CNB CORPORATION

ANNUAL REPORT

December 31, 2006, 2005 and 2004

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CNB CORPORATION
FINANCIAL HIGHLIGHTS

	2006	2005	2004	2003	2002
		(In thousands, except per share data)			
Operating Statistics					
Interest income	$ 14,969	$ 13,356	$ 12,466	$ 13,282	$ 14,820
Interest expense	4,672	3,132	2,764	3,380	5,300
Net interest income	10,297	10,224	9,702	9,902	9,520
Income before income taxes	4,649	4,528	4,131	5,385	5,703
Net income	3,323	3,288	2,955	3,885	4,094
Basic earnings per share	2.68	2.66	2.38	3.12	3.27
Diluted earnings per share	2.68	2.65	2.37	3.11	3.26
Return on average assets (ROA)	1.31 %	1.28 %	1.14 %	1.53 %	1.71 %
Return on average shareholders' equity (ROE)	13.09 %	13.23 %	11.68 %	15.14 %	16.65 %
Balance Sheet Statistics					
Securities	$ 56,882	$ 74,485	$ 88,951	$ 86,921	$ 69,400
Total loans	167,234	156,326	144,619	143,500	146,328
Deposits	221,365	223,437	225,411	224,914	216,444
Total assets	251,900	252,731	254,094	254,406	244,439
Capital Statistics					
Shareholders' equity	$ 24,998	$ 24,499	$ 24,156	$ 25,138	$ 24,737
Book value per share	20.17	19.80	19.51	20.21	19.83
Cash dividends per share	2.28	2.20	2.20	2.10	2.04
Dividend payout ratio	85.00 %	82.79 %	92.32 %	67.16 %	62.25 %
Average equity to average total assets	10.01 %	9.66 %	9.79 %	10.13 %	10.25 %
Credit Statistics					
Net charge-offs to total loans	0.05 %	0.01 %	0.16 %	0.07 %	0.00 %
Nonperforming loans to total loans	0.11 %	0.16 %	0.47 %	0.28 %	0.08 %
Allowance for loan losses to total loans	0.90 %	0.93 %	0.93 %	1.10 %	1.14 %
Allowance for loan losses to nonperforming loans	8.46 x	5.72 x	2.00 x	3.86 x	14.64 x

Price Range for Common Stock

The following table shows the high and low selling prices of known transactions in common stock of the Company for each quarter of 2006 and 2005. As of December 31, 2006, there is no established public trading market for the Company's common stock. Beginning in March 2007 the stock is now traded on the over-the-counter bulletin. The Company's trading symbol is CNBZ. The Company had 1,036 shareholders as of December 31, 2006.

	2006			2005		
	Market Price		Cash Dividends	Market Price		Cash Dividends
Quarter	High	Low	Declared	High	Low	Declared
1st	$ 50.00	$ 47.00	$ 0.42	$ 50.00	$ 48.00	$ 0.40
2nd	49.00	45.00	0.42	50.00	49.50	0.40
3rd	47.00	40.00	0.42	50.00	46.50	0.40
4th	48.00	36.50	1.02	50.00	45.00	1.00

CNB CORPORATION
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
	(In thousands, except share and per share data)	
ASSETS		
Cash and due from banks	$ 8,444	$ 6,586
Federal funds sold	6,368	5,357
Total cash and cash equivalents	14,812	11,943
Securities available for sale	51,331	69,315
Securities held to maturity (fair value of $4,582 in 2006 and $4,128 in 2005)	4,543	4,117
Other securities	1,008	1,053
Loans, net of allowance for loan losses of $1,498 in 2006 and $1,456 in 2005	165,730	154,862
Premises and equipment, net	6,626	5,443
Other assets	7,850	5,998
Total assets	$ 251,900	$ 252,731
LIABILITIES		
Deposits		
Noninterest-bearing	$ 39,620	$ 38,943
Interest-bearing	181,745	184,494
Total deposits	221,365	223,437
Other liabilities	5,537	4,795
Total liabilities	226,902	228,232
SHAREHOLDERS' EQUITY		
Common stock - $2.50 par value; 2,000,000 shares authorized; 1,239,512 and 1,237,418 shares issued and outstanding in 2006 and 2005	3,099	3,094
Additional paid-in capital	20,482	20,430
Retained earnings	2,235	1,576
Accumulated other comprehensive loss, net of tax	(818)	(601)
Total shareholders' equity	24,998	24,499
Total liabilities and shareholders' equity	$ 251,900	$ 252,731

See accompanying notes to consolidated financial statements.

CNB CORPORATION
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
	(In thousands, except per share data)		
INTEREST INCOME			
Loans, including fees	$ 12,149	$ 10,460	$ 9,705
Securities			
Taxable	1,861	2,073	1,925
Tax exempt	482	571	691
Other interest income	477	252	145
Total interest income	14,969	13,356	12,466
INTEREST EXPENSE ON DEPOSITS	4,672	3,132	2,764
NET INTEREST INCOME	10,297	10,224	9,702
Provision for loan losses	120	120	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,177	10,104	9,702
NONINTEREST INCOME			
Service charges and fees	1,049	942	976
Net realized gains from sales of loans	166	256	342
Loan servicing fees, net of amortization	119	113	135
Gain on life insurance	-	300	-
Gain on the sale of premises and equipment	521	-	-
Other income	171	205	165
Total noninterest income	2,026	1,816	1,618
NONINTEREST EXPENSES			
Salaries and employee benefits	3,535	3,303	3,400
Deferred compensation	317	690	315
Pension	239	260	768
Hospitalization	591	545	490
Occupancy	1,053	913	814
Supplies	222	168	168
Legal and professional	329	457	312
Marketing	193	191	98
Other expenses	1,075	865	824
Total noninterest expense	7,554	7,392	7,189
INCOME BEFORE INCOME TAXES	4,649	4,528	4,131
Income tax expense	1,326	1,240	1,176
NET INCOME	3,323	3,288	2,955
Other comprehensive income (loss)			
Net change in unrealized gains (losses) on securities available for sale	721	(746)	(1,130)
Change in minimum pension liability	-	477	12
Tax effects	(246)	92	381
Total other comprehensive income (loss)	475	(177)	(737)
COMPREHENSIVE INCOME	$ 3,798	$ 3,111	$ 2,218
Basic earnings per share	$ 2.68	$ 2.66	$ 2.38
Diluted earnings per share	2.68	2.65	2.37

See accompanying notes to consolidated financial statements.

CNB CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2006, 2005 and 2004

	Outstanding Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Shareholders' Equity
	(Dollars in thousands, except per share data)					
Balance January 1, 2004	1,243,939	$ 3,110	$ 20,932	$ 783	$ 313	$ 25,138
Net income				2,955		2,955
Cash dividends - $2.20 per share				(2,728)		(2,728)
Shares issued under stock option plan, net of 4,543 shares surrendered	4,324	11	37			48
Purchase and retirement of common stock	(10,269)	(26)	(494)			(520)
Net change in accumulated other comprehensive income (loss)					(737)	(737)
Balance December 31, 2004	1,237,994	3,095	20,475	1,010	(424)	24,156
Net income				3,288		3,288
Cash dividends - $2.20 per share				(2,722)		(2,722)
Shares issued under stock option plan	1,382	4	48			52
Purchase and retirement of common stock	(1,958)	(5)	(93)			(98)
Net change in accumulated other comprehensive income (loss)					(177)	(177)
Balance December 31, 2005	1,237,418	3,094	20,430	1,576	(601)	24,499
Adjustment to beginning retained earnings pursuant to SAB 108				159		159
Adjusted balance January 1, 2006	1,237,418	3,094	20,430	1,735	(601)	24,658
Net income				3,323		3,323
Cash dividends - $2.28 per share				(2,823)		(2,823)
Adjustment to initially apply SFAS No. 158, net of tax of $357					(692)	(692)
Shares issued under stock option plan	2,194	5	57			62
Purchase and retirement of common stock	(100)		(5)			(5)
Net change in accumulated other comprehensive income (loss)					475	475
Balance December 31, 2006	1,239,512	$ 3,099	$ 20,482	$ 2,235	$ (818)	$ 24,998

See accompanying notes to consolidated financial statements.

CNB CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(In thousands)	
Cash flows from operating activities			
Net Income	$ 3,323	$ 3,288	$ 2,955
Adjustments to reconcile net income to net cash from operating activities			
Depreciation, amortization and accretion, net	320	458	1,138
Provision for loan losses	120	120	-
Loans originated for sale	(7,369)	(11,613)	(18,590)
Proceeds from sales of loans originated for sale	7,441	11,739	18,793
Gain on sales of loans	(166)	(256)	(342)
Gain on sales of premises and equipment	(521)	-	-
(Increase) decrease in other assets	(1,643)	(596)	594
Increase (decrease) in other liabilities	878	732	20
Total adjustments	(940)	584	1,613
Net cash provided by operating activities	2,383	3,872	4,568
Cash flows from investing activities			
Proceeds from maturities of securities available for sale	41,950	22,706	30,690
Purchase of securities available for sale	(22,992)	(14,458)	(35,073)
Proceeds from maturities of securities held to maturity	2,845	2,154	2,056
Purchase of securities held to maturity	(3,271)	(1,650)	(1,785)
Proceeds from maturities of other securities	45	5,055	600
Purchase of other securities	-	(58)	(338)
Net change in portfolio loans	(12,041)	(12,314)	(1,474)
Premises and equipment expenditures	(1,785)	(1,330)	(964)
Proceeds from the sale of premises and equipment	550	-	-
Net cash (used in) provided by investing activities	5,301	105	(6,288)
Cash flows from financing activities			
Net increase (decrease) in deposits	(2,072)	(1,974)	497
Dividends paid	(2,800)	(2,709)	(2,675)
Net proceeds from exercise of stock options	62	52	48
Purchases of common stock	(5)	(98)	(520)
Net cash used in financing activities	(4,815)	(4,729)	(2,650)
Net change in cash and cash equivalents	2,869	(752)	(4,370)
Cash and cash equivalents at beginning of year	11,943	12,695	17,065
Cash and cash equivalents at end of year	$ 14,812	$ 11,943	$ 12,695
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 4,594	$ 3,069	$ 2,784
Income taxes	1,156	1,214	1,364
Non-cash transactions:			
Transfer from loans to other real estate owned	1,053	590	126

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include CNB Corporation (the Company) and its wholly-owned subsidiary, Citizens National Bank of Cheboygan and the Bank's wholly-owned subsidiary, CNB Mortgage Corporation (the Bank and the Mortgage Corporation are hereafter collectively referred to as the Bank). All significant intercompany accounts and transactions are eliminated in consolidation.

Nature of Operations and Concentrations of Credit Risk: The Company is a one-bank holding company which conducts no direct business activities. All business activities are performed by the Bank.

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses and light industries located in its service area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles, personal expenditures and loans to business enterprises for current operations and expansion. The Bank offers a variety of deposit accounts, including checking, savings, money market, individual retirement accounts and certificates of deposit.

The principal markets for the Bank's financial services are the Michigan communities in which the Bank is located and the area immediately surrounding these communities. The Bank serves these markets through eight offices located in Cheboygan, Presque Isle and Emmet Counties in northern lower Michigan.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, pension obligation, the value of mortgage servicing rights, and fair values of financial instruments are particularly subject to change in the near term.

Cash Flow Reporting: Cash and cash equivalents include cash and due from banks and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

Securities: Securities classified as held to maturity are carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in shareholders' equity, net of tax. Securities are written down to fair value when a decline in fair value is not temporary. Interest income includes amortization of purchase premium and discount. Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Other securities, which include Federal Reserve Bank stock, Federal Home Loan Bank stock and other taxable securities that are not readily marketable, are carried at cost.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. Loans held for sale are reported at the lower of cost or market on an aggregate basis.

Loan Income: Interest income is earned on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days (180 days for residential mortgages).

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the assets useful lives. For furniture and fixtures the useful life ranges from three to five years while the useful life for buildings is thirty-nine years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are charged to expense and improvements are capitalized.

Other Real Estate Owned: Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at the lower of the loan carrying amount or fair value at acquisition. Any reduction to fair value from the carrying value of the related loan is accounted for as a loan loss. After acquisition, a valuation allowance reduces the reported amount to the lower of the initial amount or fair value less costs to sell. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported in other expenses. As of December 31, 2006, other assets on the consolidated balance sheet includes $1,059,000 of other real estate owned. As of December 31, 2005 the balance was $562,000.

Servicing Rights: Servicing rights represent the allocated value of servicing rights retained on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to interest rates and then, secondarily, as to prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance.

Company Owned Life Insurance: The Company has purchased life insurance policies on certain directors and executives. Company owned life insurance is recorded at its cash surrender value, or the amount that can be effectively realized at the balance sheet date. At December 31, 2006 and 2005, the cash surrender value of the underlying policies was $3,191,000 and $1,137,000, which is included in other assets on the balance sheet.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee Benefits: A defined benefit pension plan covers substantially all employees, with benefits based on years of service and compensation prior to retirement. Contributions to the plan are based on the maximum amount deductible for income tax purposes. A 401(k) savings and retirement plan has also been established and covers substantially all employees. Contributions to the 401(k) plan are expensed as made.

Stock Compensation: Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard 123R, *Share Based Payment*, using the modified prospective method which will require recording compensation cost for the fair value of stock based compensation. No awards were granted or vested in 2006, therefore adoption of this standard had no impact in 2006.

Prior to January 1, 2006 employee compensation expense under stock options was reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant.

The following table illustrates the effect on 2004 net income and earnings per share if option expense for options granted at year-end 2003 and vesting in 2004 were measured using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. (Dollars in thousands, except per share data)

	2004
Net income as reported	$ 2,955
Deduct: Stock-based compensation expense determined under fair value based method	(44)
Pro forma net income	$ 2,911
Basic earnings per share as reported	$ 2.38
Pro forma basic earnings per share	2.34
Diluted earnings per share as reported	2.37
Pro forma diluted earnings per share	2.34

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Earnings Per Share: Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional potential shares issuable under stock options.

Stock Splits and Stock Dividends: Dividends issued in stock are reported by transferring the market value of the stock issued from retained earnings to common stock and additional paid-in capital. Stock splits are recorded by adjusting par value. Fractional shares are paid in cash for all stock splits and dividends. Basic earnings per share, diluted earnings per share and dividends per share are restated for all stock splits and stock dividends.

Financial Instruments with Off-Balance-Sheet Risk: The Company, in the normal course of business, makes commitments to extend credit which are not reflected in the consolidated financial statements. A summary of these commitments is disclosed in Note 12.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes the net change in unrealized gains (losses) on securities available for sale, net of tax, and the change in the Company's minimum pension liability, net of tax, which are also recognized as a separate component of shareholders' equity.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance-sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments.

Reclassification: Some items in prior financial statements have been reclassified to conform with the current presentation.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Adoption of New Accounting Standards: Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-based Payment*. See "Stock Compensation" above for further discussion of the effect of adopting this standard.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet, beginning with year end 2006, and to recognize changes in the funded status in the year in which the changes occur through comprehensive income beginning in 2007. Additionally, defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end, starting in 2008. Adoption had the following effect on individual line items in the 2006 balance sheet:

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No.158
		(in thousands)	
Asset (liability) for pension benefits	$1,131	$(1,049)	$82
Deferred income tax assets	728	357	1,085
Total assets	252,592	(692)	251,900
Accumulated other comprehensive income	(126)	(692)	(818)
Total stockholders' equity	25,690	(692)	24,998

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In September 2006, the Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108),* which is effective for fiscal years ending on or after November 15, 2006. SAB 108 provides guidance on how the effects of prior-year uncorrected financial statement misstatements should be considered in quantifying a current year misstatement. SAB 108 requires public companies to quantify misstatements using both an income statement (rollover) and balance sheet (iron curtain) approach and evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior year errors that had been previously considered immaterial now are considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. Adjustments considered immaterial in prior years under the method previously used, but now considered material under the dual approach required by SAB 108, are to be recorded upon initial adoption of SAB 108. The amount so recorded is shown as a cumulative effect adjustment is recorded in opening retained earnings as of January 1, 2006.

The cumulative effect adjustment primarily reflects an over accrual of income tax liabilities relating primarily to years prior to 2006. Over a course of years, accrual differences that were considered immaterial to any particular prior year's statement of operations accumulated to a total of a net credit of $159,000. The impact of the over accrual on the 2006 opening consolidated shareholder's equity and retained earnings was $159,000. The impact on selected balance sheet accounts as of January 1, 2006 is as follows:

	January 1, 2006		
	Previously Reported	Adjustment	Opening Balance
		(In thousands)	
Other liabilities	$4,795	$ (159)	$4,636
Total liabilities	228,232	(159)	228,073
Retained earnings	1,576	159	1,735
Total shareholder' equity	24,499	159	24,658

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 155, *Accounting for Certain Hybrid Financial Instruments-an amendment to FASB Statements No. 133 and 140*. This Statement permits fair value re-measurement for any hybrid financial instruments, clarifies which instruments are subject to the requirements of Statement No. 133, and establishes a requirement to evaluate interests in securitized financial assets and other items. The new standard is effective for financial assets acquired or issued after the beginning of the entity's first fiscal year that begins after September 15, 2006. Management does not expect the adoption of this statement to have a material impact on its consolidated financial position or results of operations.

In March 2006, the FASB issued Statement No. 156, *Accounting for Servicing of Financial Assets-an amendment of FASB Statement No. 140.* This Statement provides the following: 1) revised guidance on when a servicing asset and servicing liability should be recognized; 2) requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable; 3) permits an entity to elect to measure servicing assets and servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period in which the changes occur; 4) upon initial adoption, permits a onetime reclassification of available-for-sale securities to trading securities for securities which are identified as offsetting the entity's exposure to changes in the fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value; and 5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional footnote disclosures. This standard is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006 with the effects of initial adoption being reported as a cumulative-effect adjustment to retained earnings. Management does not expect the adoption of this statement will have a material impact on its consolidated financial position or results of operations.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company has determined that the adoption of FIN 48 will not have a material effect on the financial statements.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants' employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. The Company has not completed its evaluation of the impact of adoption of EITF 06-4.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance).* This issue requires that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also requires that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the issue discusses whether the cash surrender value should be discounted when the policyholder is contractually limited in its ability to surrender a policy. This issue is effective for fiscal years beginning after December 15, 2006. The Company does not believe the adoption of this issue will have a material impact on the financial statements.

(Continued)

NOTE 2 - SECURITIES

The year end fair values and related gross unrealized gains and losses recognized in accumulated other comprehensive income/(loss) for securities available for sale, were as follows:

Available for Sale	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)	
2006			
U.S. Government and agency	$ 21,307	$ 8	$ (125)
Mortgage-backed	10,491	4	(107)
State and municipal	8,549	59	(13)
Money market preferred stocks	10,984	-	(16)
	$ 51,331	$ 71	$ (261)
2005			
U.S. Government and agency	$ 49,099	$ -	$ (717)
Mortgage-backed	8,140	-	(180)
State and municipal	12,076	38	(52)
	$ 69,315	$ 38	$ (949)

The year end carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

Held to Maturity	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
		(In thousands)		
2006				
State and municipal	$ 4,543	$ 54	$ (15)	$ 4,582
2005				
State and municipal	$ 4,117	$ 37	$ (26)	$ 4,128

There were no sales of securities during 2006, 2005 and 2004.

(Continued)

NOTE 2 – SECURITIES (Continued)

Securities with unrealized losses at year end 2006 and 2005, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (in thousands):

2006	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency	$ 2,724	$ (3)	$ 17,911	$ (122)	$ 20,635	$ (125)
Mortgage-backed	1,848	(3)	6,546	(104)	8,394	(107)
State and municipal	2,591	(3)	3,306	(25)	5,897	(28)
Money market preferred stocks	10,984	(16)	-	-	10,984	(16)
Total temporarily impaired	$ 18,147	$ (25)	$ 27,763	$ (251)	$ 45,910	$ (276)

2005	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government and agency	$ 8,842	$ (100)	$ 40,257	$ (617)	$ 49,099	$ (717)
Mortgage-backed	8,140	$ (180)	-	-	8,140	(180)
State and municipal	4,658	(39)	3,153	(39)	7,811	(78)
Total temporarily impaired	$ 21,640	$ (319)	$ 43,410	$ (656)	$ 65,050	$ (975)

Unrealized losses at year end 2006 and 2005 have not been recognized into income because they are not considered to be other-than-temporary. Management considers the unrealized losses to be market driven, resulting from changes in interest rates, and the Company has the intent and ability to hold the securities until their value recovers.

(Continued)

NOTE 2 – SECURITIES (Continued)

Contractual maturities of debt securities at year end 2006 are shown below (in thousands). Expected maturities may differ from contractual maturity because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available for sale	Held to Maturity	
	Fair Value	Carrying Amount	Fair Value
Due in one year or less	$ 35,213	$ 956	$ 956
Due from one to five years	4,216	1,596	1,633
Due from five to ten years	638	1,661	1,663
Due after ten years	773	330	330
Mortgage-backed	10,491	-	-
	$ 51,331	$ 4,543	$ 4,582

Securities with a carrying value of $678,000 and $691,000 were pledged at December 31, 2006 and 2005, to secure public deposits and for other purposes.

The Company held securities exceeding 10% of shareholders' equity from the following states (including its political subdivisions) at December 31:

	2006	2005
	(In thousands)	
Michigan	$ 8,369	$ 8,713

NOTE 3 - LOANS

Year end loans were as follows:

	2006	2005
	(In thousands)	
Residential real estate	$ 82,842	$ 83,234
Consumer	9,444	9,922
Commercial real estate	61,740	53,133
Commercial	13,208	10,037
	167,234	156,326
Deferred loan origination fees, net	(6)	(8)
Allowance for loan loses	(1,498)	(1,456)
	$ 165,730	$ 154,862

(Continued)

NOTE 3 – LOANS (Continued)

Activity in the allowance for loan losses is summarized as follows:

	2006	2005	2004
		(In thousands)	
Beginning balance	$ 1,456	$ 1,350	$ 1,575
Provision for loan losses	120	120	-
Charge-offs	(104)	(28)	(242)
Recoveries	26	14	17
Ending Balance	$ 1,498	$ 1,456	$ 1,350

There was one impaired loan during 2004 with an average balance of approximately $100,000. The balance of this loan was zero at year-end 2004. Information relating to income received on this loan during impairment is not considered material to this presentation. There were no impaired loans during 2006 or 2005.

Nonperforming loans were as follows:

	2006	2005
	(In thousands)	
Loans past due over 90 days still on accrual	$ 177	$ 255
Nonaccrual loans	-	-

NOTE 4 - LOAN SERVICING

Mortgage loans serviced for others are not reported as assets. These loans totaled $73,102,000 and $73,201,000 at year end 2006 and 2005. Related escrow deposit balances were $110,000 and $100,000. Capitalized mortgage servicing rights balances were $618,000 and $586,000 at year end 2006 and 2005. There was no valuation allowance at year end 2006 or 2005. The related additions recognized were $94,000, $130,000 and $139,000 and the amortization was $62,000, $62,000 and $71,000 in 2006, 2005 and 2004.

(Continued)

NOTE 5 – PREMISES AND EQUIPMENT

Year end premises and equipment were as follows:

	2006	2005
	(In thousands)	
Real estate and buildings	$ 7,106	$ 5,876
Furniture and fixtures	4,911	4,825
	12,017	10,701
Less accumulated depreciation	(5,391)	(5,258)
	$ 6,626	$ 5,443

Depreciation expense amounted to $573,000, $487,000 and $448,000 in 2006, 2005 and 2004.

NOTE 6 - DEPOSITS

Time deposit accounts individually exceeding $100,000 total $26,415,000 and $19,561,000 at year end 2006 and 2005.

At year end 2006, the scheduled maturities of time deposits are as follows:

	(In thousands)
2007	$ 59,492
2008	22,419
2009	1,715
2010	1,501
2011	2,579
	$ 87,706

(Continued)

NOTE 7 - EMPLOYEE BENEFITS

Defined Benefit Retirement Plan: The Company has a defined benefit, noncontributory pension plan which provides retirement benefits for essentially all employees. The Company uses a December 31 measurement date for its plan. The following sets forth the plan's funded status and amounts recognized in the financial statements:

	2006	2005
	(In thousands)	
Change in benefit obligation:		
Beginning benefit obligation	$ (4,551)	$ (4,591)
Service cost	(242)	(189)
Interest cost	(293)	(290)
Actuarial loss (gain)	169	236
Benefits paid	245	283
Ending benefit obligation	(4,672)	(4,551)
Change in plan assets, at fair value:		
Beginning plan assets	4,185	2,984
Actual return	503	194
Employer contribution	311	1,290
Benefits paid	(245)	(283)
Ending plan assets	4,754	4,185
Funded status	82	(366)
Unrecognized net actuarial loss	-	1,413
Unrecognized transition amount	-	(23)
Unrcognized prior service amount	-	35
Net amount recognized	$ 82	$ 1,059

Amounts recognized in the balance sheet consist of:

	2006	2005
	(In thousands)	
Prepaid pension cost	$ -	$ 1,059
Funded status	82	-
Net amount recognized	$ 82	$ 1,059

Amounts recognized in accumulated other comprehensive income consist of :

	2006	2005
	(In thousands)	
Net (loss)/gain	$(1,049)	$ -

(Continued)

NOTE 7 - EMPLOYEE BENEFITS (Continued)

The accumulated benefit obligation for the defined benefit pension plan was $3,465,000 and $3,207,000 at year end 2006 and 2005, respectively.

Components of net periodic benefit cost are as follows:

	2006	2005	2004
	(In thousands)		
Service cost	$ 242	$ 189	$ 218
Interest cost on benefit obligation	293	290	336
Expected return on plan assets	(344)	(279)	(288)
Net amortization and deferral	(8)	(9)	(9)
Recognized net actuarial loss	56	69	85
Plan settlement	-	-	426
Pension expense	$ 239	$ 260	$ 768

The estimated net (gain)/loss and prior service costs that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $139,000 and $200,000.

Additional information about the defined benefit pension plan:

	2006	2005	2004
Increase (decrease) in minimum liability included in other comprehensive income	$ -	$ (477)	$ (12)

The following weighted-average assumptions were used to determine benefit obligations at year end and net cost:

	2006	2005	2004
Weighted average disount rate	6.50%	6.50%	6.50%
Rate of increase in future compensation	4.00%	4.00%	4.00%
Expected long term return on plan assets	8.00%	8.00%	8.00%

(Continued)

NOTE 7 - EMPLOYEE BENEFITS (Continued)

The Company's pension plan asset allocation at year end 2006 and 2005, target allocation for 2007, and expected long-term rate of return by asset category are as follows:

Asset Category	Target Allocation 2007	Percentage of Plan Assets at Year end 2006	2005	Weighted-Average Expected Long-Term Rate of Return - 2006
Equity securities	70.0 %	67.5 %	66.5 %	9.45 %
Fixed Income securities	30.0	29.4	25.4	5.20
Other	-	3.1	8.1	3.25
Total	100.0 %	100.0 %	100.0 %	8.00 %

Plan assets are administered by Huntington National Bank as trustee of the plan. Plan assets are invested in diversified mutual funds.

The estimates of weighted average expected long-term rate of return is an estimate based on past performance and actual returns in the future are likely to vary over time.

The overall expected long-term rate of return and risk expectations of the investments in the plan are based on Standard and Poor's 500 and 5-year Treasury bonds from 1950-2005.

The asset mix of the portfolio will be maintained by periodically re-balancing this account back to the stock and fixed income target allocations stated above.

The investments in the plan are managed for the benefits of the participants. They are structured to meet the cash flow necessary to pay retiring employees. ERISA guidelines for diversification of the investments are followed.

During 2004, the Company distributed a lump sum distribution to a highly compensated employee which triggered a plan settlement in the amount of $426,000 in addition to the Company's expense of $342,000, bringing the total expense to $768,000 for the year.

During 2006, the Company contributed $311,000 into the plan. The Company expects to contribute approximately $200,000 to this pension plan in 2007.

(Continued)

NOTE 7 - EMPLOYEE BENEFITS (Continued)

Estimated Future Payments

The following benefit payments, which reflect expected future service, are anticipated:

Year End	Benefit Payments
2007	$ 111,000
2008	105,000
2009	99,000
2010	117,000
2011	161,000
Years 2012 - 2016	1,333,000

Deferred Compensation Plan: The Company has a deferred compensation plan to provide retirement benefits to certain Directors, at their option, in lieu of annual directors' fees. The present value of future benefits are accrued annually over the period of active service of each participant. Total liabilities under the plan are $2,476,000 and $2,362,000 at December 31, 2006 and 2005. The expense for the plan was $280,000, $656,000 and $208,000 in 2006, 2005 and 2004. During 2005 an additional $315,000 was expensed to the deferred compensation plan to recognize the accelerated benefit amount payable due to the death of a director.

The Company also has a deferred compensation plan that allows executive officers of the Bank, and certain Directors an opportunity to defer a portion of their compensation. On a monthly basis, the account of each participant accrues interest based on the interest rate determined for that year. Total liabilities under the plan are $671,000 and $652,000 at December 31, 2006 and 2005. The expense of the plan was $37,000, $33,000 and $35,000 in 2006, 2005 and 2004.

401(k) Plan: The Company has a 401(k) savings and retirement plan covering substantially all employees. Under the plan, employees may defer up to the lesser of 100% of their eligible compensation or the limitations set by the IRS. The employees may also make "catch-up" contributions to the extent the IRS allows. During 2006, 2005 and 2004, the Board of Directors elected to contribute a matching contribution equal to 100% of the first 2% and 50% of the next 2% of the employee's deferred compensation. Employee contributions and the Company's matching percentages are vested immediately. The Company's matching percentages are determined annually by the Board of Directors and resulted in total contributions of $80,000, $71,000 and $73,000 in 2006, 2005 and 2004.

(Continued)

NOTE 8 - STOCK OPTIONS

Stock Option Plan: The shareholders approved an incentive stock option plan in May 1996 under which up to 67,005 options, as adjusted for stock splits, may be issued at market prices to employees. The right to exercise the options vests over a one-year period. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. Shares issued when options are exercised come from authorized but unissued shares. All options outstanding are exercisable. At December 31, 2006, 9,952 options are available to be granted.

Activity in the option plan for the years ended, and as restated for all stock dividends, is summarized as follows:

	Number of Outstanding Options	Exercise Price	Weighted Average Exercise Price	Weighted Average Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	25,932	$ 23.92-57.01	$ 47.35		
Exercised	(2,194)	23.92-33.62	28.40		
Forfeitures	(300)	57.01	57.01		
Outstanding at December 31, 2006	23,438	$ 33.62-57.01	$ 49.00	3.8 years	$ 36,000
Exercisable at December 31, 2006	23,438	$ 33.62-57.01	$ 49.00	3.8 years	$ 36,000

No compensation expense was required to be recognized under the plan for 2006, 2005 and 2004. There was no unrecognized compensation expense at December 31, 2006.

Information related to the stock option plan during each year follows:

	2006	2005	2004
Intrinsic value of options exercised	$36,000	$11,000	$173,000
Cash received from option exercises	62,000	52,000	48,000

No tax benefit was realized from exercises in 2006, 2005 and 2004. There were no options granted in 2006, 2005 and 2004.

(Continued)

NOTE 9 - INCOME TAXES

Income tax expense consists of:

	2006	2005	2004
		(In thousands)	
Current	$ 1,206	$ 944	$ 1,265
Deferred	120	296	(89)
	$ 1,326	$ 1,240	$ 1,176

Year end deferred tax assets and liabilities consist of:

	2006	2005
	(In thousands)	
Deferred tax assets		
Allowance for loan losses	$ 362	$ 347
Deferred compensation	1,070	1,024
Recognized pension liability	357	-
Unrealized losses on securities available for sale	65	310
Other	5	4
Total deferred tax assets	1,859	1,685
Deferred tax liabilities		
Pension expense	385	367
Fixed assets	382	216
Mortgage servicing rights	210	199
Accretion	67	79
Other	69	70
Total deferred tax liability	1,113	931
Net deferred tax asset	$ 746	$ 754

(Continued)

NOTE 9 - INCOME TAXES (Continued)

Income tax expense calculated at the statutory rate of 34% differs from actual income tax expense as follows:

	2006	2005	2004
		(In thousands)	
Statutory rate applied to income before taxes	$ 1,581	$ 1,540	$ 1,405
Deduct			
Tax-exempt interest income, net	(188)	(183)	(218)
Life insurance	(6)	(113)	(14)
Other	(61)	(4)	3
	$ 1,326	$ 1,240	$ 1,176

NOTE 10 - EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic earnings per share and diluted earnings per share computations is presented below:

	2006	2005	2004
Basic earnings per share			
Net income available to common shareholders (in thousands)	$ 3,323	$ 3,288	$ 2,955
Weighted average shares outstanding	1,238,354	1,237,217	1,241,624
Basic earnings per share	$ 2.68	$ 2.66	$ 2.38

(Continued)

NOTE 10 - EARNINGS PER SHARE (Continued)

	2006	2005	2004
Diluted earnings per share			
Net income available to common shareholders (in thousands)	$ 3,323	$ 3,288	$ 2,955
Weighted average shares outstanding	1,238,354	1,237,217	1,241,624
Add dilutive effects of assumed exercises of stock options	1,427	2,603	3,883
Weighted average dilutive potential shares outstanding	1,239,781	1,239,820	1,245,507
Diluted earnings per share	$ 2.68	$ 2.65	$ 2.37

Stock options for 19,407 and 8,340 shares of common stock were not considered in computing diluted earnings per share for 2006 and 2005 because they were antidilutive.

NOTE 11 - RELATED PARTY TRANSACTIONS

Certain directors and executive officers of the Company and the Bank (including family members, affiliates and companies in which they are principal owners) had loans outstanding with the Bank in the ordinary course of business. A summary of the aggregate loans outstanding which exceeded $60,000 to these individuals follows:

	2006	2005
	(In thousands)	
Balance outstanding, January 1	$ 2,186	$ 2,043
New loans and rewrites	363	663
Payments and payoffs	(403)	(501)
Change in persons included	(1)	(19)
Balance outstanding, December 31	$ 2,145	$ 2,186

Related party deposits totaled $2,402,000 and $3,953,000 at year end 2006 and 2005.

(Continued)

NOTE 12 - COMMITMENTS, OFF-BALANCE-SHEET RISK, AND CONTINGENCIES

There are various contingent liabilities that are not reflected in the financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the financial condition or result of operations of the Company.

At year end 2006 and 2005, reserves of $1,770,000 and $1,848,000 were required as deposits with the Federal Reserve or as cash on hand. These reserves do not earn interest.

Some financial instruments are used in the normal course of business to meet the financing needs of customers and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit. These involve, to a varying degree, credit and interest-rate risk in excess of the amount reported in the financial statements.

Exposure to credit loss if the other party does not perform is represented by the contractual amount for commitments to extend credit and standby letters of credit. The same credit policies are used for commitments and conditional obligations as are used for loans.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being used, the total commitments do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments to guarantee a customer's performance to a third party.

A summary of the notional or contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	2006	2005
	(In thousands)	
Commitments to extend credit	$ 19,232	$ 19,054
Standby letters of credit	501	387

The fair values of these commitments are not material. Substantially all of these commitments are at variable or uncommitted rates.

(Continued)

NOTE 13 - FAIR VALUES 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 rate 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 year end values of financial instruments were:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Assets				
Cash and cash equivalents	$ 14,812	$ 14,812	$ 11,943	$ 11,943
Securities available for sale	51,331	51,331	69,315	69,315
Securities held to maturity	4,543	4,582	4,117	4,128
Other securities	1,008	1,008	1,053	1,053
Loans, net	165,730	168,837	154,862	155,703
Liabilities				
Deposits				
Noninterest-bearing	$ (39,620)	$ (39,620)	$ (38,943)	$ (38,943)
Interest bearing	(181,745)	(181,613)	(184,494)	(183,897)

NOTE 14 - REGULATORY CAPITAL

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

(Continued)

NOTE 14 - REGULATORY CAPITAL (Continued)

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. The minimum requirements are:

	Capital to Risk-Weighted Assets		Tier 1 Capital
	Total	Tier 1	To Average Assets
Well Capitalized	10%	6%	5%
Adequately capitalized	8%	4%	4%
Undercapitalized	6%	3%	3%

The Bank was categorized as well capitalized at year end. There are no conditions or events since year-end that management believes has changed the Bank's category. Actual capital levels (in millions) and minimum required levels were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2006						
Total capital (to risk weighted assets)						
Bank	$ 27.1	15.4 %	$ 14.1	8.0 %	$ 17.6	10.0 %
Tier 1 capital (to risk weighted assets)						
Bank	25.7	14.6	7.0	4.0	10.6	6.0
Tier 1 capital (to average assets)						
Bank	25.7	10.1	10.1	4.0	12.7	5.0
2005						
Total capital (to risk weighted assets)						
Bank	$ 26.5	17.0 %	$ 12.5	8.0 %	$ 15.6	10.0 %
Tier 1 capital (to risk weighted assets)						
Bank	25.0	16.0	6.2	4.0	9.4	6.0
Tier 1 capital (to average assets)						
Bank	25.0	9.9	10.2	4.0	12.7	5.0

(Continued)

NOTE 14 – REGULATORY CAPITAL (Continued)

One of the principal sources of cash for the Company is dividends from the Bank. Regulatory agencies can place dividend restrictions on the Bank based on their evaluation of its financial condition. No restrictions are currently imposed by regulatory agencies on the Bank other than the limitations found in the regulations which govern the payment of dividends to the Company. Under the most restrictive of these regulations, in 2007, the Bank is limited to paying dividends of approximately $1,013,000 plus 2007 net income, without prior regulatory approval.

NOTE 15 – PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

Following are condensed parent company financial statements:

CONDENSED BALANCE SHEETS
December 31, 2006 and 2005

	2006	2005
	(In thousands)	
ASSETS		
Cash	$ 94	$ 66
Investment in subsidiary	24,912	24,448
Dividends receivable	1,266	1,236
Total assets	$ 26,272	$ 25,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 1,274	$ 1,251
Shareholders' equity	24,998	24,499
Total liabilities and shareholders' equity	$ 26,272	$ 25,750

(Continued)

NOTE 15 – PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(In thousands)	
Dividends from subsidiary	$ 2,832	$ 2,826	$ 3,240
Operating expenses	(46)	(44)	(28)
Income before income taxes and equity in undistributed/(over distributed) income of subsidiary	2,786	2,782	3,212
Income tax benefit	15	15	9
Equity in undistributed/(over distributed) income of subsidiary	522	491	(266)
Net income	$ 3,323	$ 3,288	$ 2,955

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31, 2006, 2005 and 2004

	2006	2005	2004
		(In thousands)	
Cash flows from operating activities			
Net income	$ 3,323	$ 3,288	$ 2,955
Equity in (undistributed)/over distributed net income of subsidiary	(522)	(491)	266
Change in dividends receivable	(30)	24	(60)
Change in other liabilities	-	-	(21)
Net cash from operating activities	2,771	2,821	3,140
Cash flows from financing activities			
Dividends paid	(2,800)	(2,709)	(2,675)
Net shares purchased	57	(46)	(472)
Net cash from financing activities	(2,743)	(2,755)	(3,147)
Net change in cash and cash equivalents	28	66	(7)
Cash at beginning of year	66	-	7
Cash at end of year	$ 94	$ 66	$ -

(Continued)

NOTE 16 – QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Net Income	Earnings Per Share Basic	Earnings Per Share Diluted
	(In thousands, except per share data)				
2006					
First quarter	$ 3,507	$ 2,512	$ 694	$ 0.56	$ 0.56
Second quarter	3,628	2,497	996	0.80	0.80
Third quarter	3,886	2,657	794	0.64	0.64
Fourth quarter	3,948	2,631	839	0.68	0.68
2005					
First quarter	$ 3,161	$ 2,508	$ 805	$ 0.65	$ 0.65
Second quarter	3,320	2,594	932	0.75	0.75
Third quarter	3,399	2,563	769	0.62	0.62
Fourth quarter	3,476	2,559	782	0.64	0.63

During the second quarter of 2006 the Bank received a gain on the sale of property in the amount of $521,000.

During the second quarter of 2005 the Bank received payment of life insurance proceeds and recorded a gain on that asset in the amount of $300,000. The proceeds were offset by an additional expense of $315,000 to recognize amounts payable under a deferred compensation plan. The insurance proceeds are non-taxable income and resulted in the net increase in net income for the quarter.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
CNB Corporation
Cheboygan, Michigan

We have audited the accompanying consolidated balance sheets of CNB Corporation as of December 31, 2006 and 2005, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CNB Corporation as of December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1, the Company adopted Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatement when Quantifying Misstatements in Current Year Financial Statements" (SAB 108) and Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statement No. 87, 88, 106 and 132(R)" (SFAS No. 158) during 2006. Accordingly liabilities at the beginning of 2006 were adjusted with an offsetting adjustment to the opening balance of retained earnings under SAB 108 and year-end assets were adjusted with an offsetting adjustment to accumulated other comprehensive loss under SFAS No. 158.

Crowe Chizek and Company LLC

Grand Rapids, Michigan
March 30, 2007

This discussion provides information about the consolidated financial condition and results of operations of CNB Corporation (the Company) and its wholly-owned subsidiary, Citizens National Bank of Cheboygan and the Bank's wholly-owned subsidiary, CNB Mortgage Corporation (the Bank and the Mortgage Corporation are hereafter collectively referred to as the Bank). This discussion should be read in conjunction with the consolidated financial statements beginning on page 2 and the related footnotes.

Financial Condition

The overall financial condition of the Company was strong for 2006. The Company recognized a 7.0% increase in the loan portfolio. Deposits had a slight overall decline during 2006 while the Company's equity increased during 2006.

Cash and Cash Equivalents

The Company's balances of cash and cash equivalents increased $2,869,000 from 2005 to 2006. During the year, $2.4 million of cash was provided from operating activities due primarily to net income, while $5.3 million was provided from investing activities. The company utilized $4.8 million on financing activities. The balances maintained in cash and cash equivalents vary based on daily fluctuations in loan and deposit balances. Sufficient cash is maintained on a daily basis to meet the anticipated liquidity needs of the Company for customer transactions and to clear checks drawn on other financial institutions. The amount of clearings can vary by as much as $3.0 million in one day, causing the Company's cash position to vary.

Securities

The Company maintains securities portfolios that include obligations of federal agencies and government sponsored entities as well as securities issued by states and political subdivisions. Security balances decreased $17.6 million during 2006. Securities available for sale represent 90.2% of the portfolio. Currently, the Company primarily maintains a short-term securities portfolio. The Company will extend the average life of the portfolio moving forward as the rate environment continues to increase. As the amount of securities maturing on a regular basis decreases, liquidity will be maintained by adding to the available for sale portfolio. The reason for the decrease in the securities portfolio during 2006 is due to the fact that as the securities matured, the Company did not reinvest as many dollars back into securities as it has in the past. This was due to the increased loan demand. The Company used the dollars from the securities maturities to fund higher yielding loans. It is management's expectation that the Company will continue to change the balance sheet mix in this manner during 2007.

The chart below shows the change in each of the categories of the portfolio.

	2006	2005	2004
		(In thousands)	
U.S. Government and agency	$ (27,792)	$ (7,687)	$ 7,984
Mortgage-backed	2,351	4,991	3,149
Tax exempt state and municipal	(1,609)	(4,149)	(4,901)
Taxable state and municipal	(1,492)	(2,624)	(3,940)
Money market preferrred stocks	10,984	-	-
Other securities	(45)	(4,997)	(262)
Total change in securities	$ (17,603)	$ (14,466)	$ 2,030

Holdings in U.S. government and agencies decreased due to a change in the focus of our securities portfolio. Upon the availability of a newly approved securities investment option, during the second half of 2006, monies from securities maturities were mainly placed into money market preferred stock investments due to their superior rate and availability for liquidity. Securities investments as a total decreased during the year primarily due to our increased loan activity funding requirements. The Company did reinvest some of its maturity dollars into the mortgage-backed security portfolio which continues to be one of its higher yielding investments. The Company maintains a short-term investment portfolio with maturities averaging less than two years. The Company will continue to monitor the rate environment and may extend the maturities of the investment portfolio in the future. The chart below shows the percentage composition of the portfolio as of December 31.

	2006	2005
U.S. Government and agency	37.46%	65.92%
Mortgage backed	18.44%	10.93%
Tax exempt state and municipal	22.21%	19.12%
Taxable state and municipal	0.81%	2.62%
Money market preferred stocks	19.31%	-
Other securities	1.77%	1.41%
	100.00%	100.00%

Securities available for sale are recorded at fair value and securities held to maturity are recorded at amortized cost. The net unrealized loss on securities available for sale at December 31, 2006 was $126,000, net of taxes. The unrealized gains and losses are temporary since they are a result of market changes rather than a reflection of credit quality. Management has no specific intent to sell these securities at the present time.

The Company maintains a conservative security portfolio with a majority of the investments in U.S. Government and agency securities and issues of governmental units in its service area. The maturities of the U.S. Government and agency securities have typically been very short, two years or less, providing liquidity in addition to quality.

During 2007, management feels that there will be sufficient liquidity to increase the maturity of the investment portfolio, in addition to increasing yields.

Loans

Total loans increased $10.9 million or 7.0% during 2006, with the primary increase in commercial real estate loans of $8.6 million or 16.2%. As a full service lender, the Company offers a variety of personal and commercial loans. Home mortgages comprise the largest portion of the loan portfolio. The Company generally retains the ownership of adjustable rate loans and short to medium-term fixed-rate loans and originates and sells long-term single family residential fixed-rate mortgage loans to the secondary market. This practice allows the Company to meet the housing credit needs of its service area while maintaining an appropriate interest rate sensitivity and liquidity position. The Company originated $7.4 million in loans for sale in 2006 and $11.6 million in 2005 as compared to $18.6 million in 2004. Management anticipates the volume of mortgage refinancing in 2007 will be comparable to 2006. In addition to mortgage loans, the Company makes loans for personal and business use, secured and unsecured, to customers in its service area. It is the Company's intent to continue to increase both the commercial mortgage and commercial loan portfolios during 2007.

The Company maintains a conservative loan policy and strict credit underwriting standards, which reflects highly in its credit quality with a small percent of total loans as non-performing. All loans are domestic. An annual review of loan concentrations at December 31, 2006 indicated the pattern of loans in the portfolio has not changed. There is no individual industry with more than a 10% concentration, except for all tourism-related businesses which, when combined, represent 13.4% of total loans.

Allowance for Loan Losses

The allowance for loan losses represents that amount which management estimates is adequate to provide for probable incurred losses in the loan portfolio. Management determines the adequacy of the allowance for loan losses by reviewing selected loans (including large loans, nonaccrual loans, problem loans and delinquent loans) and establishes specific loss allowances on these loans. Historical loss information, local economic conditions and other factors are considered in establishing allowances on the remaining loan portfolio. The allowance is increased by provisions charged to expense and reduced by charge-offs, net of recoveries.

The quality of the Company's loan portfolio compares well with its peer group with non-performing loans at .11% of total loans at December 31, 2006 and 0.16% at December 31, 2005. Net loans charged off were .05% of total loans during 2006 and .01% in 2005. There were no significant changes in the allowance for loan losses in 2006 and 2005 due to stable loan quality and a continued modest identified loss potential for individual loans and groups of loans. A

provision expense of $120,000 was recorded during 2006 and 2005 due to net charge-offs and responding to overall loan growth, while no provision expense was recorded in 2004.

Credit Quality

The Company continues to maintain a high level of asset quality as a result of actively managing delinquencies, nonperforming assets and potential problem loans. The Company performs an ongoing review of all large credits to watch for any deterioration in quality. Nonperforming loans 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 the nonaccrual loans in (1) above); and (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). The aggregate amount of nonperforming loans is shown in the table below.

	2006	2005
	(Dollars in thousands)	
Nonaccrual loans	$ -	$ -
Loans past due 90 days or more still on accrual	177	255
Troubled debt restructurings	-	-
Total nonperforming	$ 177	$ 255
Percent of total loans	0.11 %	0.16 %

Deposits

Deposits decreased $2.1 million or .93% during 2006. This was due to several factors including a highly competitive rate environment and the withdrawal of several large deposits by two governmental units to complete building projects. As the interest rate environment increases the Company will in turn change the rates it offers its customers.

The majority of the Company's deposits are derived from core customers, as a result of long-term personal, business and public relationships. Deposit rates are monitored continually to assure that the Company pays a competitive rate.

As of December 31, 2006, the loan to deposit ratio was 75.5% compared to 70.0% at December 31, 2005. This ratio increased due to a high increase in the loan portfolio and a decrease in the deposit portfolio. Management continues to emphasize loan growth with a targeted loan to deposit ratio at a minimum of 65.0%. A change in asset mix from securities to higher yielding loans provides an increase in the net interest margin.

As of December 31, 2006, long-term debt obligations consist of the Company's time deposits which are presented in Note 6 to the consolidated financial statements.

Equity

Total equity for the Company at year end 2006 was $25.0 million compared to $24.5 million in 2005. The Company had a stock repurchase program in place and during 2005 repurchased $98,000 worth of stock under the plan before the plan ended. In addition, the Company occasionally repurchases stock at its discretion. During 2006 the Company repurchased $5,000 worth of stock. Accumulated other comprehensive income increased by $475,000 as the market value of the Company's available for sale securities improved. This increase to accumulated other comprehensive income was offset by a $692,000 adjustment to reflect the impact of initially implementing SFAS No. 158. Adoption of SAB 108 resulted in an increase in total equity at January 1, 2006 of $159,000.

Liquidity and Funds Management

Effective liquidity management ensures that the cash flow requirements of the Company's depositors and borrowers, as well as the operating cash needs of the Company are met. The Company's primary source of funds is dividends from the Bank. The Company manages its liquidity position to provide cash necessary to pay dividends to shareholders and satisfy other operating requirements.

The Company's most readily available sources of liquidity are federal funds sold, securities classified as available for sale and securities classified as held to maturity maturing within one year. These sources of liquidity are supplemented by new deposits and by loan payments received from customers. As of December 31, 2006, the Company held $6.4 million in federal funds sold, $51.3 million in securities available for sale, and $956,000 in held to maturity securities maturing within one year. These short-term assets represent 26.5% of total deposits as of December 31, 2006. Historically, the Company's security portfolio has been short term in nature, with the average life of the portfolio consistently being less than two years. The Company serves a market which is highly tied to the tourist industry. Consequently, the Company experiences seasonal swings in liquidity. Deposit growth occurs during July, August, and September, then may decline through the fall and winter months. The Company does not anticipate any significant change in its seasonal pattern. In addition to the above readily available sources of liquidity, the Company has lines of credit available from other institutions totaling $14 million. There were no advances outstanding on these lines of credit at December 31, 2006 or 2005.

Interest Rate Sensitivity

The following tables provide information about the Company's financial instruments that are sensitive to changes in interest rates at December 31, 2006 and 2005. For loans receivable, securities, and liabilities with contractual maturities, the tables present principal cash flows and related weighted-average interest rates by contractual maturities, as well as the Company's historical experience relative to the impact of interest rate fluctuations on the prepayment of loans. For core deposits (demand deposits, interest-bearing checking, savings, and money market deposits) that have no contractual maturity, the tables present principal cash flows and, as applicable, related weighted-average interest rates based upon the Company's historical experience, management's judgment, and statistical analysis concerning their most likely withdrawal behaviors. The current historical interest rates for core deposits are assumed to apply for future periods in these tables as the actual interest rates that will need to be paid to maintain these deposits are not currently known. Weighted-average variable rates are based upon contractual rates existing at the reporting date.

The primary source of market risk for the financial instruments presented is interest rate risk, that is, the risk that a change in market rates could adversely affect the market value of the instruments. Generally, the longer the maturity, the greater 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 assuring sufficient capital and liquidity in support of future balance sheet growth to reducing the exposure of the Company's net interest margin from swings in interest rates. 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 establishes policies and rates which lead to the 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 on shareholders' equity.

The following market risk disclosure tables allow management to measure the imbalance between the amount of assets and liabilities repricing in the next five years and thereafter.

Market Risk Disclosure at December 31, 2006

(Dollars in thousands)

	2007	2008	2009	2010	2011	Thereafter	Total	Fair Value 12/31/2006
Rate-sensitive assets								
Variable interest rate loans	$ 30,247	$ 1,229	$ 1,141	$ -	$ -	$ -	$ 32,617	$ 33,223
Average interest rate	8.76 %	7.33 %	7.72 %	- %	- %	- %	8.67 %	
Fixed interest rate loans	15,196	6,563	13,842	17,589	20,160	61,267	134,617	137,118
Average interest rate	7.83 %	7.32 %	7.24 %	7.08 %	7.72 %	6.58 %	7.06 %	
Variable interest rate securities	460	-	-	-	-	1,073	1,533	1,533
Average interest rate	6.40 %	- %	- %	- %	- %	5.78 %	5.96 %	
Fixed interest rate securities	35,709	6,539	5,055	3,515	1,194	3,337	55,349	55,388
Average interest rate	3.65 %	4.16 %	4.43 %	5.03 %	4.58 %	4.24 %	3.92 %	
Rate-sensitive liabilities								
Noninterest-bearing deposits	39,620	-	-	-	-	-	39,620	39,620
Average interest rate	- %	- %	- %	- %	- %	- %	- %	
Fixed interest rate savings and interest-bearing deposits	94,039	-	-	-	-	-	94,039	93,970
Average interest rate	1.58 %	- %	- %	- %	- %	- %	1.58 %	
Variable interest rate time deposits	11,399	9,837	-	-	-	-	21,236	21,221
Average interest rate	5.05 %	5.05 %	- %	- %	- %	- %	5.05 %	
Fixed interest rate time deposits	48,093	12,582	1,715	1,501	2,579	-	66,470	66,422
Average interest rate	4.42 %	4.32 %	3.83 %	4.14 %	5.12 %	- %	4.41 %	

Market Risk Disclosure at December 31, 2005

(Dollars in thousands)

	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value 12/31/2005
Rate-sensitive assets								
Variable interest rate loans	$ 32,436	$ 775	$ 1,659	$ 51	$ -	$ -	$ 34,921	$ 35,109
Average interest rate	7.73 %	7.35 %	7.34 %	6.50 %	- %	- %	7.70 %	
Fixed interest rate loans	14,769	7,078	9,091	13,187	17,780	59,500	121,405	122,058
Average interest rate	6.84 %	7.58 %	7.22 %	6.93 %	6.99 %	6.35 %	6.71 %	
Variable interest rate securities	310	-	-	-	-	1,157	1,467	1,467
Average interest rate	5.36 %	- %	- %	- %	- %	4.90 %	5.00 %	
Fixed interest rate securities	37,219	22,830	7,529	1,605	680	3,155	73,018	73,029
Average interest rate	2.87 %	3.13 %	4.18 %	3.71 %	3.94 %	4.26 %	3.17 %	
Rate-sensitive liabilities								
Noninterest-bearing deposits	38,943	-	-	-	-	-	38,943	38,943
Average interest rate	- %	- %	- %	- %	- %	- %	- %	
Fixed interest rate savings and interest-bearing deposits	114,316	-	-	-	-	-	114,316	113,946
Average interest rate	1.18 %	- %	- %	- %	- %	- %	1.18 %	
Fixed interest rate time deposits	40,008	24,145	2,884	1,689	1,452	-	70,178	69,951
Average interest rate	2.91 %	3.34 %	3.33 %	3.35 %	4.04 %	- %	3.11 %	

Capital Resources

The capital ratios of the Bank exceed the regulatory guidelines for well capitalized institutions. This strong capital position of the Company provides the Company with the flexibility to take advantage of expansion opportunities and to continue with a high dividend payout ratio.

The stock of the Company is generally traded locally, although beginning in 2007 it is available on the over-the-counter market. Additional information concerning capital ratios and shareholder return is included in the Financial Highlights on page 1. The Company maintains a five-year plan and utilizes a formal strategic planning process. Management and the Board continue to monitor long-term goals, which include increasing market share and maintaining long-term earnings sufficient to pay consistent dividends.

Results of Operations

Net Income

Consolidated net income was $3.3 million for 2006 and 2005. Noninterest income increased during 2006 by $210,000 primarily due to a $521,000 gain recorded on the sale of premises. This increase in noninterest income was offset by additional noninterest expense of $162,000 a portion of which is attributable to increased occupancy expense to record additional deprecation due to the purchase of new equipment. Basic earnings per share for 2006 was $2.68 compared to $ 2.66 for 2005. Diluted earnings per share for 2006 was $2.68 compared to $2.65 for 2005.

Consolidated net income was $3.3 million for 2005 compared to $3.0 million for 2004. The increase can be attributed to an increase in net interest income from 2004. Noninterest income also increased during 2005 by $198,000 primarily due to $300,000 of life insurance proceeds received due to the death of a director. This increase in noninterest income was offset by additional expense of $315,000 to recognize the acceleration of the amount payable to the director's beneficiaries upon death under the deferred compensation plan. Basic earnings per share for 2005 was $2.66 compared to $ 2.38 for 2004. Diluted earnings per share for 2005 was $2.65 compared to $2.37 for 2004.

Net Interest Income

Interest income is the total amount earned on funds invested in federal funds sold, securities and loans. Interest expense is the amount of interest paid on interest-bearing checking, money market, savings and time deposits accounts. Net interest income is the difference between interest income and interest expense. The net margin is the net interest income as a percentage of average interest-earning assets. Interest spread is the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities. In 2006, net interest income increased by $73,000, due primarily to the change in the rate on our interest-earning assets and the change in asset mix due to the increase in loan volume and decrease in the securities portfolio. Interest expense paid on the Company's deposit accounts also increased in 2006 due to the rate environment.

The $522,000 increase in net interest income from 2005 to 2004 was due primarily for the same reasons as noted above.

The following table shows the daily average consolidated balance sheets, revenue on average interest-earning assets on a tax-equivalent basis, expense on average interest-bearing liabilities and the annualized effective yield or rate. Interest on loans includes loan fees. For the periods ending:

Yield Analysis of Consolidated Average Assets and Liabilities
(Dollars in thousands)

	Year Ended December 31, 2006			Year Ended December 31, 2005			Year Ended December 31, 2004		
	Average Balance	Int	Yield/ Rate	Average Balance	Int	Yield/ Rate	Average Balance	Int	Yield/ Rate
Interest-earning assets:									
Other interest-earning assets	$ 9,044	$ 477	5.27 %	$ 7,460	$ 252	3.38 %	$ 10,842	$ 145	1.34 %
Total securities (1) (2)	66,012	2,572	3.90	85,035	2,921	3.44	89,737	2,953	3.29
Loans (2)	163,139	12,218	7.49	149,672	10,473	7.00	143,800	9,711	6.75
Total interest-earning assets	238,195	15,267	6.41 %	242,167	13,646	5.63 %	244,379	12,809	5.24 %
Cash and due from banks	6,788			6,376			6,181		
Premises and equipment, net	5,886			4,785			4,462		
Allowance for loan losses	(1,488)			(1,412)			(1,469)		
Other assets	4,196			5,309			4,759		
Total	$ 253,577			$ 257,225			$ 258,312		
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 16,227	$ 104	0.64 %	$ 18,145	$ 88	0.48 %	$ 17,648	$ 87	0.49 %
Savings deposits	88,781	1,549	1.74	104,415	1,345	1.29	105,587	917	0.87
Time deposits	79,320	3,017	3.80	66,300	1,699	2.56	67,282	1,760	2.62
Fed funds purchased	47	2	4.26	-	-	0.00	-	-	####
Total interest-bearing liabilities	184,375	4,672	2.53 %	188,860	3,132	1.66 %	190,517	2,764	1.45 %
Noninterest-bearing deposits	40,688			39,825			38,888		
Other liabilities	3,128			3,702			3,607		
Shareholders' equity	25,386			24,838			25,300		
Total	$ 253,577			$ 257,225			$ 258,312		
Net interest income		$ 10,595			$ 10,514			$ 10,045	
Net interest spread (FTE)			3.88 %			3.97 %			3.79 %
Net yield on Interest-earning (FTE) assets			4.45 %			4.34 %			4.11 %
Ratio of interest-earning assets to interest-bearing liabilities			1.29 x			1.28 x			1.28 x

(1) Yield computed using the average amortized cost for securities available for sale.
(2) Tax exempt income was converted to a fully taxable equivalent basis at a 34% tax rate. The tax equivalent rate for tax exempt loans and tax exempt securities acquired after January 1, 1983 included the TEFRA adjustment applicable to nondeductible interest expenses.

The table below shows the effect of volume and rate changes on net interest income on a pre-tax basis.

	2006 Compared to 2005			2005 Compared to 2004		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Other interest-earning assets	$ 62	$ 163	$ 225	$ (57)	$ 164	$ 107
Total Securities	(708)	359	(349)	(158)	126	(32)
Loans, net	980	765	1,745	404	358	762
Total interest-earning assets	334	1,287	1,621	189	648	837
Interest-bearing demand deposits	(10)	26	16	2	(1)	1
Savings deposits	(223)	427	204	(10)	438	428
Time deposits	380	938	1,318			
Fed Funds Purchased	2	-	2	(25)	(36)	(61)
Total interest-bearing liabilities	149	1,391	1,540	(33)	401	368
Net change in net interest income (a)	$ 185	$ (104)	$ 81	$ 222	$ 247	$ 469

(a) The net change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Noninterest Income

Noninterest income includes fees and service charges on deposit accounts, loan servicing fees, gains on sales of loans and other income. Noninterest income increased $210,000 from 2005 to 2006 as a result of the $521,000 gain on the sale of our old South Branch property as previously mentioned. This increase was offset in part by $300,000 due to a gain on life insurance that was recognized in 2005.

Noninterest income increased $198,000 during 2005 compared to 2004 as a result of the life insurance proceeds as mentioned above. This increase was partially offset by a $86,000 decrease in the net realized gains from the sales of loans due to a continued decline in the residential mortgage refinancing.

Noninterest Expense

Noninterest expense increased $162,000 during 2006 compared to 2005. Salary and benefit expense increased $232,000 during 2006 compared to 2005 as the company increased its number of employees from 78.0 full-time equivalent employees at December 31, 2005 to 80.5 full-time equivalent employees at December 31, 2006. This increase in employees is due to increased branch hours and new branch facilities, both of which required additional staffing. The Company continues to fund 100% of the employee hospitalization premium which was $591,000 for 2006 compared to $545,000 for 2005. The deferred compensation expense for 2006

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was $317,000 compared to $690,000 in 2005. The deferred compensation expense for 2005 includes an expense of $315,000 to recognize the accelerated amount payable due to the death of a director. Occupancy expense increased $140,000 primarily due to additional depreciation on the purchase of new operating equipment and a new building for our relocated South Branch location. Other expense increased $210,000 for 2006 compared to 2005 primarily due to $77,000 of expense due to the loss on sale or write-down of other real estate owned.

Noninterest expense increased $203,000 from 2004 to 2005. $315,000 of this increase is attributable to the additional deferred compensation expense discussed above. Marketing expense was $191,000 in 2005 compared to $98,000. This increase in marketing expense is attributable to the hiring of a new Marketing Director in August of 2004 and an increase focus on marketing, advertising and Bank recognition. These increases were offset by a decline in pension expense from 2004 to 2005. During 2004, the Company distributed a lump sum pension benefit to a highly compensated executive which triggered a settlement of the Company's pension expense. Accordingly, pension expense for 2004 was $768,000 compared to $260,000 in 2005.

Federal Income Taxes

Income tax expense increased slightly during 2006 to $1.33 million compared to $1.24 million in 2005. Income before taxes increased from 2005 which resulted in the increase in income tax expense.

The effective tax rates for 2006, 2005 and 2004 were fairly stable and are shown in the table below:

	2006	2005	2004
Income before tax (In thousands)	$ 4,649	$ 4,528	$ 4,131
Income tax expense (In thousands)	1,326	1,240	1,176
Effective tax rate	28.5%	27.4%	28.5%

The lower effective tax rate in 2005 was due to the nontaxable income in the form of life insurance proceeds received during the year which has been previously discussed.

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 facts and circumstances. Facts and circumstances which could effect 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 believes that the allowance for loan losses and related provision expense are particularly susceptible to material change in the near term. As a result of strong asset quality and low levels of charge-offs during the past three years, the Company recorded no provision expense during 2004. Due to overall loan growth, a provision expense of $120,000 was recorded during 2006 and 2005. In future periods the allowance for loan losses may be dramatically impacted due to changes in the local economy, increased commercial loans and individual borrower situations. The Company believes its significant concentration in residential mortgage loans and the importance of the tourism industry to the local economy are particularly important factors that could have a significant impact on the allowance for loan losses and provision for loan losses if these factors significantly change from current conditions. As of December 31, 2006, the Company held $74.9 million of commercial and commercial real estate loans, and the ability of our borrowers to repay such loans may be significantly impacted by changes in the economy or individual borrower conditions. Management continues to take steps to help ensure the asset quality of the loan portfolio; however, the allowance for loan losses and related provision expense could increase significantly in future periods depending on changes in the factors discussed above.

Securities available for sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income, net of tax. As a result of changes in the fair market value of the Company's available for sale securities portfolio, total comprehensive income increased by $475,000 for 2006 and decreased by $492,000 and $745,000 for 2005 and 2004. Additionally, all investment securities are required to be written down to fair value when a decline in fair value is not temporary; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results.

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 phases, "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 of the date made, and advises 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.

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HOW TO ORDER FORM 10-K

Shareholders may obtain, without charge, a copy of Form 10-K or the 2006 Annual Report Summary & Highlights by writing Susan A. Eno, Secretary, CNB Corporation, P.O. Box 10, Cheboygan, Michigan 49721.