



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

Board of Directors

Jeffrey S. Barker
Kevin D. Collison
Robert S. Elmore
Charles M. Fortino
Alan C. Kommel
Randal K. Lewis
Kim C. Newson
Richard S. Prestage
Loren R. Roslund
Scott E. Sheldon

**FIRST QUARTER REPORT
MARCH 31, 2016**



**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 quarter ended March 31, 2016 totaled \$635,688 or \$.20 per share. This compares to net income for the quarter ended March 31, 2015 of \$636,264 or \$.20 per share. Return on average equity was 10.67% for the first quarter of 2016 compared to 11.32% for the first quarter of 2015.

Total assets were \$408.2 million at March 31, 2016 compared to \$375.7 million at March 31, 2015. Total loans grew \$15.5 million or 5.7% when comparing March 31, 2016 to March 31, 2015. The majority of loan growth occurred in the commercial loan portfolio. Residential loan growth continues to be challenging due to the lack of inventory of homes for sale. We are continuing our efforts to increase loan volume while maintaining our credit quality standards.

For the quarter ended March 31, 2016, net interest income decreased \$9,000 or .3% compared to the quarter ended March 31, 2015 due to lower interest margin, partially offset by higher average interest-earning assets. Provision for loan losses expense decreased by \$75,000 due to improved credit quality metrics. Loss share reimbursement revenue, a component of non-interest income, decreased by \$76,000 primarily due to its linkage to the lower provision for loan loss expense. Loss share reimbursement revenue represents an expected reimbursement from the FDIC of 80% of losses on covered loans acquired in 2010 in the FDIC-assisted transaction of MainStreet Savings Bank. Operating expenses decreased by \$32,000 primarily due to lower data processing expenses and gains on other real estate sales.

We encourage you to recommend Commercial Bank to your friends and business associates for their banking needs. Our great team members will be happy to assist them.

We will continue to pursue opportunities to improve earnings and provide shareholders with a satisfactory return. As always, please feel free to contact me with questions or concerns.

Kevin D. Collison
President and CEO

**COMMERCIAL NATIONAL FINANCIAL
CORPORATION**

FINANCIAL HIGHLIGHTS

	3/31/2016	3/31/2015
	QUARTER ENDING	
Basic Earnings	\$ 0.20	\$ 0.20
Diluted Earnings	\$ 0.20	\$ 0.20
Return on Average Equity	10.67%	11.32%
Return on Average Assets	0.64%	0.69%
Cash Dividends Paid	\$ 0.13	\$ 0.13
Book Value	\$ 7.41	\$ 7.10
Market Price	\$ 9.75	\$ 7.90
Price/Earnings Ratio	11.75X	10.13X
Dividend Yield	5.33%	6.58%
Allowance for Loan Losses to Total Loans	0.89%	0.95%

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

Thomas Dooley/Nick Bicking

1-866-326-8113

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

Stock Symbol: CEFC

CONSOLIDATED BALANCE SHEETS

	3/31/2016	3/31/2015
	(Unaudited)	(Unaudited)
Assets		
Cash and due from banks	\$ 28,228,701	\$ 15,604,546
Federal funds sold	251,000	339,000
Total cash & cash equivalents	28,479,701	15,943,546
Time deposits in banks	35,588,000	18,563,000
Securities	36,323,874	47,232,016
Loans	290,022,094	274,474,544
Less: Allowance for loan losses	(2,593,972)	(2,604,074)
Net loans	287,428,122	271,870,470
Bank premises & equipment- net	4,243,159	4,380,464
Trust Preferred	310,000	310,000
Other assets	15,873,760	17,413,661
Total Assets	\$ 408,246,616	\$ 375,713,157
Liabilities		
Deposits		
Non-interest bearing	\$ 58,100,796	\$ 54,694,888
Interest bearing	271,079,690	252,645,496
Total deposits	329,180,486	307,340,384
Repurchase agreements	6,162,962	4,755,757
Federal Home Loan Bank borrowings	35,215,000	26,235,000
Trust Preferred	10,310,000	10,310,000
Accrued interest and other liabilities	3,257,229	3,970,650
Total Liabilities	384,125,677	352,611,791
Shareholders' Equity		
Common stock & paid-in-capital	13,572,835	13,572,835
Accumulated other comprehensive income, net of tax	158,484	132,003
Retained earnings	10,389,620	9,396,528
Total Shareholders' Equity	24,120,939	23,101,366
Total Liabilities & Shareholders' Equity	\$ 408,246,616	\$ 375,713,157

CONSOLIDATED STATEMENTS OF INCOME

	QUARTER END	
	3/31/2016	3/31/2015
	(Unaudited)	(Unaudited)
Interest Income		
Interest & fees on loans	\$ 3,281,282	\$ 3,303,600
Interest on federal funds sold	438	140
Interest on deposits in banks	123,553	58,440
Interest & dividends on securities	162,611	205,902
Total interest income	3,567,884	3,568,082
Interest Expense		
Interest on deposits	632,649	683,361
Interest on other borrowings	2,429	1,502
Trust Preferred	62,776	54,898
Interest on other borrowings	156,349	105,465
Total interest expense	854,203	845,226
Net Interest Income	2,713,681	2,722,856
Provision for loan losses	31,752	106,574
Net interest income after provision	2,681,929	2,616,282
Non-interest Income		
Service charges and fees	175,570	182,597
Loss share reimbursement	14,345	90,548
Other income	162,799	169,859
Total other income	352,714	443,004
Operating Expenses		
Salaries & employee benefits	1,224,628	1,197,116
Net occupancy & equipment expense	368,248	381,593
Other expenses	560,024	606,550
Total operating expenses	2,152,900	2,185,259
Income Before Income Taxes	881,743	874,027
Income tax expense	246,055	237,763
Net Income	\$ 635,688	\$ 636,264

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 President & Controller		
Cathy M. Patterson		
Vice Presidents		
Corey S. Bailey	Debra K. Bunting	
Linda M. Vaughn		
Assistant Vice Presidents		
Garth W. Anderson	Paul D. Harger	
Sherri J. Downing	Michael D. Miller	
Chelsey A. Foster	Sandra Panella	
Josh K. Gibbs	Dawn K. Riley	
Heather A. Schaeffer		
Officers		
Heidi L. Miller	Denise L. Reese	
Michelle L. Pitts	Dacia L. Watson	
Jessica L. Wright		

OFFICES

Alma- N. State St. 989-463-2185	Ithaca 989-875-4144	Middleton 989-236-7236
*Alma- Center St. 989-463-2185	St. Louis 989-681-5738	Greenville 616-754-7166
Alma- Wright Ave. 989-463-3901	Hastings 269-945-9561	Lake Odessa 616-374-8849
**Mt. Pleasant 989-775-0355	**Grand Rapids 616-608-0021	
*Drive thru only	**Loan production office only	