



**COMMERCIAL NATIONAL  
FINANCIAL CORPORATION**

**Board of Directors**

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

**FIRST QUARTER REPORT  
MARCH 31, 2017**



**COMMERCIAL NATIONAL  
FINANCIAL CORPORATION**

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[www.commercial-bank.com](http://www.commercial-bank.com)



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

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

To Our Shareholders,

Net loss for the first quarter of 2017 totaled \$206,000, or \$.05 per share compared to net income for the first quarter of 2016 of \$636,000, or \$.20 per share. Excluding merger-related expenses of the previously announced merger with Capital Directions, Inc., the holding company for Mason State Bank, first quarter 2017 net income was \$803,000, or \$.21 per share. The first quarter results were significantly affected by the remaining merger-related expenses as well as the costs to convert Mason State's data processing systems to ours. We sincerely appreciate the long hours our staff have put in to make the conversion as seamless as possible for our customers. We look forward to seeing the benefits of this merger in the coming months.

Total assets were \$535.9 million at March 31, 2017 compared to \$408.2 million at March 31, 2016. Total loans grew \$97.3 million, or 33.5% year over year. Approximately \$75.4 million of loan growth was related to the merger with Mason State Bank with the remainder mostly related to commercial loan originations. We are continuing our efforts to increase loan volume while maintaining our credit quality standards.

For the quarter ended March 31, 2017, net interest income increased \$887,000, or 32.7% primarily due to the growth in loans mentioned above as compared to the March 31, 2016 quarter. Non-interest income increased \$68,000, or 19.2% over the same time frame primarily due to higher service charges and other income levels as a result of combining both banks. Operating expenses increased by \$2.2 million mostly due to the above mentioned merger-related and conversion expenses.

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

Kevin D. Collison  
President and CEO

**COMMERCIAL NATIONAL FINANCIAL  
CORPORATION**

**FINANCIAL HIGHLIGHTS**

	3/31/2017	3/31/2016
	QUARTER ENDING	
Basic Earnings	\$ (0.05)	\$ 0.20
Diluted Earnings	\$ (0.05)	\$ 0.20
Return on Average Equity	-2.61%	10.67%
Return on Average Assets	-0.16%	0.64%
Net Interest Margin	2.95%	2.93%
Cash Dividends Paid	\$ 0.13	\$ 0.13
Book Value	\$ 7.99	\$ 7.41
Market Price	\$ 11.37	\$ 9.75
Price/Earnings Ratio	20.67X	11.75X
Dividend Yield	4.57%	5.33%
Allowance for Loan Losses to Total Loans	0.71%	0.89%

**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**

	3/31/2017	3/31/2016
	(Unaudited)	(Unaudited)
<b>Assets</b>		
Cash and due from banks	\$ 39,290,041	\$ 28,228,701
Federal funds sold	345,000	251,000
Total cash & cash equivalents	39,635,041	28,479,701
Time deposits in banks	41,293,000	35,588,000
Securities	38,948,461	36,323,874
Loans	387,305,804	290,022,094
Less: Allowance for loan losses	(2,752,545)	(2,593,972)
Net loans	384,553,259	287,428,122
Bank premises & equipment- net	7,122,992	4,243,159
Trust Preferred	403,000	310,000
Other assets	23,897,812	15,873,760
<b>Total Assets</b>	<b>\$ 535,853,565</b>	<b>\$ 408,246,616</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 82,512,283	\$ 58,100,796
Interest bearing	353,116,191	271,079,690
Total deposits	435,628,474	329,180,486
Repurchase agreements	5,950,051	6,162,962
Federal Home Loan Bank borrowings	44,340,768	35,215,000
Trust Preferred	13,403,000	10,310,000
Accrued interest and other liabilities	4,846,800	3,257,229
<b>Total Liabilities</b>	<b>504,169,093</b>	<b>384,125,677</b>
<b>Shareholders' Equity</b>		
Common stock & paid-in-capital	21,324,921	13,572,835
Accumulated other comprehensive income, net of tax	(1,755)	158,484
Retained earnings	10,361,306	10,389,620
<b>Total Shareholders' Equity</b>	<b>31,684,472</b>	<b>24,120,939</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>\$ 535,853,565</b>	<b>\$ 408,246,616</b>

**CONSOLIDATED STATEMENTS OF INCOME**

	QUARTER ENDED	
	3/31/2017	3/31/2016
	(Unaudited)	(Unaudited)
<b>Interest Income</b>		
Interest & fees on loans	\$ 4,191,229	\$ 3,281,282
Interest on federal funds sold	589	438
Interest on deposits in banks	189,110	123,553
Interest & dividends on securities	179,728	162,611
Total interest income	4,560,656	3,567,884
<b>Interest Expense</b>		
Interest on deposits	665,459	632,649
Interest on FHLB advances	195,960	156,265
Trust Preferred	93,678	62,776
Interest on other borrowings	4,737	2,513
Total interest expense	959,834	854,203
<b>Net Interest Income</b>	3,600,822	2,713,681
Provision for loan losses	15,814	31,752
Net interest income after provision	3,585,008	2,681,929
<b>Non-interest Income</b>		
Service charges and fees	230,734	175,570
Other income	189,789	177,144
Total other income	420,523	352,714
<b>Operating Expenses</b>		
Salaries & employee benefits	2,431,505	1,224,628
Net occupancy & equipment expense	485,293	368,248
Other expenses	1,472,728	560,024
Total operating expenses	4,389,526	2,152,900
<b>Income Before Income Taxes</b>	(383,995)	881,743
Income tax expense	(178,000)	246,055
<b>Net Income</b>	<b>\$ (205,995)</b>	<b>\$ 635,688</b>

**OFFICERS OF COMMERCIAL BANK**

<b>President &amp; CEO</b>	
Kevin D. Collison	
<b>Executive Vice President &amp; Chief Lending Officer</b>	
Andrew P. Shafley	
<b>Chief Financial Officer &amp; Chief Operating Officer</b>	
Kevin A. Twardy	
<b>Senior Vice President</b>	
Gary E. Organek	
<b>First Vice President</b>	
Matthew O. Fletcher	
<b>Vice Presidents</b>	
Corey S. Bailey	Heather A. Schaeffer
Kathleen R. Baker	Linda M. Vaughn
Debra K. Bunting	Kathy M. Wakefield
<b>Assistant Vice Presidents</b>	
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	Lori A. Wallace
Jessica L. Wright	
<b>Officers</b>	
Heidi L. Miller	Denise L. Reese
Michelle L. Pitts	Dacia L. Watson

**OFFICES**

Alma- N. State St. 989-463-2185	East Lansing 517-337-5000	Lake Odessa 616-374-8849
Alma- Wright Ave. 989-463-3901	Greenville 616-754-7166	Leslie 517-589-0500
Mason- Jefferson St. 517-676-0500	Hastings 269-945-9561	Middleton 989-236-7236
Mason- Cedar St. 517-676-0515	Ithaca 989-875-4144	St. Louis 989-681-5738
**Mt. Pleasant 989-775-0355	**Grand Rapids 616-608-0021	

\*\*Loan production office only