

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

**SECOND QUARTER REPORT
JUNE 30, 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 June 30, 2016 totaled \$689,000, or \$.21 per share. This compares to net income for the quarter ended June 30, 2015 of \$687,000 or \$.21 per share. Excluding merger-related expenses of the previously announced merger with Capital Directions, Inc., the holding company for Mason State Bank, second quarter 2016 net income was \$750,000, or \$.23 per share.

Total assets were \$397.9 million at June 30, 2016 compared to \$376.6 million at June 30, 2015. Total loans grew \$14.7 million or 5.2% when comparing June 30, 2016 to June 30, 2015. The majority of loan growth occurred in the commercial loan portfolio. We have experienced increased residential mortgage loan activity with the continued low interest rate environment and an uptick in home listings and new construction loans. We are continuing our efforts to increase loan volume while maintaining our credit quality standards.

For the quarter ended June 30, 2016, net interest income increased \$124,000, or 4.7% due to growth in interest-earning assets, partially offset by lower interest margin compared to the quarter ended June 30, 2015. Provision for loan losses expense decreased by \$95,000 due to improved credit quality metrics. Loss share reimbursement revenue, a component of non-interest income, decreased by \$65,000 primarily due to its linkage to the lower provision for loan losses 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 increased by \$230,000 primarily due to merger-related cost of \$93,000.

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

	6/30/2016	6/30/2015
QUARTER ENDING		
Basic Earnings	\$ 0.21	\$ 0.21
Diluted Earnings	\$ 0.21	\$ 0.21
Return on Average Equity	11.39%	11.85%
Return on Average Assets	0.69%	0.74%
Net Interest Margin	2.93%	3.06%
YEAR TO DATE		
Basic Earnings	\$ 0.41	\$ 0.41
Diluted Earnings	\$ 0.41	\$ 0.41
Return on Average Equity	11.03%	11.59%
Return on Average Assets	0.67%	0.71%
Cash Dividends Paid	\$ 0.26	\$ 0.26
Book Value	\$ 7.52	\$ 7.13
Market Price	\$ 9.65	\$ 8.55
Price/Earnings Ratio	11.63X	10.69X
Dividend Yield	5.39%	6.08%
Allowance for Loan Loss to Total Loans	0.91%	0.91%
Net Interest Margin	2.93%	3.10%

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

Boening & Scattergood

Thomas Dooley/Nick Bicking

1-866-326-8113

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

Stock Symbol: CEFC

CONSOLIDATED BALANCE SHEETS

	6/30/2016	6/30/2015
	(Unaudited)	(Unaudited)
Assets		
Cash and due from banks	\$ 13,443,063	\$ 11,151,612
Federal funds sold	<u>387,000</u>	<u>250,000</u>
Total cash & cash equivalents	13,830,063	11,401,612
Time deposits in banks	41,548,000	19,554,000
Securities	28,978,881	45,270,704
Loans	296,230,389	281,550,807
Less: Allowance for loan losses	<u>(2,704,905)</u>	<u>(2,574,503)</u>
Net loans	293,525,484	278,976,304
Bank premises & equipment- net	4,261,337	4,328,993
Trust Preferred	310,000	310,000
Other assets	<u>15,477,746</u>	<u>16,733,294</u>
Total Assets	<u><u>\$ 397,931,511</u></u>	<u><u>\$ 376,574,907</u></u>
Liabilities		
Deposits		
Non-interest bearing	\$ 56,603,855	\$ 53,261,043
Interest bearing	<u>261,428,709</u>	<u>247,199,792</u>
Total deposits	318,032,564	300,460,835
Repurchase agreements	6,545,567	4,205,920
Federal Home Loan Bank borrowings	35,215,000	34,735,000
Trust Preferred	10,310,000	10,310,000
Accrued interest and other liabilities	<u>3,362,111</u>	<u>3,669,096</u>
Total Liabilities	373,465,242	353,380,851
Shareholders' Equity		
Common stock & paid-in-capital	13,572,835	13,572,835
Accumulated other comprehensive income, net of tax	237,284	(39,876)
Retained earnings	<u>10,656,150</u>	<u>9,661,097</u>
Total Shareholders' Equity	<u>24,466,269</u>	<u>23,194,056</u>
Total Liabilities & Shareholders' Equity	<u><u>\$ 397,931,511</u></u>	<u><u>\$ 376,574,907</u></u>

CONSOLIDATED STATEMENTS OF INCOME

	QUARTER ENDING		YEAR TO DATE	
	6/30/2016	6/30/2015	6/30/2016	6/30/2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Interest & fees on loans	\$ 3,310,758	\$ 3,208,242	\$ 6,592,040	\$ 6,511,842
Interest on federal funds sold	328	145	766	285
Interest on deposits in banks	152,712	55,962	276,265	114,402
Interest & dividends on securities	<u>147,078</u>	<u>198,708</u>	<u>309,689</u>	<u>404,610</u>
Total interest income	3,610,876	3,463,057	7,178,760	7,031,139
Interest Expense				
Interest on deposits	614,479	648,150	1,247,128	1,331,511
Interest on other borrowings	2,609	1,144	5,122	2,646
Trust Preferred	65,391	56,196	128,167	111,094
Interest on other borrowings	<u>157,663</u>	<u>110,981</u>	<u>313,928</u>	<u>216,446</u>
Total interest expense	840,142	816,471	1,694,345	1,661,697
Net Interest Income	2,770,734	2,646,586	5,484,415	5,369,442
Provision for loan losses	<u>11,308</u>	<u>105,842</u>	<u>43,060</u>	<u>212,416</u>
Net interest income after provision	2,759,426	2,540,744	5,441,355	5,157,026
Non-interest Income				
Service charges and fees	190,679	192,037	366,249	374,634
Loss share reimbursement	20,186	84,718	34,531	175,266
Other income	<u>208,488</u>	<u>158,152</u>	<u>371,287</u>	<u>328,011</u>
Total other income	419,353	434,907	772,067	877,911
Operating Expenses				
Salaries & employee benefits	1,193,926	1,114,538	2,418,554	2,311,654
Net occupancy & equipment expense	347,022	352,016	715,270	733,609
Other expenses	<u>674,357</u>	<u>519,390</u>	<u>1,234,381</u>	<u>1,125,940</u>
Total operating expenses	2,215,305	1,985,944	4,368,205	4,171,203
Income Before Income Taxes	963,474	989,707	1,845,217	1,863,734
Income tax expense	<u>274,052</u>	<u>302,246</u>	<u>520,107</u>	<u>540,009</u>
Net Income	<u><u>\$ 689,422</u></u>	<u><u>\$ 687,461</u></u>	<u><u>\$ 1,325,110</u></u>	<u><u>\$ 1,323,725</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 President & Controller	
Cathy M. Patterson	
Vice Presidents	
Corey S. Bailey	Debra K. Bunting
Linda M. Vaughn	
Assistant Vice Presidents	
Garth W. Anderson	Michael D. Miller
Sherri J. Downing	Sandra Panella
Chelsey A. Foster	Dawn K. Riley
Josh K. Gibbs	Heather A. Schaeffer
Paul D. Harger	Jessica L. Wright
Officers	
Heidi L. Miller	Denise L. Reese
Michelle L. Pitts	Dacia L. Watson

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	