CNB CORPORATION

2016
ANNUAL REPORT

303 North Main Street • Cheboygan, Michigan 49721 • Phone 231-627-7111

Contents

CNB CORPORATION
ANNUAL SHAREHOLDERS' MEETING

Tuesday, May 16, 2017, 5:30 p.m. • Knights of Columbus Hall
Cheboygan, Michigan

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Independent Auditor's Report

To the Board of Directors
CNB Corporation

We have audited the accompanying consolidated financial statements of CNB Corporation and its subsidiary (collectively, the "Company"), which comprise the consolidated balance sheet as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 23, 2017

Consolidated Balance Sheet

December 31, 2016 and 2015

(000s omitted, except per share data)

	2016	2015
Assets		
Cash and due from banks	$ 4,898	$ 5,952
Interest-bearing deposits with other financial institutions	17,945	25,617
Total cash and cash equivalents	22,843	31,569
Time deposits with other financial institutions	7,950	8,711
Investment securities - Available for sale (Note 3)	88,328	86,690
Investment securities - Held to maturity (Note 3)	3,243	4,835
Other securities	905	905
Loans held for sale	409	369
Loans - Net of allowance for loan losses of $1,625 and $1,509 as of December 31, 2016 and 2015, respectively (Note 4)	137,205	122,936
Bank premises and equipment (Note 6)	6,104	5,518
Other assets (Notes 5, 7, 9, and 10)	11,849	10,127
Total assets	**$ 278,836**	**$ 271,660**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits: (Note 8)		
Noninterest bearing	$ 70,508	$ 63,131
Interest bearing	179,553	180,041
Total deposits	250,061	243,172
Accrued and other liabilities (Note 9)	5,830	4,541
Total liabilities	255,891	247,713
Stockholders' Equity		
Common stock - $2.50 par value; 2,000,000 shares authorized; 1,212,088 and 1,212,098 shares issued and outstanding in 2016 and 2015, respectively	3,030	3,030
Additional paid-in capital	19,499	19,499
Retained earnings	4,248	3,197
Accumulated other comprehensive loss - Net of tax	(3,832)	(1,779)
Total stockholders' equity	22,945	23,947
Total liabilities and stockholders' equity	**$ 278,836**	**$ 271,660**

See notes to consolidated financial statements.

Consolidated Statement of Income

Years Ended December 31, 2016 and 2015
(000s omitted, except per share data)

	2016	2015
Interest Income		
Loans - Including fees	$ 6,919	$ 6,205
Investment securities:		
Taxable	1,256	1,327
Tax-exempt	279	220
Other	201	125
Total interest income	8,655	7,877
Interest Expense	298	307
Net Interest Income	8,357	7,570
Recapture of Loan Losses (Note 4)	-	(300)
Net Interest Income - After recapture of loan losses	8,357	7,870
Noninterest Income		
Service charges and fees	1,011	1,000
Net gain on sale of loans and mortgage banking income	780	579
Net gain on sale of securities	98	12
Securities impairment recovery	-	54
Loan servicing fees - Net of amortization	123	171
Gain on the sale of other real estate owned	-	67
Other	286	338
Total noninterest income	2,298	2,221
Noninterest Expense		
Salaries and employee benefits	3,922	4,076
Occupancy and equipment	986	878
FDIC premiums	132	149
Deferred compensation	134	188
Pension	201	162
Hospitalization	557	542
Legal and professional	627	535
Other	1,820	1,499
Total noninterest expense	8,379	8,029
Income - Before income taxes	2,276	2,062
Income Tax Expense	619	374
Net Income	**$ 1,657**	**$ 1,688**
Earnings per share - Basic	$ 1.37	$ 1.39
Earnings per share - Diluted	$ 1.37	$ 1.39

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2016 and 2015
(000s omitted, except per share data)

	2016	2015
Net Income	$ 1,657	$ 1,688
Other Comprehensive Loss		
Unrealized (loss) gain on securities:		
Loss arising during the year	(2,121)	(192)
Reclassification adjustment for gain recognized on securities sold	(98)	(66)
Tax effect	755	87
Total unrealized loss on securities	(1,464)	(171)
Defined benefit pension:		
Prior service cost recognized during period	4	4
Net loss during the period	(897)	(195)
Tax effect	304	65
Total defined benefit pension	(589)	(126)
Total other comprehensive loss	(2,053)	(297)
Comprehensive (Loss) Income	**$ (396)**	**$ 1,391**

See notes to consolidated financial statements.

Consolidated Statement of Changes in Stockholders' Equity

Years Ended December 31, 2016 and 2015

(000s omitted, except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2015	$ 3,030	$ 19,499	$ 1,691	$ (1,482)	$ 22,738
Net income	-	-	1,688	-	1,688
Other comprehensive loss	-	-	-	(297)	(297)
Dividends declared $0.15 per share	-	-	(182)	-	(182)
Balance - December 31, 2015	3,030	19,499	3,197	(1,779)	23,947
Net income	-	-	1,657	-	1,657
Other comprehensive loss	-	-	-	(2,053)	(2,053)
Dividends declared $0.50 per share	-	-	(606)	-	(606)
Balance - December 31, 2016	**$ 3,030**	**$ 19,499**	**$ 4,248**	**$ (3,832)**	**$ 22,945**

Consolidated Statement of Cash Flows

Years Ended December 31, 2016 and 2015

(000s omitted, except per share data)

	2016	2015
Cash Flows from Operating Activities		
Net income	$ 1,657	$ 1,688
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Depreciation	350	328
Recapture of loan losses	-	(300)
Loans originated for sale	(20,813)	(16,372)
Proceeds from sales of loans originated for sale	21,411	16,812
Gain on sale of investment securities	(98)	(66)
Gain on sale of loans	(637)	(514)
Gain on sales of other real estate owned properties	-	(67)
Other real estate owned writedowns	33	70
Increase in cash surrender value of life insurance	(158)	(159)
Deferred tax expense	276	374
Decrease in other assets	(1,202)	(672)
Increase in other liabilities	1,289	334
Loss on sale of premises and equipment	87	-
Amortization of securities	721	367
Net cash and cash equivalents provided by operating activities	2,916	1,823
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Proceeds from sales and calls of securities available for sale	16,328	823
Proceeds from maturities of securities available for sale	40,208	32,496
Purchase of securities available for sale	(61,015)	(27,195)
Activity in held-to-maturity securities:		
Proceeds from maturities of securities held to maturity	4,325	5,529
Purchase of securities held to maturity	(2,733)	(3,835)
Redemption (purchase) of time deposits	761	(1,164)
Net change in portfolio loans	(15,136)	(5,405)
Redemption of other securities	-	67
Premises and equipment expenditures	(1,024)	(847)
Proceeds from sales and redemptions of other real estate owned properties	360	449
Net cash and cash equivalents (used in) provided by investing activities	(17,926)	918
Cash Flows from Financing Activities		
Net increase in deposit accounts	6,890	16,196
Dividends paid	(606)	(182)
Net cash and cash equivalents provided by financing activities	6,284	16,014
Net (Decrease) Increase in Cash and Cash Equivalents	(8,726)	18,755
Cash and Cash Equivalents - Beginning of year	31,569	12,814
Cash and Cash Equivalents - End of year	**$ 22,843**	**$ 31,569**
Supplemental Cash Flow Information		
Cash paid for:		
Interest	$ 297	$ 310
Income taxes	260	-
Transfer from loans to other real estate owned	867	360

See notes to consolidated financial statements.

Note 1 - Nature of Business

CNB Corporation (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, and 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 seven offices located in Cheboygan, Presque Isle, and Emmet Counties and a loan production office in Presque Isle County in northern lower Michigan.

Note 2 - Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of CNB Corporation (the "Company") and its wholly owned subsidiary, Citizens National Bank of Cheboygan (the "Bank"). All significant intercompany accounts and transactions are eliminated in consolidation.

Use of Estimates

To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of investment securities, and the pension obligation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits with other financial institutions, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions.

Securities

Securities are classified as "held to maturity" when management has the positive intent and ability to hold them to maturity and carried at amortized cost. Securities classified as "available for sale" are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Other securities, which include Federal Reserve Bank stock and Federal Home Loan Bank stock, are carried at cost.

Note 2 - Significant Accounting Policies (Continued)

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 whereby prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Other Securities

The Company, as a member of the Federal Reserve Bank of Chicago (FRB) and the Federal Home Loan Bank of Indiana (FHLB), is required to maintain an investment in the capital stock of the FRB and the FHLB. No ready market exists for the stock and it has no quoted market value. The stock is redeemable at par by the issuers and is therefore carried at cost and periodically evaluated for impairment. The Company records dividends in income on the ex-dividend date.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal balance outstanding, net of 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.

Troubled debt restructuring of loans is undertaken to improve the likelihood that the loan will be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans are evaluated to determine whether the loans should be reported as a troubled debt restructure (TDR). A loan is a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrower by modifying or renewing a loan that the Company would not otherwise consider. To make this determination, the Company must determine whether (a) the borrower is experiencing financial difficulties and (b) the Company granted the borrower a concession. This determination requires consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some deterioration in a borrower's financial condition does not automatically mean the borrower is experiencing financial difficulties.

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 established as losses are estimated to have occurred through a provision for loan losses charged to earnings. 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.

Note 2 - Significant Accounting Policies (Continued)

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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 nonclassified 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 homogenous 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.

Some of the factors considered by management when determining whether a borrower is experiencing financial difficulties are: (1) is the borrower currently in default on any of its debts, (2) has the borrower declared or is the borrower in the process of declaring bankruptcy, and (3) absent the current modification, the borrower would likely default.

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 3 to 7 years, while the useful life for buildings is 39 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 as expenses on the consolidated statement of operations.

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 revenue. 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.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain directors and executives. Bank-owned life insurance is recorded at its cash surrender value or the amount that can be effectively realized at the consolidated balance sheet date. At December 31, 2016 and 2015, the cash surrender value of the underlying policies was $5,855,429 and $5,697,000, respectively, which is included in other assets on the consolidated balance sheet.

Note 2 - 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. The plan was amended to no longer accept new participants as of December 31, 2008. Current participants will receive benefits as originally outlined in the plan. A 401(k) savings and retirement plan has also been established and covers substantially all employees. Discretionary contributions to the 401(k) plan are expensed as made.

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.

Off-balance-sheet Instruments

The Company, in the ordinary 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 (loss). Other comprehensive income includes the net change in unrealized gains (loss) on securities available for sale and components of the defined benefit pension obligation not yet recognized as components of periodic pension expense, including unrecognized gains or losses, prior service cost, and the unrecognized transition asset. These items are reported in comprehensive income (loss) net of tax. The components of accumulated other comprehensive income (loss) consisted of unrealized (losses) gains on securities and defined benefit pension obligation of approximately $(1,478,000) and $(2,354,000), respectively, in 2016 and $(14,000) and $(1,765,000), respectively, in 2015.

Earnings per Common Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. There were no outstanding stock options as of December 31, 2016 or 2015. Accordingly, no dilutive impact is presented.

Note 2 - Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Company's year ending December 31, 2018. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Company has not yet determined which application method it will use. Interest income is outside of the scope of the new standard and will not be impacted by the adoption of the standard. The Corporation is still evaluating the impact of the new standard on its noninterest income.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets including the Company’s loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead, reflect an entity’s current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Company's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is still quantifying the impact of the new standard.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 23, 2017, which is the date the consolidated financial statements were available to be issued.

Note 3 - Securities

The year-end fair values and related gross unrealized gains and losses recognized in accumulated other comprehensive loss for securities available for sale were as follows as of December 31, 2016 and 2015 (000s omitted):

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ 9,469	$ -	$ (401)	$ 9,068
Mortgage backed	41,611	15	(1,066)	40,560
Collateralized mortgage obligations	10,952	3	(171)	10,784
State and municipal	28,535	99	(718)	27,916
Total available-for-sale securities	90,567	117	(2,356)	88,328
Held-to-maturity securities - State and municipal	3,243	27	-	3,270
Total available-for-sale and held-to-maturity securities	$ 93,810	$ 144	$ (2,356)	$ 91,598

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ 32,885	$ 58	$ (49)	$ 32,894
Mortgage backed	22,306	27	(133)	22,200
Collateralized mortgage obligations	15,010	2	(158)	14,854
State and municipal	16,509	262	(29)	16,742
Total available-for-sale securities	86,710	349	(369)	86,690
Held-to-maturity securities - State and municipal	4,835	155	-	4,990
Total available-for-sale and held-to-maturity securities	$ 91,545	$ 504	$ (369)	$ 91,680

During 2016, the Company sold 12 investments and 13 additional investments were called. Proceeds from the sales were $16,328,000, resulting in gains of approximately $97,000. Proceeds from the calls were approximately $21,870,000, resulting in gains of approximately $1,000. During 2015, the Company sold two investments and five additional investments were called. Proceeds from the sales were $823,000, resulting in gains of approximately $6,000. Proceeds from the calls were approximately $11,600,000, resulting in gains of approximately $6,000. There were no losses recorded from the sales in 2015 or 2016.

Contractual maturities of debt securities at December 31, 2016 are presented below. Expected maturities may differ from contractual maturity because issuers 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 presented separately.

Note 3 - Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2016 are as follows (000s omitted):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,933	$ 4,876	$ 1,938	$ 1,940
Due in one through five years	14,156	13,941	1,305	1,330
Due after five years through 10 years	18,670	17,922	-	-
Thereafter	245	245	-	-
Mortgage-backed	41,611	40,560	-	-
Collateralized mortgage obligations	10,952	10,784	-	-
Total	$ 90,567	$ 88,328	$ 3,243	$ 3,270

Securities with unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (000s omitted):

	2016			
	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ (401)	$ 9,068	$ -	$ -
Mortgage backed	(1,066)	38,905	-	-
Collateralized mortgage obligations	(171)	10,018	-	-
State and municipal	(718)	21,268	-	-
Total available-for-sale securities	$ (2,356)	$ 79,259	$ -	$ -

	2015			
	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and agency	$ (49)	$ 16,539	$ -	$ -
Mortgage backed	(85)	16,284	(48)	1,932
Collateralized mortgage obligations	(56)	9,556	(102)	4,265
State and municipal	(29)	6,780	-	-
Total available-for-sale securities	$ (219)	$ 49,159	$ (150)	$ 6,197

Unrealized losses remaining on the consolidated balance sheet at December 31, 2016 and 2015 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.

Note 3 - Securities (Continued)

Management evaluates securities for other-than-temporary impairment (OTTI) on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. When evaluating investment securities, consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, whether the market decline was affected by macroeconomic conditions, and whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, or U.S. government-sponsored enterprises, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

Note 4 - Loans

Year-end loan balances as of December 31, 2016 and 2015 were as follows (000s omitted):

	2016	2015
Residential real estate	$ 61,831	$ 55,625
Consumer	6,235	6,431
Commercial real estate	60,373	54,103
Commercial	10,479	8,400
Total loans	138,918	124,559
Less:		
Deferred fees	(88)	(114)
Allowance for possible loan losses	(1,625)	(1,509)
Net loans	$ 137,205	$ 122,936

Note 4 - Loans (Continued)

Activity in the allowance for loan losses for the years ended December 31, 2016 and 2015 is summarized below (000s omitted):

	Year Ended December 31, 2016					
	Residential Real Estate	Consumer	Commercial Real Estate	Commercial	Unallocated	Total
Beginning balance	$ 275	$ 8	$ 555	$ 256	$ 415	$ 1,509
Charge-offs	(34)	(34)	(236)	-	-	(304)
Recoveries	12	9	398	1	-	420
Provision	-	42	-	-	(42)	-
Ending balance	$ 253	$ 25	$ 717	$ 257	$ 373	$ 1,625
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 157	$ -	$ 300	$ 1	$ -	$ 458
Collectively evaluated for impairment	96	25	417	256	373	1,167
Ending allowance balance	$ 253	$ 25	$ 717	$ 257	$ 373	$ 1,625
Loans:						
Individually evaluated for impairment	$ 1,231	$ -	$ 2,181	$ 15	$ -	$ 3,427
Collectively evaluated for impairment	60,600	6,235	58,192	10,464	-	135,491
Total loans	$ 61,831	$ 6,235	$ 60,373	$ 10,479	$ -	$ 138,918

	Year Ended December 31, 2015					
	Residential Real Estate	Consumer	Commercial Real Estate	Commercial	Unallocated	Total
Beginning balance	$ 262	$ 19	$ 995	$ 195	$ 255	$ 1,726
Charge-offs	(59)	(19)	(35)	-	-	(113)
Recoveries	26	11	152	7	-	196
Provision	46	(3)	(557)	54	160	(300)
Ending balance	$ 275	$ 8	$ 555	$ 256	$ 415	$ 1,509
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ 167	$ -	$ 320	$ 188	$ -	$ 675
Collectively evaluated for impairment	108	8	235	68	415	834
Ending allowance balance	$ 275	$ 8	$ 555	$ 256	$ 415	$ 1,509
Loans:						
Individually evaluated for impairment	$ 1,591	$ -	$ 4,518	$ 205	$ -	$ 6,314
Collectively evaluated for impairment	54,034	6,431	49,585	8,195	-	118,245
Total loans	$ 55,625	$ 6,431	$ 54,103	$ 8,400	$ -	$ 124,559

Note 4 - Loans (Continued)

Credit Risk Grading

The Company evaluates the credit quality of loans in the consumer loan portfolio, based primarily on the aging status of the loan. Accordingly, loans past due as to principal or interest 90 days or more are considered in a nonperforming status for the purpose of credit quality evaluation. All consumer loans were performing as of December 31, 2016 and 2015.

Risk Ratings 1-3 (Pass)

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

Risk Rating 4 (Special Mention)

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

Risk Rating 5 (Substandard)

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

Risk Rating 6 (Doubtful)

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

Risk Rating 7 (Loss)

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

The Company's credit quality indicators, by loan segment and class, at December 31, 2016 and 2015 are summarized below:

	December 31, 2016					
	Pass	Special Mention (4)	Substandard (5)	Doubtful (6)	Loss (7)	Total
Residential real estate	$ 60,726	$ -	$ 1,105	$ -	$ -	$ 61,831
Consumer	6,235	-	-	-	-	6,235
Commercial real estate	58,964	133	1,276	-	-	60,373
Commercial	10,410	-	69	-	-	10,479
Total	$ 136,335	$ 133	$ 2,450	$ -	$ -	$ 138,918

Note 4 - Loans (Continued)

	December 31, 2015					
	Pass	Special Mention (4)	Substandard (5)	Doubtful (6)	Loss (7)	Total
Residential real estate	$ 54,108	$ -	$ 1,517	$ -	$ -	$ 55,625
Consumer	6,431	-	-	-	-	6,431
Commercial real estate	52,069	87	1,947	-	-	54,103
Commercial	8,213	-	187	-	-	8,400
Total	$ 120,821	$ 87	$ 3,651	$ -	$ -	$ 124,559

Age Analysis of Past-due Loans

The following schedule represents the aging analysis of past-due loans by loan type at December 31 reported (000s omitted):

	December 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Residential real estate	$ 255	$ 114	$ 41	$ 410	$ 61,421	$ 61,831	$ 41	$ 48
Consumer	-	-	-	-	6,235	6,235	-	-
Commercial real estate	385	-	-	385	59,988	60,373	-	517
Commercial	69	-	-	69	10,410	10,479	-	-
Total	$ 709	$ 114	$ 41	$ 864	$ 138,054	$ 138,918	$ 41	$ 565

	December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing	Nonaccrual Loans
Residential real estate	$ 341	$ 384	$ 316	$ 1,041	$ 54,584	$ 55,625	$ 105	$ 509
Consumer	-	4	-	4	6,427	6,431	-	-
Commercial real estate	115	-	285	400	53,703	54,103	-	708
Commercial	-	-	-	-	8,400	8,400	-	187
Total	$ 456	$ 388	$ 601	$ 1,445	$ 123,114	$ 124,559	$ 105	$ 1,404

Note 4 - Loans (Continued)

Impaired Loans

Impaired loans are presented in the tables below (000s omitted):

	As of and for the Year Ended December 31, 2016				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Residential real estate	$ 56	$ 57	$ -	$ 99	$ 1
Commercial real estate	403	406	-	371	33
Total with no related allowance recorded	459	463	-	470	34
With an allowance recorded:					
Residential real estate	1,181	1,174	157	1,381	60
Commercial real estate	1,181	1,775	300	2,941	70
Commercial	15	15	1	110	1
Total with an allowance recorded	2,377	2,964	458	4,432	131
Total	$ 2,836	$ 3,427	$ 458	$ 4,902	$ 165

	As of and for the Year Ended December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Residential real estate	$ 9	$ 9	$ -	$ 178	$ 1
Commercial real estate	477	477	-	789	2
Total with no related allowance recorded	486	486	-	967	3
With an allowance recorded:					
Residential real estate	1,582	1,582	167	1,300	78
Commercial real estate	4,041	4,041	320	3,822	189
Commercial	205	205	188	221	1
Total with an allowance recorded	5,828	5,828	675	5,343	268
Total	$ 6,314	$ 6,314	$ 675	$ 6,310	$ 271

For the purpose of the disclosure above, recorded investment represents the borrower's unpaid principal balance less partial charge-offs to date.

Troubled Debt Restructurings

A modification of a loan constitutes a troubled debt restructuring (TDR) when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan; however, forgiveness of principal is rarely granted.

Note 4 - Loans (Continued)

The following schedule represents the modification activity for loans considered troubled debt restructurings that were modified during the years ended December 31, 2016 and 2015 (000s omitted, except number of contracts):

	2016			2015		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Residential real estate	3	$ 376	$ 376	2	$ 361	$ 378
Commercial real estate	3	1,262	1,262	1	195	195
Total	6	$ 1,638	$ 1,638	3	$ 556	$ 573

There were no loans modified as troubled debt restructurings within the previous 12 months that became 30 days or more past due during the years ended December 31, 2016 and 2015.

Note 5 - Loan Servicing

Mortgage servicing rights are included in other assets on the consolidated balance sheet. For the years ended December 31, 2016 and 2015, activity for capitalized mortgage servicing rights was as follows (000s omitted):

	2016	2015
Beginning of year	$ 691	$ 660
Additions	142	66
Amortization	(85)	(35)
Balance - End of year	$ 748	$ 691

The fair value of mortgage servicing rights is estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration the expected prepayment rates and other economic factors that are based on current market conditions. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. The fair value calculation is performed by a third-party model. Assumptions used in the 2016 model include an average prepayment rate of 10.72 percent and an average discount rate of 6.14 percent. Assumptions used in the 2015 model include an average prepayment rate of 10.94 percent and an average discount rate of 9.41 percent. The fair value of the mortgage servicing rights was last calculated as of November 30, 2016 and 2015 and had a fair value of approximately $970,000 and $800,000, respectively.

Mortgage loans serviced for others are not reported as assets. At December 31, 2016 and 2015, total mortgage loans serviced for others totaled $98,439,000 and $90,686,000, respectively. Related escrow deposit balances were $323,000 and $243,000 at December 31, 2016 and 2015, respectively.

Note 6 - Bank Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment as of December 31, 2016 and 2015 is as follows (000s omitted):

	2016	2015
Real estate and buildings	$ 8,290	$ 7,732
Furniture, fixtures, and equipment	4,029	3,983
Construction in progress	150	307
Total cost	12,469	12,022
Accumulated depreciation	(6,365)	(6,504)
Net property and equipment	$ 6,104	$ 5,518

Depreciation expense for the years ended December 31, 2016 and 2015 totaled approximately $350,000 and $328,000, respectively

Note 7 - Other Real Estate Owned

During 2016 and 2015, the Bank foreclosed on certain loans secured by real estate and transferred this real estate collateral to other real estate in each of those years. At the time of acquisition, amounts were charged off against the allowance for loan losses to bring the carrying amount of these properties to their estimated fair value, less estimated costs to sell. Activity in other real estate owned is as follows for the years ended December 31, 2016 and 2015 (000s omitted):

	2016	2015
Balance at beginning of year	$ 217	$ 309
Transfers from loans	867	360
Sales/Redemptions	(360)	(449)
Gain on sales	-	67
Write-down adjustments and loss on sales	(33)	(70)
Total	$ 691	$ 217

Management periodically reviews the other real estate owned properties for a valuation allowance to determine if the values of these properties have declined since the date of acquisition.

Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2016 and 2015 (000s omitted):

	2016	2015
Noninterest-bearing deposits	$ 70,508	$ 63,131
NOW accounts	48,280	47,986
Savings and money market accounts	92,858	89,409
Time deposits:		
Under $250,000	33,158	37,012
$250,000 and over	5,257	5,634
Total	$ 250,061	$ 243,172

Note 8 - Deposits (Continued)

Total time deposits between $100,000 and $250,000 were approximately $9,118,000 at December 31, 2016. At December 31, 2016, the scheduled maturities of time deposits are as follows (000s omitted):

Years Ending	Amount
2017	$ 17,969
2018	9,526
2019	7,579
2020	1,003
2021	2,338
Total	$ 38,415

Note 9 - Employee Benefits

Defined Benefit Retirement Plan

The Company has a defined benefit, noncontributory pension plan. The plan was amended to no longer accept new participants as of December 31, 2008. Current participants will receive benefits as originally outlined in the plan. The Company uses a December 31 measurement date for its plan. The plan's funded status is recorded within other assets or (other liabilities) on the accompanying consolidated balance sheet. The following sets forth the plan's funded status and amounts recognized in the consolidated financial statements (000s omitted):

	2016	2015
Change in benefit obligation:		
Beginning benefit obligation	$ 5,437	$ 5,702
Service cost	165	208
Interest cost	256	312
Actuarial gain (loss)	1,007	(276)
Benefits paid	(1,004)	(509)
Ending benefit obligation	5,861	5,437
Change in plan assets, at fair value:		
Beginning plan assets	5,441	6,059
Actual return	334	(110)
Benefits paid	(1,004)	(508)
Ending plan assets	4,771	5,441
Funded status	$ (1,090)	$ 4

The accumulated benefit obligation for the defined benefit pension plan was $4,797,000 and $4,442,000 at December 31, 2016 and 2015, respectively.

Components of net periodic benefit cost are as follows (000s omitted):

	2016	2015
Service cost	$ 165	$ 208
Interest cost on benefit obligation	256	312
Expected return on plan assets	(372)	(482)
Net amortization and deferral	153	125
Net periodic benefit cost	$ 202	$ 163

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are approximately $149,000 and $4,000, respectively.

Note 9 - Employee Benefits (Continued)

Assumptions

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

	2016	2015
Weighted-average discount	5.50 %	5.50 %
Rate of increase in future compensation	3.00	3.00
Expected long-term return on plan assets	8.00	8.00

The Company's target allocation at December 31, 2016 was 40 percent equity securities and 60 percent fixed-income securities. The Company's target allocation at December 31, 2015 was 40 percent equity securities and 60 percent fixed-income securities. The Company's pension plan asset allocation at December 31, 2016 and 2015 and expected long-term rate of return by asset category are as follows:

	Percentage of Plan Assets at Year End	
	2016	2015
Equity securities	38.70 %	41.20 %
Fixed-income securities	57.80	58.80
Real estate	1.00	-
Other	2.50	-
Total	100.00	100.00

The 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 asset mix of the portfolio will be maintained by periodically rebalancing 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.

In 2016 and 2015, the Company made no contributions to this pension plan.

All pension assets were invested in a lifestyle mutual fund comprised of equity and fixed-income securities as of December 31, 2016 and 2015. The fund is valued at net asset value per share, which the plan uses as a practical expedient for fair value.

The following benefit payments, which reflect expected future service, are expected to be paid (000s omitted):

Year Ended	Benefit Payments
2017	$ 68
2018	73
2019	232
2020	261
2021	261
2022-2027	1,888

Note 9 - Employee Benefits (Continued)

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 plan was amended as of December 31, 2009 and participants are no longer able to defer compensation in accordance with this plan and no additional benefits accrue under this plan. The present value of future benefits was accrued annually over the period of active service of each participant using a 6.00 percent discount rate. Total liabilities under this plan are $2,008,000 and $2,246,000 at December 31, 2016 and 2015 and are included in other liabilities on the consolidated balance sheet. The expense for the plan was $100,000 and $155,000 in 2016 and 2015, respectively. Distributions under the plan were $338,000 and $343,000 in 2016 and 2015, respectively.

The following benefit payments reflect expected future cash flows as anticipated (000s omitted):

Year Ended	Benefit Payments
2017	$ 322
2018	322
2019	322
2020	278
2021	247
2022-2029	999

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 $1,108,000 and $986,000 at December 31, 2016 and 2015, respectively. The interest expense of the plan was $34,000 and $34,000 in 2016 and 2015, respectively. Distributions under the plan were $69,000 and $80,000 in 2016 and 2015, respectively. Employee deferrals into the plan were $157,000 and $114,000 in 2016 and 2015, respectively.

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 percent 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 2016 and 2015, the board of directors elected to contribute a matching contribution equal to 100 percent of the first 1 percent. Effective April 1, 2013, the board elected to match 100 percent of the first 5 percent for those employees not eligible to participate in the employee pension plan. Employee contributions and the Company's matching contributions are vested immediately. The Company's matching percentages are determined annually by the board of directors and resulted in total contributions of $66,000 and $52,000 in 2016 and 2015, respectively.

Note 10 - Income Taxes

Income tax expense consists of the following (000s omitted):

	2016	2015
Current income tax expense	$ 343	$ -
Deferred income tax expense	276	374
Total income tax expense	$ 619	$ 374

The primary difference in the Company's effective tax rate and the statutory federal rate of 34 percent is due to nontaxable income on bank-owned life insurance and municipal investments.

Note 10 - Income Taxes (Continued)

The details of the net deferred tax asset (liability) are as follows (000s omitted):

	2016	2015
Deferred tax assets:		
Allowance for doubtful accounts	$ 136	$ 136
Deferred compensation	1,059	1,099
Capital loss carryforward	-	340
Pension liability	1,213	909
Net operating loss	-	360
AMT tax credits	788	499
Unrealized losses on securities available for sale	761	6
Other	188	255
Gross deferred tax assets	4,145	3,604
Net valuation allowance for capital losses	-	(340)
Total deferred tax assets	4,145	3,264
Deferred tax liabilities:		
Pension	(842)	(911)
Fixed assets	(371)	(227)
Mortgage servicing rights	(254)	(235)
Other	(40)	(36)
Total deferred tax liability	(1,507)	(1,409)
Net deferred tax asset	$ 2,638	$ 1,855

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. Related party loan balances totaled $2,870,000 and $1,471,000 at December 31, 2016 and 2015, respectively. Related party deposits totaled $6,250,000 and $7,332,000 at December 31, 2016 and 2015, respectively.

Note 12 - Commitments, Off-balance-sheet Risk, and Contingencies

There are various contingent liabilities that are not reflected in the consolidated 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 December 31, 2016 and 2015, the Bank had a required reserve of $515,000 and $151,000 made up of 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 consolidated 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.

Note 12 - Commitments, Off-balance-sheet Risk, and Contingencies (Continued)

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 unused contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows (000s omitted):

	2016	2015
Commitments to extend credit	$ 25,398	$ 20,641
Standby letters of credit	501	501

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

Note 13 - Fair Value Measurements

The Company utilizes fair value measurements to record fair value adjustments of certain assets and liabilities and to determine fair value disclosure.

The following tables present information about the Company's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Company to determine those fair values.

Fair Value Hierarchy

Under ASC 820, the Company groups assets and liabilities at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Company has the ability to access.

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

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

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

The Company uses the following methods and significant assumptions to estimate fair value.

Note 13 - Fair Value Measurements (Continued)

Securities classified as available for sale are generally reported at fair value utilizing Level 2 inputs, whereby the Company obtains fair value measurements from an independent pricing service which uses matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, and the bonds' terms and conditions, among other things. Securities in Level 1 include preferred stock securities. Securities in Level 2 include U.S. government agencies, mortgage-backed securities, corporate obligations, and state and municipal securities. The state and municipal portfolio also contains obligations issued by local municipalities and do not have a registered CUSIP. These bonds are classified based on Level 3 inputs. Based on the lack of observable market data, the Company estimated fair values based on the observable data available and reasonable unobservable market data. The Company estimated fair value based on a discounted cash flow model, which used appropriately adjusted discount rates reflecting credit and liquidity risks.

Investment securities available for sale are valued primarily by a third-party pricing agent. Prices supplied by the independent pricing agent, as well as their pricing methodologies and assumptions, are reviewed for reasonableness and to ensure such prices are aligned with traditional pricing matrices. In general, our investment securities do not possess a complex structure that could introduce greater valuation risk. Pricing for such instruments is fairly generic and is easily obtained. On a quarterly basis, prices supplied by the pricing agent are validated by comparison to prices obtained from other third-party sources for a material portion of the portfolio.

Both the market and income valuation approaches are implemented using the following types of inputs:

- Government-sponsored agency debt securities and corporate bonds are primarily priced using available market information through processes such as benchmark curves, market valuations of like securities, sector groupings, and matrix pricing.
- Other government-sponsored mortgage-backed securities are primarily priced using available market information including benchmark yields, prepayment speeds, spreads, and volatility of similar securities.
- Corporate obligations are primarily priced using consensus pricing and dealer quotes.
- State and municipal bonds are largely grouped by characteristics, i.e., geographical data and source of revenue in trade dissemination systems. Since some securities are not traded daily and due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities. Local tax anticipation warrants, with very little market activity, are priced using an appropriate market yield curve.

Note 13 - Fair Value Measurements (Continued)

Disclosures concerning assets measured at fair value are as follows:

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Assets				
Investment securities available for sale (000s omitted):				
U.S. government and agency	$ -	$ 9,068	$ -	$ 9,068
Mortgage backed	-	40,560	-	40,560
State and municipal	-	-	27,916	27,916
Collateralized mortgage obligations	-	10,784	-	10,784
Total investment securities available for sale	$ -	$ 60,412	$ 27,916	$ 88,328

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2015			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Assets				
Investment securities available for sale (000s omitted):				
U.S. government and agency	$ -	$ 32,894	$ -	$ 32,894
Mortgage backed	-	22,200	-	22,200
State and municipal	-	-	16,742	16,742
Collateralized mortgage obligations	-	14,854	-	14,854
Total investment securities available for sale	$ -	$ 69,948	$ 16,742	$ 86,690

Note 13 - Fair Value Measurements (Continued)

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015 are as follows:

	Investment Securities Available for Sale
Balance at January 1, 2016	$ 16,742
Net purchases, sales, calls, and maturities	12,026
Total unrealized losses recorded in other comprehensive income (loss)	(852)
Balance at December 31, 2016	$ 27,916

	Investment Securities Available for Sale
Balance at January 1, 2015	$ 18,995
Net purchases, sales, calls, and maturities	(2,219)
Total unrealized losses recorded in other comprehensive income (loss)	(34)
Balance at December 31, 2015	$ 16,742

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

During 2016 and 2015, there were no sales of Level 3 investments.

The Company also reviews the fair value of certain assets and, if necessary, adjusts the carrying value of the assets to fair value on a nonrecurring basis.

Impaired loans categorized as Level 3 assets consist of nonhomogeneous loans that are considered impaired and had write-downs to fair value during the period. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payments ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

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

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2016 (000s omitted)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Assets				
Impaired loans	$ -	$ -	$ 3,343	$ 3,343
Other real estate owned	-	-	690	690

Note 13 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2015 (000s omitted)			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Assets				
Impaired loans	$ -	$ -	$ 5,827	$ 5,827
Other real estate owned	-	-	217	217

Note 14 - Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments. The carrying amount is considered to approximate 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 as follows (000s omitted):

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 22,843	$ 22,843	$ 31,569	$ 31,569
Time deposits with other financial institutions	7,950	7,952	8,711	8,730
Securities available for sale	88,328	88,328	86,690	86,690
Securities held to maturity	3,243	3,270	4,835	4,990
Other securities	905	905	905	905
Loan held for sale	409	413	369	380
Loans - Net	137,205	138,482	122,936	136,778
Accrued interest receivable on loans	399	399	370	370
Financial Liabilities				
Deposits	250,061	250,393	243,172	243,303
Accrued interest payable	10	10	9	9

Note 15 - Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Note 15 - Regulatory Capital (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016 and 2015, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2016, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," an institution must maintain minimum total risk based, common equity Tier 1 risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2016 and 2015 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted)	Actual	Ratio	Actual	Ratio	Actual	Ratio
As of December 31, 2016						
Common equity tier 1 to risk-weighted assets	$ 25,084	16.50 %	$ 6,839	4.50 %	$ 9,879	6.50 %
Total capital to risk-weighted assets	26,709	17.57	12,159	8.00	15,199	10.00
Tier 1 capital to risk-weighted assets	25,084	16.50	9,119	6.00	12,159	8.00
Tier 1 capital to average assets	25,084	9.04	11,099	4.00	13,873	5.00
As of December 31, 2015						
Common equity tier 1 to risk-weighted assets	24,455	18.39	5,984	4.50	8,644	6.50
Total capital to risk-weighted assets	25,964	19.52	10,639	8.00	13,298	10.00
Tier 1 capital to risk-weighted assets	24,455	18.39	7,979	6.00	10,639	8.00
Tier 1 capital to average assets	24,455	9.04	10,821	4.00	13,526	5.00

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 2016, the Bank is limited to paying dividends of the Company’s net income of 2016 and the retained net income of the prior two calendar years. The maximum dividend that could be paid out in 2016 is $4,460,000.

Officers of CNB Corporation and Citizens National Bank

CNB Corporation Officers

Vincent J. Hillesheim
Chairman

Susan A. Eno
President &
Chief Executive Officer

Cyril S. Drier
Senior Vice President &
Treasurer

Rebecca L. Tomaski
Secretary

Citizens National Bank Officers

Vincent J. Hillesheim
Chairman
Susan A. Eno
President &
Chief Executive Officer
Cyril S. Drier
Senior Vice President &
Senior Loan Officer
Joseph M. Daly
Senior Vice President
Victoria J. Hand
Senior Vice President &
Cashier
Stephen J. Crusoe
Vice President
Mortgage Loans
Nicole M. Drake
Vice President
Commercial Loans
Matthew E. Keene
Vice President
Darren M. Selden
Vice President &
Branch Manager

Nancy K. Lindsay
Assistant Vice President
Marketing
Jodie L. Borowicz
Controller
Quinn C Bonnett
Banking Officer &
Branch Manager
Michelle M. Miller
Banking Officer &
Branch Manager
Sharon L. Coppernoll
Loan Officer
Trisha M. Dobias
Human Resources
Officer
Gina L. Eustice
Credit Manager
Valerie A. Jones
Retail Banking Officer
Andrew C. Martin
Credit Analyst &
Portfolio Manager

Staff of Citizens National Bank

Main Office

Rebecca Aper
Desiree Armstrong
Kurt Blaskowski
Maghan Brooks
Bridget Brown
Patricia Comps
Jenna DeMars
Matthew DeWildt
Katherine Eldridge
Mary Greenwood
Mylise Hext-Pyle
Jill L. Hoffman
Kathleen Johnson
Chandlar Kiogima
Anne C Labelle
Jennifer LaHaie
Gretchen McClymont
Loretta Merchant
Jenny L. Palmer
Anthony Paquet
Penny Reynolds
Echo Sackett
Lee Sheets
Jessica Smith
M. Teresa Sullivan
Kathy Swackhamer
Andrea Tallman
Lori Thornton
David Tomaski
RebeccaTomaski
Corinna Willis
Sherry Wichlacz

Downtown Drive-In Cheboygan

Sally Spray

South Branch Cheboygan

Diane Harrington
Jill Lynch
Ryanne Wilkinson

Mackinaw City

Deborah Closs
Sheri L. Kindell

Pellston

Lora Frye

Onaway

Pamela Kolasa
Sara Lalonde
Lynn Porter
Misty D. Curtis

Indian River

Tiffany Llewellyn
Kelly Saker
Amanda Nicholson
Carol A. Kinder

Alanson

Krista Lutz
Memory Massey
Erica McDowell

Petoskey

Amber Cannon
LynnErin Daley
Kelly Leist
Merry Major-Brown
Talenna Calhoun

Directors of CNB Corporation and Citizens National Bank

Current Directors

VINCENT J. HILLESHEIM
Chairman, CNB Corporation
Chairman, Citizens National Bank
Retired President, Anchor In Marina of Northern Michigan, Inc.

STEVEN J. BAKER, D.V.M.
Retired, Indian River Veterinary Clinic

THOMAS J. ELLENBERGER
Audit Committee Chairman, CNB Corporation
Vice President & Secretary
Albert Ellenberger Lumber Company

SUSAN A. ENO
President & Chief Executive Officer, CNB Corporation
President & Chief Executive Officer, Citizens National Bank

KATHLEEN A. LIEDER
Retired, Partner, Bodman LLP

THOMAS J. REDMAN
President, Tube Fab

CHRISTOPHER B. SHEPLER
President, Shepler's Mackinac Island Ferry Service

R. JEFFERY SWADLING
Vice President, Ken's Village Market

RICK A. TROMBLE
Owner, Tromble Bay Farms
Partner, Fernelius Ford

Directors Emeriti

JAMES C. CONBOY, JR.
KATHLEEN M. DARROW
FRANCIS J. VANANTWERP, JR.
JOHN P. WARD

Supplemental Shareholder Information

CNB CORPORATION COMMON STOCK

CNB Corporation common stock is listed on the OTC Markets and is traded under the symbol “CNBZ.” The Company had 911shareholders as of December 31, 2016.

SHAREHOLDER RELATIONS AND ANNUAL REPORT AVAILABLE

Shareholders may obtain, without charge, a copy of the 2016 Annual Report by submitting a written request to:

Shareholder Relations
CNB Corporation
303 N. Main St. P.O. Box 10,
Cheboygan, Michigan 49721
or
registrar@cnbismybank.com

The reports can also be downloaded from www.cnbismybank.com. Click on the shareholder relations link.

WEBSITE INFORMATION

The most current news releases and CNB Corporation financial reports and product information are available at our website, www.cnbismybank.com.

ANNUAL MEETING

The Annual Meeting of Shareholders will be held on Tuesday, May 16, 2017 at the Knights of Columbus Hall, 9840 N. Straits Highway, Cheboygan, Michigan, 49721 at 5:30 p.m.

INDEPENDENT AUDITOR

Plante & Moran, PLLC
Grand Rapids, Michigan

STOCK SALES & MARKET MAKERS

Stock sales can be handled by stockbrokers serving as market makers. You may work with a broker of your choice or facilitate a private party sale. Market information for CNB Corporation is identified on the OTC Markets website at www.otcmarkets.com.

TRANSFER AGENT

The transfer agent for CNB Corporation continues to be Citizens National Bank. Inquiries regarding a change of name, address or ownership of stock, as well as information on shareholder records, lost or stolen certificates should be directed to shareholder relations.

The following table presents the high and low selling prices of known transactions in common stock of the Company for each quarter of 2016 and 2015:

	2016			2015		
	Market Price		Cash Dividends	Market Price		Cash Dividends
Quarter	High	Low	Declared	High	Low	Declared
1st	$18.50	$16.00	$0.25	$16.67	$14.00	$ -
2nd	$19.25	$16.20	$ -	$17.00	$15.00	$ -
3rd	$18.35	$16.15	$0.25	$17.00	$15.60	$0.15
4th	$18.50	$18.35	$ -	$16.45	$16.00	$ -