



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

Board of Directors

Kevin D. Collison
Heather M. Cook
Robert S. Elmore
Charles M. Fortino
Timothy P. Gaylord
Randal K. Lewis
Kim C. Newson
Richard S. Prestage
Loren R. Roslund
Scott E. Sheldon

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**SECOND QUARTER REPORT
JUNE 30, 2018**



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

www.commercial-bank.com



**CNFC
101 N. PINE RIVER ST.
P.O. BOX 280**

**ITHACA, MICHIGAN 48847
989-875-4144**

To Our Shareholders,

Net income for the second quarter of 2018 was \$1,185,000, or \$.30 per share compared to second quarter 2017 net income of \$1,043,000, or \$.26 per share.

Total assets were \$507.4 million at June 30, 2018 compared to \$522.7 million at June 30, 2017. Total loans of \$379.2 million decreased \$3.8 million, or 1% year over year. The lending environment remains very competitive in our markets and we experienced several large commercial loan payoffs in the first six months of 2018. However, our commercial loan pipeline is growing and we continue to develop new and existing customer relationships.

For the quarter ended June 30, 2018, net interest income decreased \$60,000, or 1.7% compared to the June 30, 2017 quarter. Increases in interest income from the higher interest rate environment were more than offset by a higher cost of funds. Non-interest income decreased \$101,000, or 17.6% primarily due to significantly lower mortgage banking revenue. We continue to see challenges in residential loan demand due to the limited supply of housing inventory. Operating expenses decreased by \$105,000, or 3.09% due to lower expense in a number of other expense categories. Federal income tax expense was lower by \$214,000 primarily due to the decrease in the statutory rate from 34% to 21%.

As always, please feel free to contact me with any questions or concerns.

Kevin D. Collison
President and CEO

**COMMERCIAL NATIONAL FINANCIAL
CORPORATION**

FINANCIAL HIGHLIGHTS

	6/30/2018	6/30/2017
	QUARTER ENDING	
Basic Earnings	\$ 0.30	\$ 0.26
Diluted Earnings	\$ 0.30	\$ 0.26
Return on Average Equity	14.17%	13.08%
Return on Average Assets	0.91%	0.79%
Net Interest Margin	2.92%	2.96%

	YEAR TO DATE	
Basic Earnings	\$ 0.57	\$ 0.21
Diluted Earnings	\$ 0.57	\$ 0.21
Return on Average Equity	13.60%	5.21%
Return on Average Assets	0.87%	0.32%
Cash Dividends Paid	\$ 0.26	\$ 0.26
Book Value	\$ 8.52	\$ 8.13
Market Price	\$ 12.00	\$ 11.20
Dividend Yield	4.33%	4.64%
Allowance for Loan Loss to Total Loans	0.70%	0.73%
Net Interest Margin	2.95%	2.96%

INVESTMENT BROKERS

Stifel, Nicolaus & Company, Incorporated

Kyle Travis- Financial Advisor

1-616-224-1559

Products & services are offered through Stifel. Stifel is not affiliated with Commercial Bank. Member SIPC/NYSE

Boenning & Scattergood

Eugene B. Bodo

1-800-842-8928

Brokerage & Advisory services offered through Boenning & Scattergood are not affiliated with Commercial Bank. Member FINA/SIPC

Stock Symbol: CEFC

CONSOLIDATED BALANCE SHEETS

	6/30/2018	6/30/2017
	(Unaudited)	(Unaudited)
Assets		
Cash and due from banks	\$ 12,167,133	\$ 22,073,706
Federal funds sold	<u>255,000</u>	<u>253,000</u>
Total cash & cash equivalents	12,422,133	22,326,706
Time deposits in banks	47,834,000	51,568,000
Securities	40,971,026	37,991,116
Loans	379,195,022	383,028,784
Less: Allowance for loan losses	<u>(2,655,800)</u>	<u>(2,790,614)</u>
Net loans	376,539,222	380,238,170
Bank premises & equipment- net	7,914,647	7,162,001
Other assets	<u>21,765,211</u>	<u>23,392,621</u>
Total Assets	<u><u>\$ 507,446,239</u></u>	<u><u>\$ 522,678,614</u></u>
Liabilities		
Deposits		
Non-interest bearing	\$ 71,743,846	\$ 79,766,539
Interest bearing	<u>329,933,112</u>	<u>336,717,913</u>
Total deposits	401,676,958	416,484,452
Repurchase agreements	5,996,013	6,299,030
Federal Home Loan Bank borrowings	49,805,000	49,815,000
Trust Preferred	13,403,000	13,403,000
Accrued interest and other liabilities	<u>2,790,775</u>	<u>4,429,113</u>
Total Liabilities	473,671,746	490,430,595
Shareholders' Equity		
Common stock & paid-in-capital	20,517,682	21,237,061
Accumulated other comprehensive income (loss), net of tax	(425,832)	122,238
Retained earnings	<u>13,682,643</u>	<u>10,888,720</u>
Total Shareholders' Equity	<u>33,774,493</u>	<u>32,248,019</u>
Total Liabilities & Shareholders' Equity	<u><u>\$ 507,446,239</u></u>	<u><u>\$ 522,678,614</u></u>

CONSOLIDATED STATEMENTS OF INCOME

	QUARTER ENDING		YEAR TO DATE	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Interest & fees on loans	\$ 4,258,005	\$ 4,244,443	\$ 8,511,865	\$ 8,435,672
Interest on federal funds sold	1,250	1,053	2,338	1,642
Interest on deposits in banks	303,453	251,201	569,763	440,311
Interest & dividends on securities	<u>214,970</u>	<u>182,540</u>	<u>429,924</u>	<u>362,268</u>
Total interest income	4,777,678	4,679,237	9,513,890	9,239,893
Interest Expense				
Interest on deposits	818,816	726,494	1,571,986	1,391,953
Interest on FHLB advances	236,422	208,345	477,330	404,305
Trust Preferred	133,016	99,825	249,088	193,503
Interest on other borrowings	<u>13,306</u>	<u>8,901</u>	<u>22,846</u>	<u>13,638</u>
Total interest expense	1,201,560	1,043,565	2,321,250	2,003,399
Net Interest Income	3,576,118	3,635,672	7,192,640	7,236,494
Provision for loan losses	<u>-</u>	<u>(15,814)</u>	<u>-</u>	<u>-</u>
Net interest income after provision	3,576,118	3,651,486	7,192,640	7,236,494
Non-interest Income				
Service charges and fees	216,840	217,632	427,673	448,366
Other income	<u>259,712</u>	<u>360,380</u>	<u>456,945</u>	<u>550,169</u>
Total other income	476,552	578,012	884,618	998,535
Operating Expenses				
Salaries & employee benefits	1,549,028	1,533,859	3,094,388	3,965,364
Net occupancy & equipment expense	480,889	451,173	968,908	936,466
Other expenses	<u>587,542</u>	<u>737,562</u>	<u>1,279,140</u>	<u>2,210,290</u>
Total operating expenses	2,617,459	2,722,594	5,342,436	7,112,120
Income Before Income Taxes	1,435,211	1,506,904	2,734,822	1,122,909
Income tax expense	<u>250,000</u>	<u>464,000</u>	<u>486,000</u>	<u>286,000</u>
Net Income	<u><u>\$ 1,185,211</u></u>	<u><u>\$ 1,042,904</u></u>	<u><u>\$ 2,248,822</u></u>	<u><u>\$ 836,909</u></u>

OFFICERS OF COMMERCIAL BANK

President & CEO	
Kevin D. Collison	
Executive Vice President & Chief Lending Officer	
Andrew P. Shafley	
Chief Financial Officer & Chief Operating Officer	
Kevin A. Twardy	
First Vice President	
Matthew O. Fletcher	
Vice Presidents	
Corey S. Bailey	Heather A. Schaeffer
Kathleen R. Baker	Linda M. Vaughn
Debra K. Bunting	Kathy M. Wakefield
Assistant Vice Presidents	
Garth W. Anderson	Deborah R. Keyes
Sherri J. Downing	Michael D. Miller
Chelsey A. Foster	Benjamin Z. Ogle
Josh K. Gibbs	Sandra Panella
Greg R. Hansen	Dawn K. Riley
Paul D. Harger	Jessica L. Wright
Officers	
Melanie S. Baxter	Michelle L. Pitts
Nate R. Kirk, Jr.	Denise L. Reese
Heidi L. Miller	Dacia L. Watson

OFFICES

Alma- N. State St. 989-463-2185	Okemos 517-337-5000	Middleton 989-236-7236
Alma- Wright Ave. 989-463-3901	Greenville 616-754-7166	St. Louis 989-681-5738
Mason- Jefferson St. 517-676-0500	Hastings 269-945-9561	Ithaca 989-875-4144
Mason- Cedar St. 517-676-0515		
**Mt. Pleasant 989-775-0355		**Grand Rapids 616-608-0021

**Loan production office only