| Total | \$ 2,984 | \$ 6,892 |

The following schedule represents the aging analysis of past due loans by loan type reported (in thousands):

| | 30-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Loan | Accruing Loans 90 Days or More Days Past Due |
|--------------------------|------------------------|-------------------------|-----------------|-------------------|-------------------|---|
| June 30, 2011 | | | | | | |
| Commercial | \$ 13 | \$ 402 | \$ 415 | \$ 4,921 | \$ 5,336 | \$ - |
| Commercial Real Estate | 115 | 1,495 | 1,610 | 47,834 | 49,444 | - |
| Consumer | 18 | - | 18 | 5,404 | 5,422 | - |
| Residential | 821 | 97 | 918 | 65,151 | 66,069 | 13 |
| Total | \$ 967 | \$ 1,994 | \$ 2,961 | \$ 123,310 | \$ 126,271 | \$ 13 |
| December 31, 2010 | | | | | | |
| Commercial | \$ 39 | \$ 402 | \$ 441 | \$ 4,934 | \$ 5,375 | \$ - |
| Commercial Real Estate | 404 | 2,689 | 3,093 | 49,561 | 52,654 | - |
| Consumer | 31 | 8 | 39 | 5,977 | 6,016 | 8 |
| Residential | 824 | 91 | 915 | 66,394 | 67,309 | 91 |
| Total | \$ 1,298 | \$ 3,190 | \$ 4,488 | \$ 126,866 | \$ 131,354 | \$ 99 |

There were seventeen loans in the loan portfolio that were considered impaired as of June 30, 2011. Six of the seventeen loans considered impaired have a valuation allowance against probable losses. There were twenty-two loans that were considered impaired as of year end December 31, 2010. Five of the seventeen loans considered impaired had a valuation allowance against probable losses.

Impaired loans are presented in the table below (in thousands):

| | Unpaid Contractual Principal Balance | Loans With No Allowance | Loans With Allowance | Total Impaired Loans | Related Allowance | Average Impaired Loan Balance | Interest Income Recognized |
|--------------------------|---|----------------------------|-------------------------|-------------------------|----------------------|-------------------------------------|-------------------------------|
| June 30, 2011 | | | | | | | |
| Commercial | \$ 494 | \$ 125 | \$ 277 | \$ 402 | \$ 77 | \$ 423 | \$ - |
| Commercial Real Estate | 2,347 | 267 | 2,080 | 2,347 | 606 | 2,841 | 1 |
| Consumer | - | - | - | - | - | 5 | - |
| Residential | 204 | 106 | 52 | 158 | 33 | 156 | - |
| Total | \$ 3,045 | \$ 498 | \$ 2,409 | \$ 2,907 | \$ 716 | \$ 3,425 | \$ 1 |
| December 31, 2010 | | | | | | | |
| Commercial | \$ 514 | \$ 417 | \$ - | \$ 417 | \$ - | \$ 410 | \$ - |
| Commercial Real Estate | 7,323 | 2,113 | 4,320 | 6,433 | 965 | 5,679 | 5 |
| Consumer | 10 | 10 | - | 10 | - | 17 | 1 |
| Residential | 76 | 26 | 34 | 60 | 15 | 278 | 2 |
| Total | \$ 7,923 | \$ 2,566 | \$ 4,354 | \$ 6,920 | \$ 980 | \$ 6,384 | \$ 8 |

Deposits

Deposits at June 30, 2011 decreased \$7.6 million since December 31, 2010. In 2009 and 2010, the Bank experienced an overall elevated level of deposits as some customers fled more risky market investments for the safety of FDIC-insured bank deposits. The decrease in deposits during the first six months of 2011 is due primarily to growing customer confidence in placing money back into the market and customer desires for higher returns as the Bank continues to be in a low interest rate cycle. Interest-bearing deposits decreased \$12.1 million or 6.4% for the six months ended June 30, 2011, while noninterest-bearing deposits increased \$4.5 million or 10.7%.

Liquidity and Capital

The Company maintains an adequate liquidity position in order to respond to extensions of credit, the short-term demand for funds caused by withdrawals from deposit accounts, and for the payment of operating expenses. Maintaining adequate liquidity is accomplished through the management of a combination of liquid assets – those which can be converted into cash – and access to additional sources of funds. If necessary, additional sources of funds include Federal Home Loan Bank advances, Federal Home Loan Bank overdraft line of credit and Federal Reserve Discount Window availability. Primary liquid assets of the Company are cash and due from banks, federal funds sold, investments held as “available for sale” and maturing loans. The company does not rely on borrowings for sources of liquidity. Liquidity management is both a daily and long-term function of business management. Maturities in the Company’s loan and investment portfolios are monitored regularly to avoid matching short-term deposits with long-term investments and loans. Other assets and liabilities are also monitored to provide the proper balance between liquidity, safety, and profitability. This monitoring process must be continuous due to the constant flow of cash that is inherent in a financial institution.

The Company’s balances of cash and cash equivalents decreased \$7.6 million or 33.8% to \$14.9 million. During the six month period ending June 30, 2011, \$1.3 million in cash was provided by operating activities. Investing activities utilized \$1.3 million during the six months ended June 30, 2011, primarily due to securities purchases and financing activities utilized \$7.6 million due to decreased deposits.

As of June 30, 2011, the Company had no federal funds sold, \$11.1 million on deposit at the Federal Reserve, \$71.1 million in securities available for sale and \$306,000 in held to maturity securities maturing within one year.

These sources of liquidity are supplemented by new deposits and loan payments received by customers. These short-term assets represent 37.0% of total deposits as of June 30, 2011.

Total equity of the Company at June 30, 2011 was \$21.3 million compared to \$20.6 million at December 31, 2010. The increase in equity for the six months ended June 30, 2011 is due to an increase in retained earnings from net income. The Board of Directors of CNB Corporation voted at its June 9, 2011 meeting that no dividend will be paid for the second quarter of 2011.

RESULTS OF OPERATIONS

CNB Corporation's 2011 net income for the first six months was \$282,000, a decrease of \$490,000 compared to 2010 results. This decrease in net income can be attributed in part to the fact that in 2010 the Company recorded gains on life insurance proceeds in the amount of \$189,000 due to the death of a retired director. Also contributing to the decrease in net income was an increase in provision for loan losses as the Company maintains an adequate allowance for loan losses. The return on assets was 0.22% for the first six months of the year versus 0.62% for the same period in 2010. The return on equity was 2.70% compared to 7.47% for the same period last year.

Net income for the three months ending June 30, 2011 was \$98,000 compared to \$547,000 for 2010. This was a decrease of \$449,000. The return on average assets was 0.16% compared to 0.89% for 2010. The return on average equity was 1.86% compared to 10.61% for 2010. This decrease in quarterly earnings is due to the same reasons as mentioned above.

Interest income for the first six months of 2011 was \$4.8 million, a decrease of \$550,000 or 10.3% compared to the 2010 results. This decrease in interest income can be attributed to a continuing low rate environment coupled with increasing loan payoffs. The low interest rates cause customers to refinance their loans to take advantage of the decreased rates which in turn decreases the interest income earned on those loans. The extended low rate environment also causes customers to take money from low yielding savings accounts and use the money to payoff loans thus decreasing total loans outstanding and total interest income. Additional reasons for the decreases in the total loan portfolio are a result of decreasing loan demand, loans being sold to the secondary market, loan charge-offs, and loan balances being transferred to Other Assets as collateral is collected on loans through the foreclosure process.

Interest income for the quarter ending June 30, 2011 was \$2.4 million compared to \$2.7 million for the same period last year. This decrease is primarily for the same reasons as noted above for the year to date period.

Interest expense for the first six months of 2011 was \$792,000, a decrease of \$337,000 or 29.8% compared to 2010 results. This decrease can be attributed to the continued low rate environment and change in deposit mix.

Interest expense for the quarter ending June 30, 2011 was \$386,000 compared to \$542,000 for the same period last year. This decrease is attributed to the same reasons as noted above for the year to date period.

For the first six months of 2011, net interest income was \$4.0 million representing a decrease of 5.1% from the same period in 2010. The fully taxable equivalent net interest margin decreased to 3.56% for the six month period ending June 30, 2011 compared to 3.84% for the period ending June 30, 2010.

Year to date net charge-offs recorded in the allowance for loan losses were \$964,000 for 2011 compared to \$2.0 million for the same period in 2010. A provision expense of \$700,000 was recorded in the first six months of 2011 compared to \$375,000 in the first six months in 2010 in order to maintain an acceptable allowance for loan loss level. The increased provision expense is in response to the need to replenish the allowance for loan losses due to the continued high level of charge-offs. Provision expense is less than current net charge-offs based on management's analysis of the current level of allowance for loan losses.

Noninterest income for the six months ending June 30, 2011 was \$885,000, a decrease of \$119,000 from the same period last year. This change between the two periods is attributed, mostly, due to the same reasons as indicated for the change in year to date net income. 2010 noninterest income included \$189,000 of gains on life insurance proceeds while there was no life insurance gains recorded in 2011.

The decrease in noninterest income between the two periods is also due, in part, to the decreasing rate environment in 2010 resulting in an increased number of refinances of mortgages sold to the secondary market during that year thus increasing the Bank's gains from the sales of these types of loans. There have been fewer mortgage refinances in 2011 and therefore fewer gains realized from the sales of mortgages.

Noninterest income for the three month period ending June 30, 2011 was \$471,000 compared to \$626,000 for the same period last year. This represents a decrease of \$155,000. This increase is attributable, mostly, to the life insurance gains recorded in 2010 as noted above for the six month period.

Noninterest expense for the first six months of 2011 was \$3.9 million, a decrease of 0.13% compared to 2010 results. The Bank's FDIC premiums decreased for the first six months of 2011 compared to the same period last year. In 2010 the FDIC announced a change to the FDIC assessment calculation to base premiums on Bank assets rather than Bank deposits. Along with that change was a decrease in the assessment rates. The change was effective for the 2nd quarter of 2011. Other expenses increased from \$481,000 in 2010 to \$563,000 in 2011. The increase is attributable to small increases in many expense categories. The Company continues to monitor and control expenses at all levels.

Noninterest expense for the three month period ending June 30, 2011 was \$2.0 million, an increase of \$47,000 or 2.4% compared to 2010 results. This change is primarily for the same reasons as noted above for the year to date period.

The provision for federal income tax was a tax benefit of 13.3% of pretax income for the six months ended June 30, 2011 as compared to tax expense of 14.3% for the same period in 2010. The difference between the effective tax rate and the federal corporate tax rate of 34% is generally due to tax-exempt interest earned on investments and loans and other tax-related items.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary source of market risk for the financial instruments held by the Company is interest rate risk. That is, the risk that a change in market rates will adversely affect the market value of the instruments. Generally, the longer the maturity, the higher the interest rate risk exposure. While maturity information does not necessarily present all aspects of exposure, it may provide an indication of where risks are prevalent.

All financial institutions assume interest rate risk as an integral part of normal operations. Managing and measuring interest rate risk is a dynamic, multi-faceted process that ranges from reducing the exposure of the Company's net interest margin to swings in interest rates, to assuring sufficient capital and liquidity to support future balance sheet growth. The Company manages interest rate risk through the Asset Liability Committee. The Asset Liability Committee is comprised of bank officers from various disciplines. The Committee reviews policies and establishes rates which lead to prudent investment of resources, the effective management of risks associated with changing interest rates, the maintenance of adequate liquidity, and the earning of an adequate return of shareholders' equity.

Management believes that there has been no significant changes to the interest rate sensitivity since the presentation in the December 31, 2010 Management Discussion and Analysis appearing in the December 31, 2010 10K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report (the "Evaluation Date") an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Treasurer who serves as our Chief Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Treasurer have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures are, to the best of their knowledge, effective to ensure that material information relating to the Company known to others within the

Company required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2011 that materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

Limitations of the Effectiveness of Internal Controls

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective, provide only reasonable assurance with respect to financial statement preparation and presentation.

PART II-OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. (Removed and Reserved)

Item 5. Other Information

None

Item 6. Exhibits and Reports of Form 8-K

a.) Exhibits

- [31.1](#) [Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer](#)
- [31.2](#) [Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer](#)
- [32.1](#) [Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer](#)
- [32.2](#) [Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 by the Principal Financial Officer](#)

- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Document
- 101.DEF XBRL Taxonomy Extension Definition Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Document

b.) Reports on Form 8-K

A Current Report on Form 8-K was filed on May 20, 2011 announcing the results of the annual vote for directors.

A Current Report on Form 8-K was filed on August 1, 2011 announcing second quarter earnings.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CNB Corporation

(Registrant)

Date: August 5, 2011

/s/ Susan A. Eno

Susan A. Eno

President and Chief Executive Officer

Date: August 5, 2011

/s/ Douglas W. Damm

Douglas W. Damm

Executive Vice President

EXHIBIT INDEX

| <u>Number</u> | <u>Exhibit</u> |
|----------------------|--|
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[CNB Corporation 10-Q](#)

EXHIBIT 31.1

CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, Susan A. Eno, President and Chief Executive Officer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of CNB Corporation;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Susan A. Eno
Susan A. Eno
President and Chief Executive Officer

[CNB Corporation 10-Q](#)

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Shanna L. Hanley, Treasurer, certify that:

- 1) I have reviewed this quarterly report on Form 10-Q of CNB Corporation;
- 2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant we have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2011

/s/ Shanna L. Hanley
Shanna L. Hanley
Treasurer

[CNB Corporation 10-Q](#)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CNB Corporation (the "Company") for the quarterly period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Susan A. Eno, President and Chief Executive Officer, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Susan A. Eno

Susan A. Eno
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

[CNB Corporation 10-Q](#)

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CNB Corporation (the "Company") for the quarterly period ended June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Shanna L. Hanley, Treasurer, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

- (1) the Report fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2011

/s/ Shanna L. Hanley

Shanna L. Hanley Treasurer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.