

**DIRECTORS - CNB CORPORATION AND
CITIZENS NATIONAL BANK**

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
Former Co-Owner, Log Mark Bookstore*

THOMAS J. REDMAN

President, Tube Fab

R. JEFFERY SWADLING

Vice President, Ken's Village Market

RICK A. TROMBLE

*Owner, Tromble Bay Farms
Partner, Fernelius Ford*

FRANCIS J. VANANTWERP, JR.

*Vice President, Durocher Marine Division
Kokosing Construction Company, Inc.*

DIRECTORS EMERITI

THOMAS A. ELLENBERGER

JOHN P. WARD

JAMES C. CONBOY, JR.

KATHLEEN M. DARROW

CNB CORPORATION OFFICERS

VINCENT J. HILLESHEIM - *Chairman*

SUSAN A. ENO - *President & Chief Executive Officer*

DOUGLAS W. DAMM - *Senior Vice President*

SHANNA L. HANLEY - *Treasurer*

REBECCA L. TOMASKI - *Secretary*

CITIZENS NATIONAL BANK OFFICERS

VINCENT J. HILLESHEIM - *Chairman*

SUSAN A. ENO - *President & Chief Executive Officer*

DOUGLAS W. DAMM - *Executive Vice President*

SHANNA L. HANLEY - *Senior Vice President & Chief Financial Officer*

VICTORIA J. HAND - *Senior Vice President & Cashier*

MARIAN L. HARRISON - *Senior Vice President - Commercial Loans*

STEPHEN J. CRUSOE - *Vice President - Mortgage Loans*

CYRIL S. DRIER - *Vice President - Commercial Loans*

THOMAS A. MCKINLEY - *Vice President - Commercial Loans*

MATTHEW J. KAVANAUGH - *Assistant Vice President &
Branch Manager - Indian River*

NANCY K. LINDSAY - *Assistant Vice President - Marketing*

ADAM M. NEWMAN - *Assistant Vice President - Information Technology*

DARREN SELDEN - *Assistant Vice President & Branch Manager - Onaway*

RANDY J. MALTBY - *Technology Officer*

SHARON L. COPPERNOLL - *Loan Officer*

NICOLE M. DRAKE - *Banking Officer - Commercial Loans*

NANCY A. STEMPKY - *Manager of Internal Audit*

GINA L. EUSTICE - *Credit Manager*

TRISHA M. DOBIAS - *Human Resources Officer*

Citizens National Bank has offices in:

*Cheboygan • Onaway • Mackinaw City
Pellston • Indian River • Alanson • Gaylord*

You can also visit our website at

www.CNBisMyBank.com

**Member
FDIC**

September 30, 2013

**STATEMENT OF
CONDITION**



our 83 year tradition continues



October 18, 2013

Dear Shareholders,

We are pleased to announce the third quarter 2013 results continue to be very positive. Net income for the first nine months of 2013 was \$2,427,000, or earnings of \$2.00 per share; compared to \$1,039,000, or earnings of \$0.86 per share for the same period last year, an increase of 134%. While there were a number of extraordinary events during 2013 that contributed to the increase, there was also growth in core earnings.

Highlights of financial performance for the first nine months of 2013 follows:

- Total assets declined by \$12.4 million from the same period in 2012. The decline is, in part, the result of the reduction in total deposits as depositors moved funds from insured depository institutions back into the market in response to continued low interest rates. Another factor was the resolution and distribution of the Cheboygan Memorial Hospital sale proceeds, which had been held in escrow.
- Loans grew from \$110.8 million at September 30, 2012 to \$119.3 million at September 30, 2013, an increase of 7.66%. The growth in loans was a result of strategic initiatives implemented earlier in the year to enhance interest income.
- The continued decline in problem loans resulted in a \$400,000 reversal to the allowance for loan loss provision.
- Additionally, the Freddie Mac preferred stock, which was written down in September 2008, was sold resulting in a recovery of \$336,000.

As mentioned in my second quarter message, dividends to shareholders will continue to be a priority and the next dividend will be considered based on the analysis of financial performance at the conclusion of 2013. It is anticipated that earnings will continue to improve, allowing for the payment of modest dividends into the future, as well as the ability to build our capital base in order to reinvest in the company's long-term growth.

In late September a new loan production office was opened in downtown Gaylord at the corner of Main Street and Otsego Avenue. Response from that community has been positive and it is expected the office will be a source of new loan opportunities. Please feel free to stop in and see the new office.

I would also like to take this opportunity to recognize the retirement of Assistant Vice President Sally LaCross from Citizens National Bank after more than 36 years of service. We wish Sally a long, happy and healthy retirement!

On a sad note I also report that Lyle McKinley, one of my predecessors and director emeriti, passed away on August 24. Lyle retired as President and CEO in 1988, a position he held for over 20 years.

Sincerely,

Susan A. Eno
President & CEO

CONSOLIDATED BALANCE SHEET

(UNAUDITED)

In thousands of dollars

	September 30,	
	2013	2012
ASSETS		
Cash and due from banks	\$ 6,781	\$ 3,913
Interest-bearing deposits with other financial institutions	3,453	14,389
Federal funds sold	0	0
Total cash and cash equivalents	10,234	18,302
Time deposits with other financial institutions	12,314	14,040
Securities available for sale	88,578	98,955
Securities held to maturity	5,796	4,572
<i>(Market value of \$6,055 in 2013 and \$4,991 in 2012)</i>		
Other securities	997	997
Total investment securities	95,371	104,524
Loans	119,294	110,811
Less: allowance for loan losses	(3,065)	(3,568)
Net loans	116,229	107,243
Premises and equipment, net	5,068	5,220
Other assets	10,479	12,809
Total assets	<u>\$249,695</u>	<u>\$262,138</u>
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 54,357	\$ 53,630
Interest-bearing deposits	170,821	185,472
Total deposits	225,178	239,102
Other liabilities	4,328	4,242
Total liabilities	229,506	243,344
SHAREHOLDERS' EQUITY		
Common Stock	3,030	3,030
Surplus	19,498	19,498
Retained Earnings and Accumulated other		
Comprehensive Income/(Loss)	(2,339)	(3,734)
Total shareholders' equity	<u>20,189</u>	<u>18,794</u>
Total liabilities and shareholders' equity	<u>\$249,695</u>	<u>\$262,138</u>

CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

In thousands of dollars, except per share data

	For the nine months ended September 30,		
	2013	2012	2011
INTEREST INCOME			
Interest and fees on loans	\$ 4,904	\$ 5,355	\$ 5,864
Interest on securities:			
Taxable	687	606	784
Tax exempt	200	246	356
Other interest income	119	166	160
Total interest income	5,910	6,373	7,164
INTEREST EXPENSE ON DEPOSITS	606	825	1,148
NET INTEREST INCOME	5,304	5,548	6,016
Provision for loan losses	(400)	960	1,975
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	5,704	4,588	4,041
NONINTEREST INCOME			
Service charges and fees	717	753	775
Net realized gains from sale of loans	414	514	130
Loan servicing fees, net of amortization	47	(2)	65
Gain on the sale of assets	215	412	23
Gain on life insurance proceeds	120	0	0
Gain on sale of investment securities	1,754	274	0
Other income	282	339	366
Total noninterest income	3,549	2,290	1,359
NONINTEREST EXPENSES			
Salaries and benefits	3,392	3,099	2,977
Occupancy	757	706	749
FDIC insurance premiums	260	258	316
Expenses relating to ORE property	7	(67)	1,664
Securities impairment write-downs	0	0	470
Other Expenses	1,380	1,498	1,562
Total noninterest expenses	5,796	5,494	7,738
INCOME/(LOSS) BEFORE INCOME TAXES	3,457	1,384	(2,338)
Income tax expense/(benefit)	1,030	345	(949)
NET INCOME/(LOSS)	<u>\$ 2,427</u>	<u>\$ 1,039</u>	<u>\$ (1,389)</u>
BASIC NET INCOME/LOSS PER SHARE ..	<u>\$ 2.00</u>	<u>\$ 0.86</u>	<u>\$ (1.15)</u>