

Dear Fellow Shareholders

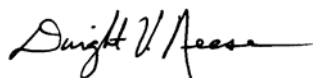
I noted last year that while the recession had been declared to have ended in 2009, its effects continued to linger over our local economy as evidenced by continued elevated unemployment rates and declining property values. I had hoped that the credit cycle had hit its bottom and that the economy had begun to stabilize. However, while that may be true for certain regions of the country, our markets have yet to rebound. South Carolina, and particularly the counties in which we operate, continues to experience much higher unemployment rates than the national average. This has resulted in financial stress for many of our long-term customers and new growth in our markets has been hampered.

In the face of this challenging environment, we have taken the following steps to bolster our franchise:

- **Operate More Efficiently:** We have acted aggressively to reduce our costs and operate in a much more efficient manner. This involved creating an efficiency improvement plan, which resulted in annual cost savings in excess of \$600,000. We also signed a contract in early 2011 to sell our operations center which will result in a capital gain of approximately \$500,000 and reduce operating costs on a going forward basis.
- **Proactively and Aggressively Monitor Problem Assets:** We hired independent third parties to assist us with external loan reviews and the identification of and sale of distressed assets. We hired two Special Asset Managers and established a Special Assets Committee, which includes senior officers and meets weekly to oversee the identification, management and disposition of problem loans.
- **Improve Our Risk Management and Processes:** We added a Chief Risk Officer with primary responsibility for enterprise risk management and improved internal processes related to our allowance methodology and concentration risk management.
- **Preserve Capital:** We have managed our capital ratios by reducing the size of our balance sheet. As of December 31, 2010, the Bank's leverage ratio and total risk-based capital ratio were 5.67% and 10.99%, respectively.
- **Maintain Liquidity:** In these times, we believe that it is prudent to maintain a higher level of liquidity to provide the flexibility to meet a wide variety of funding needs. Thus, our cash and cash equivalents and our securities portfolio, all of which is available-for-sale, totaled \$177.3 million, or 43.4% of total assets.
- **Strategic and Capital Planning:** We totally revamped existing long-term strategic plans to focus on solving recession-related problems and strengthened our capital planning process to find solutions for bolstering capital.
- **Taking Care of Customers and Clients:** In spite of the profound impact of the recession, we continue to focus every day on providing quality products and exceptional service in the markets we serve.

This past year proved to be yet another very challenging year. However, we remain committed to facing our problems and working to devise solutions. We take great pride in having been a part of the community for over 77 years and have a deep sense of personal commitment to the clients we serve, the associates we employ and the communities in which we reside. But most of all, we are grateful for the continued support of our shareholders. I hope that you can join us at our annual meeting on May 18 in the Macfeat House on the campus of Winthrop University.

Sincerely,



Dwight V. Neese
President and Chief Executive Officer