



**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
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**THIRD QUARTER REPORT
SEPTEMBER 30, 2017**



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

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

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



To Our Shareholders,

Net income for the third quarter of 2017 was \$1,248,000, or \$.31 per share compared to net income for the third quarter of 2016 of \$673,000, or \$.21 per share. Third quarter 2016 net income would have been \$809,000, or \$.25 per share when excluding merger-related expenses for the merger with Capital Directions, Inc., the holding company for Mason State Bank.

Total assets were \$528.8 million at September 30, 2017 compared to \$399.8 million at September 30, 2016. Total loans grew \$87.3 million, or 29.2% year over year. Most of the loan growth was related to the merger with Mason State Bank with the remainder related to commercial loan originations. We are continuing our efforts to increase loan volume while maintaining our credit quality standards.

For the quarter ended September 30, 2017, net interest income increased \$879,000, or 30.4% primarily due to the growth in loans mentioned above as compared to the September 30, 2016 quarter. In addition, \$141,000 of interest income recorded was related to the payoff of several non-accrual loans. The provision for loan losses decreased \$76,000 due to a lower trend in historical losses as well as net recoveries recorded for the quarter and year-to-date periods. Non-interest income increased \$140,000, or 34.5% for the quarter ended September 30, 2017 compared to the September 30, 2016 quarter primarily due to combining both banks. Operating expenses increased by \$286,000, or 12.3% mostly due to combining both banks.

Mr. Alan Kommel recently retired from the board of the bank and holding company. We thank Al for his many years of service and wish him a happy retirement.

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

	9/30/2017	9/30/2016
QUARTER ENDING		
Basic Earnings	\$ 0.31	\$ 0.21
Diluted Earnings	\$ 0.31	\$ 0.21
Return on Average Equity	15.19%	10.86%
Return on Average Assets	0.94%	0.68%
Net Interest Margin	3.06%	3.04%
YEAR TO DATE		
Basic Earnings	\$ 0.53	\$ 0.61
Diluted Earnings	\$ 0.53	\$ 0.61
Return on Average Equity	8.56%	10.97%
Return on Average Assets	0.53%	0.67%
Cash Dividends Paid	\$ 0.39	\$ 0.39
Book Value	\$ 8.31	\$ 7.60
Market Price	\$ 11.70	\$ 10.55
Dividend Yield	4.44%	4.93%
Allowance for Loan Loss to Total Loans	0.71%	0.91%
Net Interest Margin	2.99%	2.99%

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

	9/30/2017	9/30/2016
	(Unaudited)	(Unaudited)
Assets		
Cash and due from banks	\$ 20,536,323	\$ 17,799,338
Federal funds sold	251,000	250,000
Total cash & cash equivalents	20,787,323	18,049,338
Time deposits in banks	53,039,000	35,818,000
Securities	38,560,348	26,972,669
Loans	388,750,132	301,420,050
Less: Allowance for loan losses	(2,766,673)	(2,743,998)
Net loans	385,983,459	298,676,052
Bank premises & equipment- net	6,946,910	4,520,048
Trust Preferred	403,000	310,000
Other assets	23,102,584	15,486,157
Total Assets	\$ 528,822,624	\$ 399,832,264
Liabilities		
Deposits		
Non-interest bearing	\$ 77,267,867	\$ 53,640,038
Interest bearing	340,737,841	265,829,988
Total deposits	418,005,708	319,470,026
Repurchase agreements	5,516,046	7,006,912
Federal Home Loan Bank borrowings	54,815,000	35,215,000
Trust Preferred	13,403,000	10,310,000
Accrued interest and other liabilities	4,132,806	3,123,103
Total Liabilities	495,872,560	375,125,041
Shareholders' Equity		
Common stock & paid-in-capital	21,237,061	13,572,835
Accumulated other comprehensive income, net of tax	91,345	227,932
Retained earnings	11,621,658	10,906,456
Total Shareholders' Equity	32,950,064	24,707,223
Total Liabilities & Shareholders' Equity	\$ 528,822,624	\$ 399,832,264

CONSOLIDATED STATEMENTS OF INCOME

	QUARTER ENDING		YEAR TO DATE	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Interest & fees on loans	\$ 4,350,052	\$ 3,350,242	\$ 12,785,724	\$ 9,942,282
Interest on federal funds sold	956	335	2,598	1,101
Interest on deposits in banks	277,997	152,043	718,308	428,308
Interest & dividends on securities	186,571	116,859	548,839	426,548
Total interest income	4,815,576	3,619,479	14,055,469	10,798,239
Interest Expense				
Interest on deposits	705,945	501,253	2,097,898	1,748,381
Interest on FHLB advances	228,378	159,688	632,683	473,616
Trust Preferred	104,497	67,333	298,000	195,500
Interest on other borrowings	8,721	2,642	22,359	7,764
Total interest expense	1,047,541	730,916	3,050,940	2,425,261
Net Interest Income	3,768,035	2,888,563	11,004,529	8,372,978
Provision for loan losses	(75,000)	1,476	(75,000)	44,536
Net interest income after provision	3,843,035	2,887,087	11,079,529	8,328,442
Non-interest Income				
Service charges and fees	223,244	189,057	671,610	555,306
Other income	323,149	217,081	873,318	622,899
Total other income	546,393	406,138	1,544,928	1,178,205
Operating Expenses				
Salaries & employee benefits	1,455,212	1,235,035	5,420,576	3,653,589
Net occupancy & equipment expense	441,416	342,061	1,377,882	1,057,331
Other expenses	706,374	740,091	2,916,664	1,974,472
Total operating expenses	2,603,002	2,317,187	9,715,122	6,685,392
Income Before Income Taxes	1,786,426	976,038	2,909,335	2,821,255
Income tax expense	538,000	302,840	824,000	822,947
Net Income	\$ 1,248,426	\$ 673,198	\$ 2,085,335	\$ 1,998,308

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	East Lansing 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