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To Our Shareholders:

Our Commercial Bank family would like to take this opportunity to thank our shareholders and customers for their loyalty and support throughout the past 125 years. Commercial Bank is proud to have served our communities since 1893. We believe that as a community bank, we have a responsibility to make the communities we serve a better place to live and work. Commercial Bank continues to operate with a conservative operating philosophy that has proven to be the best way to return value to our shareholders, customers and our local communities. Our culture promotes capital accretion and preservation, a key driver of safety, soundness, stability and perhaps most important, future viability. Our goal is to stay a strong and vibrant community bank.

As I reflect on the past year, we have continued to see economic growth and improvements in our markets. 2017 was again another profitable year for our organization with earnings of $0.86 per share while maintaining our dividend of $0.52 per share. This represents a yield of 4.3% at December 31, 2017. Despite a very competitive banking environment, our expectation is to continue to grow loans and deposits by leveraging the relationships we have developed in the communities that we serve and in the greater Central Michigan area, while maintaining our credit standards.

I am pleased to report that our merger with Capital Directions, Inc. and Mason State Bank this past year went very smoothly, but not without many long hours by our dedicated team members who made the merger a success. We thank our customers and shareholders for their patience during the merger and subsequent data processing conversion of Mason State Bank's to ours. Our Bank has been well received in the Mason community.

I would also like to inform you of some exciting news regarding our branch network. With our lease expiring soon in our current East Lansing location, we began looking for a larger branch office with a more convenient location to serve our customers. We were able to locate and purchase a former bank branch in the Okemos area that was reasonably priced and in a great location with an ATM and drive thru. We will be moving our East Lansing team to this new location about eight miles south of our current location. We expect to open this new office on May 21, 2018. This office will allow us to expand our footprint in the Ingham county area and will provide enhanced services, easier access for our customers and better visibility for the Bank.

Our new branch at 1690 Wright Avenue in Alma was opened in March of 2017 and has become our busiest transactional office. Customers really appreciate the improved traffic flow and convenience this new branch provides.

Commercial Bank continues to make significant investments in technology and risk management systems. Investments in technology-based services are important as digital banking continues to grow at a rapid pace. Many of our customer transactions are now conducted by debit card, telephone, online or by smartphone. To provide the convenient access that customers expect, we have invested heavily in state-of-the-art mobile, online banking and web site platforms over the past few years. With privacy of customer information a top priority, we have taken steps to ensure that electronic delivery channels are safe and secure. These continued investments enable us to serve our customers efficiently while providing the products and services that will help them achieve their financial objectives.

During this past year, we had two of our long-time directors retire from the Bank and holding company boards. We would like to thank Mr. Jeffrey S. Barker and Mr. Alan C. Kommel for their many years of dedicated service to the Bank and holding company and we wish them well in their retirement. I would also like to announce the addition of two directors during the past year. Timothy P. Gaylord, retired President, CEO and Director of Capital Directions, Inc. and Mason State Bank was added to the board in January of 2017. Heather M. Cook, CPA, a former director with Capital Directions, Inc. and Mason State Bank was added to the board in July of 2017. Heather is a CPA in the St. Johns and Lansing areas.

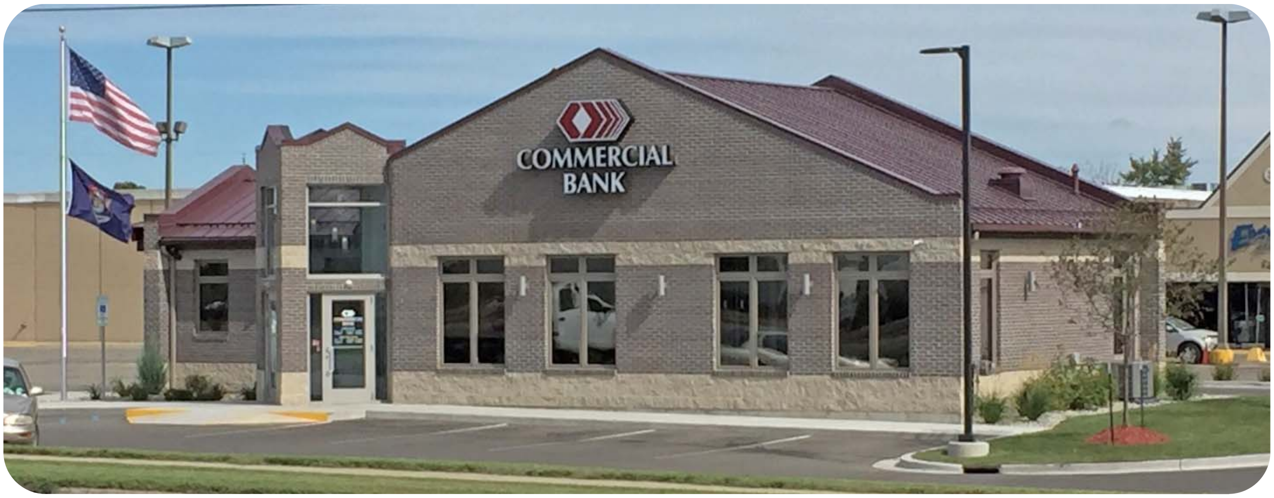
The successful performance of our Company would not have been possible without the efforts of our committed Board of Directors, dedicated management team and our loyal and knowledgeable staff. Moving forward, we are well positioned to continue to meet the high standards we have set and to exceed your expectations. Most of all, thank you to our customers and shareholders for your continued support and having the confidence in us to continually make our Company successful.

The annual shareholders' meeting is scheduled for Tuesday, May 8, 2018, 7:00 p.m. at the Pine River Country Club, 1400 W. Superior St. in Alma, Michigan. We look forward to seeing you at the meeting.

Sincerely,

Kevin D. Collison

President and CEO



New Wright Avenue Location

COMMERCIAL NATIONAL FINANCIAL CORPORATION

SELECTED FINANCIAL DATA

For the Year	**2017**	2016	2015	2014	2013
	(In thousands except financial ratios and per share data)				
Net interest income	**$ 15,013**	$ 11,251	$ 10,855	$ 10,638	$ 11,118
(Provision for) credit to loan losses	**150**	-	(61)	(611)	(482)
Noninterest income	**1,984**	1,613	1,606	2,146	1,901
Noninterest expense	**(12,246)**	(9,126)	(8,666)	(8,842)	(9,152)
Income before income tax expense	**4,901**	3,738	3,734	3,331	3,385
Income tax expense	**(1,482)**	(1,140)	(1,049)	(903)	(888)
Net income	**$ 3,419**	$ 2,598	$ 2,685	$ 2,428	$ 2,497
At Year End					
Total assets	**$ 526,374**	$ 400,367	$ 385,169	$ 374,489	$ 365,824
Gross loans	**389,660**	310,700	287,668	276,587	266,632
Total deposits	**416,622**	317,286	307,125	305,197	315,266
FHLB advances	**54,101**	38,215	34,735	26,235	10,395
Shareholders' equity	**32,831**	24,595	23,782	22,616	21,252
Financial Ratios					
Return on average assets	**0.65 %**	0.65 %	0.71 %	0.65 %	0.67 %
Return on average shareholders' equity	**10.41**	10.62	11.50	11.07	11.64
Average shareholders' equity to average assets	**6.22**	6.12	6.18	5.84	5.74
Allowance for loan losses to gross loans	**0.69**	0.87	0.87	0.88	1.04
Tier 1 leverage capital ratio(1)	**7.94**	8.45	8.59	8.52	8.21
Total risk-based capital ratio(1)	**13.43**	13.91	14.65	15.15	15.56
Dividend pay-out	**60.47**	65.12	62.65	69.33	67.53
Per Share Data					
Basic earnings	**$ 0.86**	$ 0.80	$ 0.83	$ 0.75	$ 0.77
Diluted earnings	**0.86**	0.80	0.83	0.75	0.77
Dividends declared	**0.52**	0.52	0.52	0.52	0.52
Book value, end of year	**8.28**	7.56	7.31	6.95	6.53

(1) Capital ratios are for Commercial Bank

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Commercial National Financial Corporation's (Corporation) consolidated financial statements and related information appearing in this Annual Report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present Commercial National Financial Corporation's financial position and results of operations and were prepared in conformity with accounting principles generally accepted in the United States of America. Management has also included in the Corporation's consolidated financial statements, amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

Commercial National Financial Corporation maintains internal controls designed to provide reasonable assurance that all assets are safeguarded and financial records are reliable for preparing the consolidated financial statements. The Corporation complies with laws and regulations relating to safety and soundness which are designated by the FDIC and other appropriate federal banking agencies. The selection and training of qualified personnel and the establishment and communication of accounting and administrative policies and procedures are elements of this control system. The effectiveness of internal controls is monitored by a program of internal audit. Management recognizes that the cost of internal controls should not exceed the benefits derived and that there are inherent limitations to be considered. Management believes that Commercial National Financial Corporation provides the appropriate balance between the costs of controls and the related benefits.

The independent auditors have audited the Corporation's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and provided an objective, independent review of the fairness of the reported operating results and financial position. The Board of Directors of Commercial National Financial Corporation has an Audit Committee composed of five non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

Kevin D. Collison
President and CEO

Scott E. Sheldon
Chairperson of the Board

AHP
CPAs & ADVISORS

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Report of Independent Auditors

Board of Directors and Shareholders
Commercial National Financial Corporation
Ithaca, Michigan

We have audited the accompanying consolidated financial statements of Commercial National Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commercial National Financial Corporation as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Andrews Hooper Pavlik PLC

Saginaw, Michigan
March 9, 2018

CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	**$ 7,256,403**	$ 5,394,229
Federal funds sold	**425,000**	251,000
Other interest-bearing deposits	**12,666,841**	2,794,672
Total cash and cash equivalents	**20,348,244**	8,439,901
Time deposits in banks	**53,039,000**	35,818,000
Securities available for sale	**32,180,062**	23,376,094
Federal Home Loan Bank stock, at cost	**4,185,300**	2,988,700
Gross loans receivable	**389,659,820**	310,699,984
Allowance for loan losses	**(2,680,743)**	(2,691,895)
Net loans receivable	**386,979,077**	308,008,089
Bank-owned life insurance	**11,631,025**	9,340,399
Premises and equipment, net	**6,972,170**	4,784,022
Goodwill	**3,100,262**	-
Core deposit intangible	**684,504**	64,887
Accrued interest receivable and other assets	**7,253,935**	7,546,714
Total assets	**$ 526,373,579**	**$ 400,366,806**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	**$ 85,815,811**	$ 57,992,869
Interest-bearing demand	**101,808,001**	75,630,996
Savings	**74,435,883**	59,449,269
Time	**154,562,800**	124,212,903
Total deposits	**416,622,495**	317,286,037
Securities sold under agreements to repurchase	**5,430,553**	6,127,134
Federal Home Loan Bank advances	**54,101,013**	38,215,000
Subordinated debentures	**13,403,000**	10,310,000
Accrued expenses and other liabilities	**3,985,188**	3,833,263
Total liabilities	**493,542,249**	375,771,434
Shareholders' equity		
Common stock and paid–in-capital, no par value, 5,000,000 shares authorized; shares issued and outstanding 2017 – 3,965,304 and 2016 – 3,253,012	**20,517,682**	13,572,835
Retained earnings	**12,464,800**	11,082,790
Accumulated other comprehensive loss, net of tax	**(151,152)**	(60,253)
Total shareholders' equity	**32,831,330**	24,595,372
Total liabilities and shareholders' equity	**$ 526,373,579**	$ 400,366,806

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2017	2016
Interest and dividend income		
Loans, including fees	**$ 17,411,813**	$ 13,365,545
Taxable securities	**439,963**	276,013
Nontaxable securities	**120,390**	138,601
Federal funds sold	**3,555**	1,408
Federal Home Loan Bank stock dividends	**176,613**	130,827
Interest on deposits in banks	**988,011**	571,169
Total interest and dividend income	**19,140,345**	14,483,563
Interest expense		
Deposits	**2,810,650**	2,321,232
Securities sold under agreements to repurchase	**30,796**	10,518
Federal Home Loan Bank advances	**879,598**	633,066
Subordinated debentures	**406,118**	267,566
Other	**104**	103
Total interest expense	**4,127,266**	3,232,485
Net interest income	**15,013,079**	11,251,078
Credit to loan losses	**(150,000)**	-
Net interest income after credit to loan losses	**15,163,079**	11,251,078
Noninterest income		
Service charges and fees	**890,658**	745,291
Net gains on loan sales	**126,385**	95,596
Increase in value of bank-owned life insurance	**463,757**	436,502
Net gains on securities available for sale	**1,122**	15,045
Other	**502,171**	320,077
Total noninterest income	**1,984,093**	1,612,511
Noninterest expense		
Salaries and employee benefits	**6,808,192**	4,848,701
Occupancy and equipment	**1,850,987**	1,422,826
Printing, postage and supplies	**322,666**	282,053
Professional and outside services	**1,219,282**	835,266
Collection	**75,944**	93,688
Other	**1,969,287**	1,643,341
Total noninterest expense	**12,246,358**	9,125,875
Income before income tax expense	**4,900,814**	3,737,714
Income tax expense	**1,481,719**	1,140,181
Net income	**$ 3,419,095**	$ 2,597,533
Per share information		
Basic earnings	**$ 0.86**	$ 0.80
Diluted earnings	0.86	0.80
Dividends declared	**0.52**	0.52

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2017	2016
Net income	**$ 3,419,095**	$ 2,597,533
Other comprehensive loss, net of tax:		
Unrealized holding losses arising during the period	**(65,285)**	(83,152)
Reclassification adjustment for gains included in earnings, net of tax	**(741)**	(9,930)
Total other comprehensive loss, net of tax	**(66,026)**	(93,082)
Comprehensive income	**$ 3,353,069**	$ 2,504,451

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2017 and 2016

	Shares Issued and Outstanding	Common Stock and Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Shareholders' Equity
Balance at January 1, 2016	3,253,012	$ 13,572,835	$ 10,176,823	$ 32,829	$ 23,782,487
Net income	-	-	2,597,533	-	2,597,533
Other comprehensive loss	-	-	-	(93,082)	(93,082)
Cash dividends declared, $0.52 per share	-	-	(1,691,566)	-	(1,691,566)
Balance at December 31, 2016	3,253,012	13,572,835	11,082,790	(60,253)	24,595,372
Net income	**-**	**-**	**3,419,095**	**-**	**3,419,095**
Issuance of common stock in business combination	**712,292**	**6,944,847**	**-**	**-**	**6,944,847**
Other comprehensive loss	**-**	**-**	**-**	**(66,026)**	**(66,026)**
Reclassification adjustment for tax rate change	**-**	**-**	**24,873**	**(24,873)**	**-**
Cash dividends declared, $0.52 per share	**-**	**-**	**(2,061,958)**	**-**	**(2,061,958)**
Balance at December 31, 2017	**3,965,304**	**$ 20,517,682**	**$ 12,464,800**	**$ (151,152)**	**$ 32,831,330**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2017	Years Ended December 31, 2016
Cash flows from operating activities		
Net income	**$ 3,419,095**	$ 2,597,533
Adjustments to reconcile net income to net cash from operating activities		
Credit to loan losses	**(150,000)**	-
Depreciation, amortization and accretion	**732,936**	539,995
Net gain on securities available for sale	**(1,122)**	(15,045)
Net gains on loan sales	**(126,385)**	(95,596)
(Gain) loss on disposal of premises and equipment	**25,198**	(2,000)
Gain on sale of other real estate owned	**(18,111)**	(45,705)
Valuation reserve on other real estate owned	**34,017**	50,703
Originations of loans held for sale	**(3,723,202)**	(3,146,172)
Proceeds from sales of loans held for sale	**3,849,587**	3,241,768
Increase in value of bank-owned life insurance	**(460,096)**	(436,502)
Accrued interest receivable and other assets	**1,275,689**	(11,052)
Accrued expenses and other liabilities	**(796,696)**	(140,416)
Net cash from operating activities	**4,060,910**	2,537,511
Cash flows from investing activities		
Net change in time deposits in banks	**(17,221,000)**	(8,948,000)
Purchases of securities available for sale	**(8,720,479)**	(2,887,798)
Proceeds from sales of securities available for sale	**18,132,004**	4,065,550
Proceeds from maturities and calls of securities available for sale	**3,560,000**	9,972,967
Net change in loans	**(4,110,507)**	(23,058,377)
Net change in premises and equipment	**(818,498)**	(808,320)
Net change in low income housing tax credit investment	**(73,401)**	(430,278)
Net proceeds from sales of other real estate owned	**344,493**	499,332
Acquisition of Capital Directions, Inc., net of cash received	**4,860,070**	-
Net cash from investing activities	**(4,047,318)**	(21,594,924)
Cash flows from financing activities		
Net change in deposits	**11,913,290**	10,161,242
Net change in securities sold under agreements to repurchase	**(696,581)**	696,448
Proceeds from Federal Home Loan Bank advances	**10,400,000**	11,480,000
Repayment of Federal Home Loan Bank advances	**(7,660,000)**	(8,000,000)
Dividends paid	**(2,061,958)**	(1,691,566)
Net cash from financing activities	**11,894,751**	12,646,124
Net change in cash and cash equivalents	**11,908,343**	(6,411,289)
Cash and cash equivalents at beginning of year	**8,439,901**	14,851,190
Cash and cash equivalents at end of year	**$ 20,348,244**	$ 8,439,901

	2017	2016
Supplemental disclosure of cash flow information:		
Interest paid	**$ 4,061,935**	$ 3,246,555
Income taxes paid	**762,000**	657,000
Loans transferred to other real estate owned	**165,864**	228,096

See accompanying notes

Note 1 – Summary of Significant Accounting Polices

The accounting and reporting policies of Commercial National Financial Corporation (CNFC) and its wholly-owned subsidiary, Commercial Bank (Bank) (together referred to as Corporation), conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following describes the significant accounting and reporting policies which are employed in the preparation of the consolidated financial statements.

Principles of Consolidation The consolidated financial statements include the accounts of CNFC, the Bank, and CNFC Financial Services Inc., a wholly-owned subsidiary of the Bank. Intercompany accounts and transactions are eliminated in consolidation.

Nature of Operations, Business Segments and Concentrations of Credit Risk CNFC is a one-bank holding company which conducts limited business activities. The Bank performs the majority of business activities.

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses and light industries located in its service area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles and personal expenditures, and loans to business enterprises for current operations and expansion. The Bank generally requires collateral for all loans. The Bank offers a variety of deposit products, including checking, savings, individual retirement accounts and certificates of deposit.

The principal markets for the Bank's financial services are the Michigan communities in which the Bank is located and the areas immediately surrounding these communities. The Bank serves these markets through 13 offices located in Barry, Gratiot, Ingham, Ionia, Isabella, Kent and Montcalm Counties in Michigan.

Use of Estimates To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, cash flow estimates for purchased impaired loans, acquisition fair values, the fair values of securities and other financial instruments and foreclosed assets are particularly subject to change.

Cash Flow Reporting Cash and cash equivalents include cash on hand, demand deposits with other financial institutions and federal funds sold. Cash flows are reported, net, for customer loan and deposit transactions, securities sold under agreements to repurchase with original maturities of 90 days or less and U.S. Treasury demand notes.

Securities Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Equity securities with readily determined fair values are classified as available for sale. Securities available for sale are carried at fair value, with net unrealized holding gains and losses net of related deferred income taxes, reported in other comprehensive income (loss). Other securities such as Federal Home Loan Bank Stock are carried at cost.

Fair value is based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Gains and losses on sales are determined using the amortized cost of the specific security sold. Interest and dividend income includes amortization of purchase premiums and discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Securities are written down to fair value when a decline in fair value is not temporary.

The entire amount of impairment is recognized through earnings for debt securities with unrealized losses that management intends to sell or will more likely than not be required to sell before an anticipated recovery in fair value. Otherwise, declines in the fair value of debt securities below their cost that are other than temporary are split into two components, as follows: (1) other-than-temporary impairment (OTTI) related to credit loss, which must be recognized in the consolidated statements of income;

and (2) OTTI related to other factors, which is recognized in other comprehensive income (loss). In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the Corporation's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. For equity securities, the entire amount of OTTI is recognized through earnings.

Loans Held for Sale Loans held for sale are reported at the lower of cost or market value in the aggregate. Net unrealized losses are recorded in a valuation allowance by charges to income. Mortgage loans held for sale are generally sold with servicing rights retained.

Loans The Corporation's loan portfolio includes residential real estate, business real estate, business and consumer segments. Residential real estate loans include classes for 1-4 family and other and 1-4 family with a loan-to-value greater than 95%. Business real estate loans include classes for 1-4 family rentals, owner-occupied and other real estate. Business loans include classes for commercial and industry and other. Consumer loans include real estate and other. Loans that management has the intent and the ability to hold for the foreseeable future or until maturity or payoff, are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs and an allowance for loan losses.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days, unless the loan is both well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans classified as troubled debt restructurings (TDRs) are accounted for in generally the same manner as all other loans. If the loan is in accrual status at the time of the restructuring, the borrower has the ability to make the payments under the restructured terms, and the restructuring does not forgive principal, the loan remains on an accrual basis under the new terms. If there is a forgiveness of debt or partial charge-off, the loan will generally be placed on nonaccrual status with any accrued interest reversed against interest income. If a loan is in nonaccrual status at the time of a restructuring or subsequently becomes nonaccrual, it will remain in nonaccrual status until the borrower has demonstrated the ability to make the payments under the restructured terms by making a minimum of six months of payments. If the borrower makes the six months of payments without becoming past due 30 days or more, it will be returned to accrual status.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date.

Allowance for Loan Losses The allowance for loan losses is a valuation allowance for probable incurred credit losses increased by the provision for loan losses and decreased by charge-offs less recoveries. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance for loan losses is evaluated on a quarterly basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing local and national economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and foreclosed real estate. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is possible that the estimated losses on loans and foreclosed real estate may change in the near term. However, the amount of the change cannot be estimated.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date and prohibit the carryover of the related allowance for loan losses. Subsequent to acquisition, purchased loans that are performing and were not subject to credit deterioration are evaluated for an allowance as noted below.

The allowance consists of general, allocated and unallocated components as further described below:

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: consumer, business real estate, business and residential real estate. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for changes in the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; quality of loan review system; value of underlying collateral for collateral dependent loans; and national and local economic trends and conditions. There were no changes in the Corporation's policies or methodology pertaining to the general component of the allowance for loan losses during 2017 or 2016.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Consumer – Loans in this segment primarily include home equity line of credit loans secured by residential real estate; other secured loans, such as loans secured by recreational vehicles, all-terrain vehicles, boats and snowmobiles; secured and unsecured personal loans; and overdraft protection related loans. Repayment is dependent on the credit quality of the individual borrower and their intent and ability to repay. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Business real estate – Loans in this segment are primarily income-producing properties and are secured by real estate. Repayment is dependent upon the successful operation and management of a business; therefore, these loans are considered to be of greater risk than other types of loans. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy. Management continually monitors the cash flows of these loans.

Business – Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is dependent upon the successful operation and management of a business; therefore, these loans are considered to be of greater risk than other types of loans. A weakened economy and the resulting decreased consumer spending will have an effect on the credit quality of this segment.

Residential real estate – Loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for business and business real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of the loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual residential real estate and consumer loans for impairment, unless such loans are subject to a troubled debt restructuring, collateral repossession, bankruptcy or management has concerns about the borrower's ability to repay or concerns about the value of the underlying collateral.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

The Corporation may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are classified as impaired loans.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Goodwill Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a business combination is determined to have an indefinite useful life and is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed.

Core Deposit Intangible Core deposit intangible represents the value of acquired relationships with core deposit customers. The fair value of core deposit intangibles is estimated based on a discounted cash flow methodology that gives appropriate consideration to expected customer attrition rates, cost of the deposit base compared to alternative funding sources, reserve requirements and the net maintenance cost attributable to customer deposits. Core deposit intangibles are amortized over the estimated lives ranging from seven to ten years.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using a combination of straight-line and accelerated methods with useful lives ranging from 5 to 40 years for buildings and improvements, and 3 to 7 years for furniture and equipment. These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Major improvements are capitalized.

Servicing Rights Servicing rights represent the allocated value of servicing rights retained on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using the underlying loans' interest rates and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is reported as a valuation allowance.

Servicing fee income is recorded for fees earned for servicing loans. The fees, which are based on a contractual percentage of the outstanding principal or a fixed amount for a loan, are recorded as income when earned. The amortization of the servicing rights is netted against the servicing fee income on the consolidated statements of income.

Foreclosed Assets Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Bank-Owned Life Insurance The Bank purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at its cash surrender value, the amount that can be realized.

Securities Sold Under Agreements to Repurchase All of these liabilities represent amounts advanced by various customers and are secured by securities owned, as they are not covered by general deposit insurance.

Employee Benefits A benefit plan with 401(k) features covers substantially all employees. The plan allows participant compensation deferrals. The amount of any matching contribution is based solely on the discretion of the Board of Directors.

Federal Income Taxes Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between book and tax bases of the various balance sheet assets and liabilities. Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. The Corporation records interest and penalties related to tax positions as interest expense or other expense, respectively, in the consolidated statements of income.

On December 22, 2017, the President of the United States signed a tax bill which reduced the corporate income tax rate from 34 percent to 21 percent effective for tax years beginning on or after January 1, 2018. As a result, the Corporation's deferred tax assets and liabilities were remeasured for the effects of the tax rate change on the date the law was enacted in accordance with Accounting Standards Codification (ASC) 740, *Income Taxes*. The impact of the new tax rate reduced federal income tax by $33,000 for the year ended December 31, 2017. Since the impact of the remeasurement of the deferred tax effects of items reported in accumulated other comprehensive income (loss) (AOCI) was recorded through income tax expense, there is a stranded tax effect in AOCI as the recorded deferred tax assets and tax liabilities no longer equaled the tax effect included in the AOCI for that item. In February 2018, the FASB issued and the Corporation early adopted the provisions of Accounting Standards Update (ASU) – Income Statement – Reporting Comprehensive Income (Topic 220): *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* for the year ended December 31, 2017. This ASU allows a one-time reclassification from AOCI to retained earnings for these stranded tax effects. The amount of the reclassification from AOCI to retained earnings at December 31, 2017 was $24,873. This reclassification eliminates the stranded tax effect that was created as a result of the tax rate change to improve the usefulness of information reported in the financial statements.

Transfers of Financial Assets Transfers of financial assets are accounted for as sales when control over the asset has been relinquished. Control is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free from conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control through an agreement to repurchase before maturity.

Earnings and Dividends Per Share Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share shows the dilutive effect of any additional potential common shares.

Comprehensive Income Comprehensive income consists of net income and other comprehensive income/(loss). Other comprehensive income/(loss) includes the unrealized holding gains or losses arising during the period, less a reclassification adjustment for gains or losses included in net income.

Financial Instruments with Off-Balance-Sheet Risk Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Fair Values of Financial Instruments Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or values of assets and liabilities not considered financial instruments.

Fair Value Measurements Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the years ended December 31, 2017 and 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Federal Home Loan Bank Stock The Corporation is a member of the Federal Home Loan Bank (FHLB) System and is required to invest in capital stock of the FHLB of Indianapolis. The amount of the required investment is determined and adjusted by the FHLB.

Dividend Restriction Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

Loss Contingencies Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the consolidated financial statements.

Time Deposits in Banks Time deposits in banks consist of certificates of deposit (CDs) purchased from other financial institutions and are held in the Bank's name. The CDs range in maturities and interest rates and are purchased in amounts to stay within FDIC insurance limits.

Reclassifications Some items in the prior year consolidated financial statements have been reclassified to conform with the current year presentation.

Subsequent Events Subsequent events have been evaluated through March 9, 2018, which is the date the financial statements were available to be issued.

Note 2 – Acquisition of MainStreet Savings Bank FSB

On July 16, 2010, the Corporation entered into a purchase and assumption agreement (MainStreet Agreement) with the FDIC, as receiver for MainStreet Savings Bank FSB (MainStreet) based in Hastings, Michigan.

The MainStreet Agreement with the FDIC included a loss sharing agreement that covered most of MainStreet's assets, based upon the seller's records, including single family residential real estate loans, commercial real estate loans and commercial and industrial loans, and foreclosed assets (collectively, covered assets). The Corporation acquired certain other MainStreet assets not covered by the loss sharing agreement with the FDIC, including cash and securities purchased at fair value.

On April 3, 2017, Commercial Bank entered into an agreement to terminate the Single Family Shared-Loss Agreement with the FDIC. Under the agreement, Commercial Bank received a payment in excess of the indemnification assets recorded resulting in a gain of approximately $61,000.

Note 3 – Acquisition of Capital Directions, Inc.

On January 1, 2017, the Corporation completed the acquisition of Capital Directions, Inc., a Michigan corporation (CDI) and Commercial Bank's acquisition of Mason State Bank, a state-chartered commercial bank and wholly-owned subsidiary of CDI, through merger. Under the terms of the merger agreement, shareholders of CDI had the option to receive: (A) $36.07 in cash for each share of CDI common stock, (B) 3.699 shares of the Corporation's common stock for each share of CDI common stock, or (C) a combination of (A) and (B) subject to allocation provisions to assure that in aggregate, CDI shareholders received total consideration that consisted of approximately 50% stock and 50% cash. As a result of the acquisition, the Corporation issued 712,292 shares of its common stock. The results of the merged CDI operations are presented in the Corporation's consolidated financial statements from the date of acquisition. Acquisition-related expenses associated with the CDI transaction totaled $1.8 million.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Based on preliminary valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change, the purchase price for the CDI acquisition is detailed in the following table.

ASSETS			LIABILITIES		
Cash and due from banks	$	11,790,342	Deposits		
Securities available for sale		22,025,424	Noninterest-bearing demand	$	26,833,789
Loans			Interest-bearing demand		8,665,261
Business and business real estate		32,014,581	Savings		30,259,609
Residential real estate		41,266,346	Time		21,664,509
Consumer		1,595,418	Total deposits		87,423,168
Total loans		74,876,345			
			Federal Home Loan Bank advances		13,119,020
Premises and equipment, net		1,808,797	Subordinated debentures		3,093,000
FHLB stock		1,196,600	Other liabilities		1,596,879
Goodwill		3,100,262			
Core deposit intangible		760,597			
Bank-owned life insurance		1,830,530			
Other assets		1,718,289			
Total assets purchased	$	119,107,186	Total liabilities assumed	$	105,232,067
Common stock issued	$	6,944,847			
Cash paid		6,930,272			
Total purchase price	$	13,875,119			

Note 4 - Securities

The fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

Available for Sale		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**
				December 31, 2017				
U.S. treasury and government agencies	**$**	**19,357,755**	**$**	**14,261**	**$**	**(169,074)**	**$**	**19,202,942**
State and municipals		**11,715,489**		**47,385**		**(96,848)**		**11,666,026**
Time deposits with other banks		**758,046**		**446**		**(16,005)**		**742,487**
Trust preferred securities		**500,000**		**-**		**-**		**500,000**
Equity securities		**40,104**		**28,503**		**-**		**68,607**
Total	**$**	**32,371,394**	**$**	**90,595**	**$**	**(281,927)**	**$**	**32,180,062**
				December 31, 2016				
U.S. treasury and government agencies	$	12,368,798	$	44,236	$	(66,881)	$	12,346,153
State and municipals		8,829,485		37,628		(142,125)		8,724,988
Time deposits with other banks		2,229,000		13,660		-		2,242,660
Equity securities		40,104		22,189		-		62,293
Total	$	23,467,387	$	117,713	$	(209,006)	$	23,376,094

The fair value of debt and equity securities at December 31, 2017 by contractual maturity is shown below:

	Available for Sale Fair Value
Due in one year or less	**$ 2,118,285**
Due from one to five years	**27,294,731**
Due from five to ten years	**2,198,439**
Due from ten years plus	**500,000**
Equity securities	**68,607**
Total	**$ 32,180,062**

Realized gains on sales of securities available for sale were $1,122 during 2017 and $13,013 during 2016. During 2016, there was a $2,032 gain recognized on a call of an available-for-sale security.

Securities with unrealized losses at December 31 are as follows:

2017

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. treasury and government agencies	**$ 10,976,685**	**$ 110,785**	**$ 5,461,997**	**$ 58,289**	**$ 16,438,682**	**$ 169,074**
State and municipals	**9,100,439**	**65,522**	**1,626,992**	**31,326**	**10,727,431**	**96,848**
Time deposits with other banks	**496,727**	**16,005**	**-**	**-**	**496,727**	**16,005**
Total temporarily impaired	**$ 20,573,851**	**$ 192,312**	**$ 7,088,989**	**$ 89,615**	**$ 27,662,840**	**$ 281,927**

2016

	Less than 12 Months		12 Months or More		Total	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. treasury and government agencies	$ 7,464,038	$ 66,881	$ -	$ -	$ 7,464,038	$ 66,881
State and municipals	7,051,403	138,273	216,390	3,852	7,267,793	142,125
Total temporarily impaired	$ 14,515,441	$ 205,154	$ 216,390	$ 3,852	$ 14,731,831	$ 209,006

At December 31, 2017, a total of 52 securities had unrealized losses, 2 of the securities were time deposits issued by banks, 9 of the securities were issued by the U.S. treasury or government agencies and 41 of the securities were state and municipals. The unrealized losses have not been realized into income because the securities were not deemed to be of low investment grade and management has the ability to hold the securities for the foreseeable future. The decline in market value is primarily due to general economic conditions.

Securities having a fair value of approximately $15,158,000 at December 31, 2017 and $8,854,000 at December 31, 2016, were pledged for securities sold under agreements to repurchase and to certain deposit customers. The carrying amount of securities issued by the State of Michigan and all its political subdivisions totaled approximately $6,942,000 at December 31, 2017 and $7,319,000 at December 31, 2016 with an approximate fair value of $6,928,000 in 2017 and $7,236,000 in 2016.

Note 5 - Loans Receivable

Loans receivable by loan class at December 31 are as follows:

	2017	2016
Consumer		
Real estate	$ 8,751,681	$ 7,451,266
Other	11,374,252	10,032,095
Business Real Estate		
1-4 family rentals	7,300,449	6,271,877
Owner occupied	51,232,663	38,341,237
Other real estate	107,464,582	84,010,234
Business		
Commercial and industry	28,283,723	22,680,891
Other	6,579,347	6,526,058
Residential Real Estate		
1-4 family and other	148,648,847	114,142,777
1-4 family (LTV>95%)	20,024,276	21,243,549
Gross loans receivable	389,659,820	310,699,984
Allowance for loan losses	(2,680,743)	(2,691,895)
Net loans receivable	$ 386,979,077	$ 308,008,089

At year-end 2017 and 2016 there were no loans held for sale.

Loans to principal officers, directors and their affiliates at December 31 approximated $1,522,000 in 2017 and $3,513,000 in 2016. Activity for these loans was not deemed significant during 2017 and 2016.

Note 6 - Allowance for Loan Losses

Activity in the allowance for loan losses by loan segment as of December 31, 2017 was as follows:

	Beginning Balance	Charged-off	Recoveries	Provision	Ending Balance
Consumer	$ 49,822	$ (5,780)	$ 32,949	$ (7,579)	$ 69,412
Business Real Estate	1,710,805	-	76,349	(58,601)	1,728,553
Business	55,002	(28,645)	93,705	(33,497)	86,565
Residential Real Estate	566,199	(105,954)	79,927	(103,214)	436,958
Overdrafts	-	(6,059)	2,356	3,703	-
Calculated allowance	2,381,828	(146,438)	285,286	(199,188)	2,321,488
Unallocated allowance	310,067	-	-	49,188	359,255
Total allowance for loan losses	$ 2,691,895	$ (146,438)	$ 285,286	$ (150,000)	$ 2,680,743

Activity in the allowance for loan losses by loan segment as of December 31, 2016 was as follows:

	Beginning Balance	Charged-off	Recoveries	Provision	Ending Balance
Consumer	$ 83,877	$ (2,597)	$ 32,417	$ (63,875)	$ 49,822
Business Real Estate	1,200,176	(661)	58,507	452,783	1,710,805
Business	199,705	(2,248)	92,616	(235,071)	55,002
Residential Real Estate	673,015	(100,106)	129,372	(136,082)	566,199
Overdrafts	-	(7,209)	2,049	5,160	-
Calculated allowance	2,156,773	(112,821)	314,961	22,915	2,381,828
Unallocated allowance	332,982	-	-	(22,915)	310,067
Total allowance for loan losses	$ 2,489,755	$ (112,821)	$ 314,961	$ -	$ 2,691,895

Additional detail of the allowance for loan losses by loan segment as of December 31, 2017 was as follows:

Allowance for Loan Losses	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Ending Balance
Consumer	**$ 6,883**	**$ 62,529**	**$ -**	**$ 69,412**
Business Real Estate	**178,452**	**1,550,101**	**-**	**1,728,553**
Business	**6,513**	**80,052**	**-**	**86,565**
Residential Real Estate	**147,558**	**285,290**	**4,110**	**436,958**
Calculated allowance	**339,406**	**1,977,972**	**4,110**	**2,321,488**
Unallocated allowance	**-**	**359,255**	**-**	**359,255**
Total allowance for loan losses	**$ 339,406**	**$ 2,337,227**	**$ 4,110**	**$ 2,680,743**

Additional detail of the allowance for loan losses by loan segment as of December 31, 2016 was as follows:

Allowance for Loan Losses	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Ending Balance
Consumer	$ 9,904	$ 39,833	$ 85	$ 49,822
Business Real Estate	430,752	1,280,053	-	1,710,805
Business	417	54,585	-	55,002
Residential Real Estate	170,125	388,617	7,457	566,199
Calculated allowance	611,198	1,763,088	7,542	2,381,828
Unallocated allowance	-	310,067	-	310,067
Total allowance for loan losses	$ 611,198	$ 2,073,155	$ 7,542	$ 2,691,895

Detail of loan balances by loan segment relating to the allowance for loan losses as of December 31, 2017 was as follows:

Loans Receivable Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Ending Balance
Consumer	**$ 40,563**	**$ 20,085,370**	**$ -**	**$ 20,125,933**
Business Real Estate	**4,125,442**	**161,597,711**	**274,541**	**165,997,694**
Business	**1,390,822**	**33,472,248**	**-**	**34,863,070**
Residential Real Estate	**4,485,685**	**163,751,926**	**435,512**	**168,673,123**
Total loans receivable balance	**$ 10,042,512**	**$ 378,907,255**	**$ 710,053**	**$ 389,659,820**

Detail of loan balances by loan segment relating to the allowance for loan losses as of December 31, 2016 was as follows:

Loans Receivable Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Ending Balance
Consumer	$ 111,382	$ 17,367,857	$ 4,122	$ 17,483,361
Business Real Estate	1,894,824	126,728,524	-	128,623,348
Business	203,325	29,003,624	-	29,206,949
Residential Real Estate	4,999,846	129,584,801	801,679	135,386,326
Total loans receivable balance	$ 7,209,377	$ 302,684,806	$ 805,801	$ 310,699,984

The following tables present impaired loans, excluding purchased impaired loans, disaggregated by loan class at December 31, 2017:

Impaired Loans with No Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Business Real Estate					
1-4 family rentals	**28,760**	**28,760**	**-**	**30,004**	**1,380**
Owner occupied	**1,222,753**	**1,110,949**	**-**	**1,142,746**	**36,375**
Other real estate	**-**	**-**	**-**	**-**	**-**
Business					
Commercial and industry	**210,793**	**185,883**	**-**	**202,063**	**7,942**
Other	**-**	**-**	**-**	**-**	**-**
Residential Real Estate					
1-4 family and other	**-**	**-**	**-**	**-**	**-**
1-4 family (LTV>95%)	**-**	**-**	**-**	**-**	**-**
Total	**$ 1,462,306**	**$ 1,325,592**	**$ -**	**$ 1,374,813**	**$ 45,697**

Impaired Loans with an Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 40,563	$ 40,563	$ 6,883	$ 42,466	$ 1,909
Business Real Estate					
1-4 family rentals	179,387	171,936	1,290	179,315	5,203
Owner occupied	994,312	984,363	128,287	989,479	34,234
Other real estate	1,829,434	1,829,434	48,875	1,815,301	57,258
Business					
Commercial and industry	874,451	874,451	4,134	892,863	37,365
Other	330,488	330,488	2,379	334,310	16,977
Residential Real Estate					
1-4 family and other	3,146,620	3,113,303	96,153	3,148,945	176,662
1-4 family (LTV>95%)	1,427,799	1,372,382	51,405	1,388,472	65,147
Total	$ 8,823,054	$ 8,716,920	$ 339,406	$ 8,791,151	$ 394,755

Total Impaired Loans	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 40,563	$ 40,563	$ 6,883	$ 42,466	$ 1,909
Business Real Estate					
1-4 family rentals	208,147	200,696	1,290	209,319	6,583
Owner occupied	2,217,065	2,095,312	128,287	2,132,225	70,609
Other real estate	1,829,434	1,829,434	48,875	1,815,301	57,258
Business					
Commercial and industry	1,085,244	1,060,334	4,134	1,094,926	45,307
Other	330,488	330,488	2,379	334,310	16,977
Residential Real Estate					
1-4 family and other	3,146,620	3,113,303	96,153	3,148,945	176,662
1-4 family (LTV>95%)	1,427,799	1,372,382	51,405	1,388,472	65,147
Total	$ 10,285,360	$ 10,042,512	$ 339,406	$ 10,165,964	$ 440,452

The following tables present impaired loans, excluding purchased impaired loans, disaggregated by loan class at December 31, 2016:

Impaired Loans with No Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ -	$ -	$ -	$ -	$ -
Other	4,707	4,707	-	5,383	365
Business Real Estate					
1-4 family rentals	-	-	-	-	-
Owner occupied	600,890	287,893	-	312,564	1,369
Other real estate	-	-	-	-	-
Business					
Commercial and industry	51,148	30,179	-	34,430	-
Other	-	-	-	-	-
Residential Real Estate					
1-4 family and other	-	-	-	-	-
1-4 family (LTV>95%)	-	-	-	-	-
Total	$ 656,745	$ 322,779	$ -	$ 352,377	$ 1,734

Impaired Loans with an Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 45,717	$ 45,717	$ 7,466	$ 61,825	$ 2,089
Other	60,958	60,958	2,438	62,455	3,257
Business Real Estate					
1-4 family rentals	187,230	187,230	6,216	188,174	13,889
Owner occupied	149,271	143,720	23,613	180,512	5,621
Other real estate	1,313,644	1,275,981	400,923	1,329,128	45,333
Business					
Commercial and industry	128,158	128,158	192	136,947	7,836
Other	44,988	44,988	225	48,738	3,009
Residential Real Estate					
1-4 family and other	3,620,224	3,584,654	117,042	3,634,402	205,846
1-4 family (LTV>95%)	1,460,116	1,415,192	53,083	1,430,457	64,183
Total	$ 7,010,306	$ 6,886,598	$ 611,198	$ 7,072,638	$ 351,063

Total Impaired Loans	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 45,717	$ 45,717	$ 7,466	$ 61,825	$ 2,089
Other	65,665	65,665	2,438	67,838	3,622
Business Real Estate					
1-4 family rentals	187,230	187,230	6,216	188,174	13,889
Owner occupied	750,161	431,613	23,613	493,076	6,990
Other real estate	1,313,644	1,275,981	400,923	1,329,128	45,333
Business					
Commercial and industry	179,306	158,337	192	171,377	7,836
Other	44,988	44,988	225	48,738	3,009
Residential Real Estate					
1-4 family and other	3,620,224	3,584,654	117,042	3,634,402	205,846
1-4 family (LTV>95%)	1,460,116	1,415,192	53,083	1,430,457	64,183
Total	$ 7,667,051	$ 7,209,377	$ 611,198	$ 7,425,015	$ 352,797

The following table presents the aging of the recorded investment in loans, excluding purchased impaired loans, by portfolio class as of December 31, 2017:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total
Consumer						
Real estate	$ 8,746,019	$ 5,662	$ -	$ -	$ 5,662	$ 8,751,681
Other	11,367,757	-	6,495	-	6,495	11,374,252
Business Real Estate						
1-4 family rentals	7,128,512	171,937	-	-	171,937	7,300,449
Owner occupied	50,448,448	-	379,320	130,354	509,674	50,958,122
Other real estate	107,350,414	114,168	-	-	114,168	107,464,582
Business						
Commercial and industry	28,163,809	8,734	-	111,180	119,914	28,283,723
Other	6,578,264	1,083	-	-	1,083	6,579,347
Residential Real Estate						
1-4 family and other	147,559,658	336,185	215,966	101,526	653,677	148,213,335
1-4 family (LTV>95%)	19,646,985	212,915	118,703	45,673	377,291	20,024,276
Total	$ 386,989,866	$ 850,684	$ 720,484	$ 388,733	$ 1,959,901	$ 388,949,767

The following table presents the aging of the recorded investment in loans, excluding purchased impaired loans, by portfolio class as of December 31, 2016:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total
Consumer						
Real estate	$ 7,433,406	$ 13,738	$ -	$ -	$ 13,738	$ 7,447,144
Other	10,027,504	4,591	-	-	4,591	10,032,095
Business Real Estate						
1-4 family rentals	6,084,647	-	187,230	-	187,230	6,271,877
Owner occupied	38,210,803	-	-	130,434	130,434	38,341,237
Other real estate	84,010,234	-	-	-	-	84,010,234
Business						
Commercial and industry	22,650,712	30,179	-	-	30,179	22,680,891
Other	6,526,058	-	-	-	-	6,526,058
Residential Real Estate						
1-4 family and other	112,684,750	440,466	-	215,882	656,348	113,341,098
1-4 family (LTV>95%)	20,912,350	279,392	-	51,807	331,199	21,243,549
Total	$ 308,540,464	$ 768,366	$ 187,230	$ 398,123	$ 1,353,719	$ 309,894,183

The following table presents the recorded investment in nonaccrual loans, which are divided among all aging categories, and accruing loans contractually past due 90 days or more as to interest or principal payments at December 31, 2017:

	Accruing	Nonaccrual	Total
Consumer			
Other	$ -	$ 6,495	$ 6,495
Business Real Estate			
1-4 family rentals	-	200,697	200,697
Owner occupied	-	843,323	843,323
Business			
Commercial and industry	-	185,883	185,883
Residential Real Estate			
1-4 family and other	-	718,874	718,874
1-4 family (LTV>95%)	-	519,226	519,226
Total	$ -	$ 2,474,498	$ 2,474,498

The following table presents the recorded investment in nonaccrual loans, which are divided among all aging categories, and accruing loans contractually past due 90 days or more as to interest or principal payments at December 31, 2016:

	Accruing	Nonaccrual	Total
Business Real Estate			
Owner occupied	$ -	$ 333,593	$ 333,593
Other real estate	-	975,939	975,939
Business			
Commercial and industry	-	30,179	30,179
Residential Real Estate			
1-4 family and other	-	366,038	366,038
1-4 family (LTV>95%)	-	434,363	434,363
Total	$ -	$ 2,140,112	$ 2,140,112

Nonperforming loans includes both smaller-balance, homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. No additional funds are committed to be advanced in connection with impaired loans, which include restructured loans.

Credit Quality Information

The Corporation utilizes an eight-grade internal loan rating system for all business relationships.

Loans rated 1-4: Loans in these categories are considered "pass" rated loans with minimal to acceptable risk.

Loans rated 5: Loans in this category are considered "watch" or "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 6: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Corporation will sustain some loss if the weakness is not corrected.

Loans rated 7: Loans in this category are considered "doubtful." Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 8: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Corporation formally reviews the ratings on all business loans. Annually, the Corporation engages a third party to review a significant portion of loans. Management utilizes the results of these reviews as part of its annual review process.

Loans not meeting the above criteria that are analyzed individually as part of the above described process are considered to be pass rated loans. The Corporation risk rates residential real estate loans on an as-needed basis as they become aware of credit weaknesses.

The Corporation utilizes a two-grade internal loan risk rating system for consumer loans:

Performing: Loans in this category are, as of the presentation date, those in which payments of principal and interest are less than 90 days past due.

Nonperforming: Loans in this category were 90 days or more delinquent, TDRs, nonaccruing loans less than 90 days past due, or loans acquired with deteriorated credit quality and, therefore, are considered to be nonperforming loans. All loans rated nonaccrual are also nonperforming.

The following tables present the credit quality indicators of the Corporation's various classes of loans at December 31, 2017:

Commercial Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Business Real Estate						
1-4 family rentals	$ 6,822,497	$ 277,256	$ 200,696	$ -	$ -	$ 7,300,449
Owner occupied	48,433,641	1,512,449	1,286,573	-	-	51,232,663
Other real estate	100,521,057	5,801,360	1,142,165	-	-	107,464,582
Business						
Commercial and industry	24,740,534	3,303,838	239,351	-	-	28,283,723
Other	5,063,506	1,125,010	390,831	-	-	6,579,347
Total	$ 185,581,235	$ 12,019,913	$ 3,259,616	$ -	$ -	$ 200,860,764

Residential Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Residential Real Estate						
1-4 family and other	$ 147,144,355	$ -	$ 1,504,492	$ -	$ -	$ 148,648,847
1-4 family (LTV>95%)	19,451,126	-	573,150	-	-	20,024,276
Total	$ 166,595,481	$ -	$ 2,077,642	$ -	$ -	$ 168,673,123

Consumer Credit Exposure	Performing	Non-Performing	Total
Consumer			
Real estate	$ 8,751,681	$ -	$ 8,751,681
Other	11,367,757	6,495	11,374,252
Total	$ 20,119,438	$ 6,495	$ 20,125,933

The following tables present the credit quality indicators of the Corporation's various classes of loans at December 31, 2016:

Commercial Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Business Real Estate						
1-4 family rentals	$ 5,888,259	$ 383,618	$ -	$ -	$ -	$ 6,271,877
Owner occupied	37,635,610	194,477	511,150	-	-	38,341,237
Other real estate	82,346,188	688,107	975,939	-	-	84,010,234
Business						
Commercial and industry	20,098,600	2,541,776	40,515	-	-	22,680,891
Other	5,801,687	724,371	-	-	-	6,526,058
Total	$ 151,770,344	$ 4,532,349	$ 1,527,604	$ -	$ -	$ 157,830,297

Residential Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Residential Real Estate						
1-4 family and other	$ 113,017,976	$ -	$ 1,124,801	$ -	$ -	$ 114,142,777
1-4 family (LTV>95%)	20,685,729	-	557,820	-	-	21,243,549
Total	$ 133,703,705	$ -	$ 1,682,621	$ -	$ -	$ 135,386,326

Consumer Credit Exposure	Performing	Non-Performing	Total
Consumer			
Real estate	$ 7,451,266	$ -	$ 7,451,266
Other	10,032,095	-	10,032,095
Total	$ 17,483,361	$ -	$ 17,483,361

The following tables present the troubled debt restructurings that occurred during 2017 and 2016 by portfolio class in accordance with accounting guidance. Purchased impaired loans that have been restructured are considered to be performing due to the application of the accretion method. These loans are excluded from the table.

2017	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Business Real Estate			
Owner Occupied	2	$ 351,809	$ 346,457
Other real estate	3	1,597,466	1,829,434
Business			
Commercial and industry	3	794,128	770,828
Other	1	290,500	290,500
Residential Real Estate			
1-4 family and other	4	167,943	162,608
Total	13	$ 3,201,846	$ 3,399,827

2016	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
Consumer			
Other	1	$ 64,961	$ 60,958
Residential Real Estate			
1-4 family and other	3	168,314	167,659
Total	4	$ 233,275	$ 228,617

The modification of the terms of such loans included one or a combination of the following: a reduction in the stated interest rate of the loan; an extension of the maturity date; or some other modification deeming the loan a TDR. No TDRs that occurred in 2017 or 2016 defaulted. All troubled debt restructurings are considered impaired loans in the calculation of the allowance for loan losses. Therefore, management performs a reserve analysis on all loans that have been determined to be troubled debt restructurings. The Corporation has allocated $233,437 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2017 related to a total TDR portfolio of $9,273,201. The Corporation has allocated $588,394 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2016 related to a total TDR portfolio of $7,517,612.

Purchased Credit Impaired Loans:

The Corporation has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans at December 31 was as follows:

	2017	2016
Consumer	$ -	$ 4,122
Business Real Estate	274,541	-
Residential Real Estate	435,512	801,679
Total carrying amount	$ 710,053	$ 805,801
Carrying amount, net of allowance	$ 705,943	$ 798,259

Accretable yield, or income expected to be collected at December 31, 2017, was as follows:

	2017	2016
Balance at January 1	$ 142,518	$ 169,076
New loans purchased	122,007	-
Accretion of income	(18,164)	(26,558)
Disposals	(111,627)	-
Balance at December 31	$ 134,734	$ 142,518

Note 7 – Loan Servicing

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans at year-end was as follows:

Mortgage loan portfolios serviced for:

		2017		2016
Freddie Mac	**$**	**16,149,917**	$	13,756,332
Federal Home Loan Bank		**33,520,552**		6,347,878
Total serviced	**$**	**49,670,469**	$	20,104,210

Custodial escrow balances maintained in connection with serviced loans were $75,741 at year-end 2017 and $(5,414) at year-end 2016.

Activity for capitalized mortgage servicing rights was as follows:

		2017		2016
Beginning balance	**$**	**61,607**	$	57,254
Acquired from Mason State Bank		**330,774**		-
Additions		**30,974**		25,663
Amortized to expense		**(88,595)**		(21,310)
Ending balance	**$**	**334,760**	$	61,607

Fair value at year-end 2017 was determined using discount rates ranging from 4.23% to 6.43%, prepayment speeds ranging from 6.6% to 13.1%, depending on the stratification of the specific right, and a weighted-average default rate of zero. Fair value at year-end 2016 was determined using discount rates ranging from 3.34% to 5.96%, prepayment speeds ranging from 9.2% to 18.8%, depending on the stratification of the specific right, and a weighted-average default rate of zero.

There was no valuation allowance required at December 31, 2017 or 2016.

Note 8 – Other Real Estate Owned

Other real estate owned totaled $308,894 at December 31, 2017 and $185,075 at December 31, 2016 and are included in accrued interest receivable and other assets on the consolidated balance sheets.

At December 31, 2017, the balance of real estate owned includes $143,030 of foreclosed residential real estate properties as a result of obtaining physical possession of the property. At December 31, 2017, the recorded investment of loans secured by residential real estate properties for which formal foreclosure proceedings are in process is $165,864.

Note 9 - Premises and Equipment

Premises and equipment at December 31 consist of:

		2017		2016
Land	**$**	**2,402,143**	$	1,641,137
Buildings and improvements		**6,867,663**		5,577,147
Equipment		**3,818,211**		3,933,743
Total cost		**13,088,017**		11,152,027
Less accumulated depreciation		**(6,115,847)**		(6,368,005)
Net premises and equipment	**$**	**6,972,170**	$	4,784,022

Depreciation and amortization expense was $413,949 in 2017 and $341,056 in 2016.

Note 10 – Deposits

At December 31, 2017, stated maturities of time deposits were as follows:

2018	**$**	**49,539,512**
2019		**45,813,937**
2020		**19,268,722**
2021		**21,240,322**
2022		**18,526,622**
Thereafter		**173,685**
Total time deposits	**$**	**154,562,800**

Time deposits in denominations of $250,000 or more at December 31, were $8,765,488 in 2017 and $2,912,863 in 2016. At December 31, 2017, stated maturities of time deposits in denominations of $250,000 or more were as follows:

In 3 months of less	**$**	**1,561,994**
Over 3 through 6 months		**1,057,849**
Over 6 through 12 months		**3,852,065**
Over 12 months		**2,293,580**
Total time deposits $250,000 or more	**$**	**8,765,488**

Related party deposits were approximately $2,100,000 at December 31, 2017 and $2,461,000 at December 31, 2016. Activity in these accounts was not deemed significant during 2017 and 2016.

At year-end, there were certificates of deposits obtained through deposit brokers totaling $98,331,000 at December 31, 2017 and $80,456,000 at December 31, 2016. There were certificates of deposits obtained through the Certificate of Deposit Account Registry Service (CDARS) program which at December 31 totaled approximately $770,000 in 2017 and $761,000 in 2016.

Note 11 – Securities Sold Under Agreements to Repurchase

Information concerning securities sold under agreements to repurchase is summarized as follows:

	2017	2016
Amount outstanding at year-end	**$ 5,430,553**	$ 6,127,134
Weighted-average interest rate at year-end	**0.61%**	0.18%
Average daily balance during the year	**$ 6,099,910**	$ 6,665,878
Weighted-average interest rate during the year	**0.50%**	0.16%
Maximum month-end balance during the year	**$ 6,611,693**	$ 7,144,234

Note 12 – Federal Home Loan Bank Advances

At year-end, the types of Federal Home Loan Bank (FHLB) advances were as follows:

	2017	2016
Bullet	**$ 43,627,546**	$ 30,215,000
Putable	**10,473,467**	3,000,000
Variable	**-**	5,000,000
Total	**$ 54,101,013**	$ 38,215,000

Pursuant to collateral agreements with the Federal Home Loan Bank, in addition to Federal Home Loan Bank stock, advances are secured, under a blanket lien arrangement, by qualified 1-4 family mortgage loans with a carrying value at year-end of approximately $142,895,000 in 2017 and $105,950,000 in 2016.

Scheduled principal reductions and related weighted-average rate grouped by advance type at December 31, 2017 were as follows:

	2018		2019		2020		2021		2022		Thereafter		Total	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Bullet	$ 4,550,113	1.99%	$ 10,999,666	1.61%	$ 17,615,367	1.94%	$ 5,062,400	1.78%	$ 5,400,000	1.92%	$ -	0.00%	$ 43,627,546	1.84%
Putable	-		-		-		-		1,497,800	1.34%	8,975,667	1.59%	10,473,467	1.55%
Total	$ 4,550,113	1.99%	$ 10,999,666	1.61%	$ 17,615,367	1.94%	$ 5,062,400	1.78%	$ 6,897,800	1.79%	$ 8,975,667	1.59%	$ 54,101,013	1.78%

Note 13 – Subordinated Debentures

In 2005, Commercial National Financial Corporation Trust I (CNFC I), a trust formed by the Corporation, closed a pooled private offering of 10,000 trust preferred securities with a liquidation amount of $1,000 per security. The Corporation issued $10,310,000 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. On January 1, 2017, the Corporation acquired Capital Direction Statutory Trust I (CDI I), a trust formed by Capital Directions, Inc. In 2007, CDI issued $3,093,000 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust.

The Corporation may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of 1,000 at a redemption price specified in the indenture plus any accrued and unpaid interest. The subordinated debentures of CNFC I mature on June 15, 2035. The subordinated debentures of CDI I mature on January 15, 2037. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indentures. The Corporation has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The CNFC I trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) plus 1.95%, which was 3.54% at the December 13, 2017 set date. The CDI I trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three-month LIBOR plus 1.68%, which was 3.27% at the December 13, 2017 set date. The trusts are not consolidated with the Corporation's financial statements, but rather the subordinated debentures are shown as a liability.

The Corporation's investment in the common stock of CNFC I and CDI I was $310,000 and $93,000 respectively and is included in other assets.

Note 14 – Employee Benefits

The Corporation's employee benefit plan allows participants to make elective deferrals up to IRS limitations. The Corporation's annual contribution to the plan is based solely on the discretion of the Board of Directors. Employee and employer contributions are vested immediately. The plan covers substantially all employees. Employer expense associated with funding the 401(k) plan was approximately $231,000 in 2017 and $201,000 in 2016.

Note 15 – Federal Income Taxes

Federal income tax expense for the year ended December 31 was as follows:

	2017	2016
Current	**$ 1,592,000**	$ 1,182,000
Deferred benefit	**(77,000)**	(42,000)
Change in tax rate	**(33,000)**	-
Total	**$ 1,482,000**	**$ 1,140,000**

The difference between the federal income taxes and the amount computed by applying the statutory federal income tax to income before taxes is related to the following:

	2017	2016
Statutory rates	**$ 1,666,000**	$ 1,271,000
Increase (decrease) from:		
Change in tax rate	**(33,000)**	-
Bank-owned life insurance	**(118,000)**	(108,000)
Tax-exempt interest income	**(51,000)**	(61,000)
Professional and outside services	**3,000**	83,000
Other, net	**84,000**	32,000
General business credits	**(69,000)**	(77,000)
Total	**$ 1,482,000**	$ 1,140,000

The components of the net deferred income tax assets and liabilities resulted from the following temporary differences between the carrying amounts of assets and liabilities for income tax and financial reporting purposes as of December 31. The 2017 amounts have been computed using a 21% tax rate and the prior year used a 34% tax rate.

	2017	2016
Allowance for loan losses	**$ 330,000**	$ 330,000
Interest on nonaccrual loans	**86,000**	122,000
Deferred compensation	**86,000**	71,000
Capital loss	**16,000**	27,000
Asset acquisition - Hastings	**169,000**	215,000
Asset acquisition - Mason	**(48,000)**	-
Prepaid expenses	**(54,000)**	(72,000)
Accumulated depreciation	**(479,000)**	(283,000)
Mortgage servicing rights	**(70,000)**	(21,000)
Net unrealized losses on securities available for sale	**40,000**	31,000
Deferred loan fees	**(67,000)**	(127,000)
Other	**(44,000)**	(51,000)
	(35,000)	242,000
Valuation allowance	**(16,000)**	(27,000)
Net deferred tax asset (liability)	**$ (51,000)**	$ 215,000

All tax years from 2014 and subsequent remain open to examination by the Internal Revenue Service. The Corporation does not believe that the results from any examination of these open years would have a material adverse effect on the Corporation.

Note 16 – Earnings Per Share

A reconciliation of the numerators and denominators of the basic earnings per share and diluted earnings per share computations is presented below for December 31:

	2017	2016
Basic earnings per share:		
Net income available to common shareholders	**$ 3,419,095**	$ 2,597,533
Weighted-average common shares outstanding for basic earnings per share	**3,965,304**	3,253,012
Basic earnings per share	**$ 0.86**	$ 0.80

		2017		2016
Diluted earnings per share:				
Net income available to common shareholders	**$**	**3,419,095**	$	2,597,533
Weighted-average common shares outstanding for basic earnings per share		**3,965,304**		3,253,012
Add:				
Dilutive effect of assumed exercise of stock options		**-**		-
Weighted-average common and dilutive additional potential common shares outstanding		**3,965,304**		3,253,012
Diluted earnings per share	**$**	**0.86**	$	0.80

Note 17 - Commitments, Off-Balance-Sheet Risk and Contingencies

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Corporation's financial condition or results of operations.

Loan Commitments The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to make loans, unused lines of credit and standby letters of credit. Contractual amounts of these instruments represent the exposure to credit loss in the event of nonperformance by the other party to financial instruments for commitments to make loans, unused lines of credit and standby letters of credit. The Corporation follows the same credit policy to make such commitments as it uses for on-balance-sheet items.

Since many commitments to make loans expire without being used, the amount of commitments shown does not necessarily represent future cash commitments. No losses are anticipated as a result of these transactions. Collateral obtained upon exercise of commitments is determined using management’s credit evaluation of the borrowers and may include real estate, business assets, deposits and other items.

Commitments at December 31 were as follows:

		2017		2016
Commitments to extend credit	**$**	**36,177,437**	$	29,482,005
Standby letters of credit		**444,000**		405,000
Total commitments	**$**	**36,621,437**	$	29,887,005

At December 31, 2017, fixed and variable interest rate commitments were approximately $8,681,000 and $27,940,000, respectively. Fixed rate commitments interest rates and terms ranged from 3.95% to 16.20% and four to twenty-five years, respectively.

Leases and Other Contractual Commitments The Corporation occupies one location under a long-term operating lease. In addition, the Corporation is party to long-term contracts for data processing and operating systems. The future minimum annual commitments under all operating leases and other contractual commitments as of December 31, 2017 were as follows:

Year		Lease and Other Contractual Commitments
2018	$	230,000
2019		163,000
2020		169,000
2021		175,000
Total	$	737,000

Note 18 - Fair Values of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments:

- Carrying amount is considered to approximate fair value for cash and cash equivalents, interest-bearing deposits in banks, Federal Home Loan Bank (FHLB) stock, demand and savings deposits, securities sold under agreements to repurchase, accrued interest receivable, accrued interest payable and variable rate loans or deposits that re-price frequently and fully.
- Securities fair values are based on quoted market prices or, if no quotes are available, on the rate, term of the security, and information about the issuer.
- Fixed rate loans and time deposits, and variable rate loans with infrequent re-pricing, are estimated using discounted cash flow analyses or underlying collateral values, where applicable.
- Fair value of Federal Home Loan Bank advances is based on currently available rates for similar financing.
- Fair value of debt is based on current rates for similar financing.
- Fair value of other financial instruments and off-balance-sheet items approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that if the Corporation had disposed of such items at December 31, 2017 and 2016, the estimated fair values would have been achieved.

Market values may differ depending on various circumstances not taken into consideration in this methodology. The estimated fair values at December 31, 2017 and 2016 should not necessarily be considered to apply at subsequent dates.

Financial instruments at December 31 were approximately as follows:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$ 20,348,000**	**$ 20,348,000**	$ 8,440,000	$ 8,440,000
Time deposits in banks	**53,039,000**	**53,039,000**	35,818,000	35,818,000
Securities	**32,180,000**	**32,180,000**	23,376,000	23,376,000
Federal Home Loan Bank stock	**4,185,000**	**4,185,000**	2,989,000	2,989,000
Loans, net of allowance	**386,979,000**	**381,884,000**	308,008,000	303,807,000
Accrued interest receivable	**1,069,000**	**1,069,000**	684,000	684,000
Total financial assets	**$ 497,800,000**	**$ 492,705,000**	$ 379,315,000	$ 375,114,000
FINANCIAL LIABILITIES				
Demand and savings deposits	**$ (262,060,000)**	**$ (262,060,000)**	$ (193,073,000)	$ (193,073,000)
Time deposits	**(154,563,000)**	**(153,287,000)**	(124,213,000)	(123,680,000)
Securities sold under agreements to repurchase	**(5,431,000)**	**(5,431,000)**	(6,127,000)	(6,127,000)
Federal Home Loan Bank advances	**(54,101,000)**	**(53,459,000)**	(38,215,000)	(38,198,000)
Subordinated debentures	**(13,403,000)**	**(13,403,000)**	(10,310,000)	(10,310,000)
Accrued interest payable	**(212,000)**	**(212,000)**	(147,000)	(147,000)
Total financial liabilities	**$ (489,770,000)**	**$ (487,852,000)**	$ (372,085,000)	$ (371,535,000)

Note 19 – Capital Requirements and Restrictions on Retained Earnings

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative and qualitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. The regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% for 2015 to 2.5% by 2019. The capital conservation buffer for 2017 is 1.25% and for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2017, the Bank meets all capital adequacy requirements to which they are subject.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. These terms are not used to represent overall financial condition.

If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions, asset growth and expansion are limited. Plans for capital restoration are also required. The Bank was categorized as well capitalized at December 31, 2017 and 2016. There are no events or conditions since that time that management believes have changed the institution's category.

The Corporation's primary source of funds to pay dividends to shareholders is the dividends received from the Bank. The Bank is subject to certain state and federal restrictions on the amount of dividends it may declare without prior regulatory approval.

The Corporation's ability to pay dividends is dependent on the Bank, which is restricted by state law and regulations. These regulations pose no practical restrictions to paying dividends at historical levels.

Actual capital levels and minimum required levels (both in millions) at December 31 were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
2017	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Bank	**$ 44.4**	**13.4 %**	**$ 26.5**	**8.0 %**	**$ 33.1**	**10.0 %**
Tier 1 (Core) capital (to risk-weighted assets)						
Bank	**41.7**	**12.6**	**19.8**	**6.0**	**26.5**	**8.0**
Common Tier 1 (CET1)						
Bank	**41.7**	**12.6**	**14.9**	**4.5**	**21.5**	**6.5**
Tier 1 capital (to average assets)						
Bank	**41.7**	**7.9**	**21.0**	**4.0**	**26.3**	**5.0**
2016						
Total capital (to risk-weighted assets)						
Bank	$ 36.6	13.9 %	$ 21.0	8.0 %	$ 26.3	10.0 %
Tier 1 (Core) capital (to risk-weighted assets)						
Bank	33.9	12.9	15.8	6.0	21.0	8.0
Common Tier 1 (CET1)						
Bank	33.9	12.9	11.8	4.5	17.1	6.5
Tier 1 capital (to average assets)						
Bank	33.9	8.4	16.1	4.0	20.1	5.0

Consolidated capital amounts and ratios are not presented as they are not required since the consolidated entity is less than $1 billion in assets and the Bank comprises approximately 99% of the consolidated assets of the holding company.

Note 20 - Fair Value

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, foreclosed assets, mortgage servicing rights and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting for write-downs of individual assets.

Following is a description of the valuation methodologies used for assets and liabilities recorded at fair value:

Securities: Securities available for sale are recorded at fair value on a recurring basis. Fair values are determined by quoted market prices (Level 1) or by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair values of certain municipal securities are determined by computing discounted cash flows using observable and unobservable market inputs (Level 3 inputs).

Foreclosed Assets: Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Adjustments to foreclosed assets are measured at fair value less costs to sell. Fair values are generally based on third-party appraisals or realtor evaluations of the property. These appraisals and evaluations may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. If these values are based on appraisals less than six months old, they are considered Level 2. If adjustments are made by management and the adjustments are significant, these result in a Level 3 classification of the inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized through a valuation allowance and the property is reported as nonrecurring Level 2. For Level 3 fair value measurements, management applies adjustments as considered necessary based on the circumstances surrounding each individual property. Adjustments of 20% to 30% were made to foreclosed asset appraisals during 2017 and 2016.

Impaired Loans: Loans identified as impaired are measured using one of three methods: the loan's observable market price, the fair value of collateral or the present value of expected future cash flows. For each period presented, no impaired loans were measured using the loan's observable market price. During the year, if an impaired loan has had a charge-off or if the fair value of the collateral is less than the recorded investment in the loan, the Corporation establishes a specific reserve and reports the loan as nonrecurring Level 3. The fair value of collateral of impaired loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. If adjustments are made by management and the adjustments are significant, these result in a Level 3 classification.

Fair values of assets and liabilities measured on a recurring basis at December 31 were as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2017				
Securities available for sale	**$ 32,180,062**	**$ 19,271,549**	**$ 11,941,590**	**$ 966,923**
Total	**$ 32,180,062**	**$ 19,271,549**	**$ 11,941,590**	**$ 966,923**
2016				
Securities available for sale	$ 23,376,094	$ 12,408,446	$ 10,646,444	$ 321,204
Total	$ 23,376,094	$ 12,408,446	$ 10,646,444	$ 321,204

A reconciliation of beginning and ending balances for Level 3 assets measured at fair value on a recurring basis follows:

Level 3 Fair Value Measurements **Available-For-Sale Securities - State and Municipal**		
	2017	2016
Balance at beginning of year	**$ 321,204**	$ 351,176
Tranfers out of Level 3	**(75,000)**	(20,000)
Total gains or losses (realized/unrealized)		
Included in earnings	**-**	-
Included in other comprehensive income	**10,719**	(9,972)
Purchases	**710,000**	-
Sales	**-**	-
Balance at end of year	**$ 966,923**	$ 321,204

Fair values of assets and liabilities measured on a nonrecurring basis at December 31 were as follows:

	Total	**Level 1**	**Level 2**	**Level 3**
2017				
Foreclosed assets	**$ 308,894**	**$ -**	**$ 165,864**	**$ 143,030**
Impaired loans	**8,377,514**	**-**	**-**	**8,377,514**
2016				
Foreclosed assets	$ 185,075	$ -	$ -	$ 185,075
Impaired loans	6,275,401	-	461,864	5,813,537

Note 21 – Accumulated Other Comprehensive Loss

The comprehensive loss topic of FASB ASC requires the reporting of comprehensive loss in addition to net income. Comprehensive loss is a more inclusive financial reporting methodology that includes disclosures of certain financial information that, historically, has not been recognized in the calculation of net income.

The items of other comprehensive loss included in comprehensive loss is the change in unrealized holding losses on investment securities classified as available for sale. The reclassification adjustment for gains realized in net income is recorded as a separate line item on the consolidated statements of income.

The amounts for the years ended December 31 are summarized below:

	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
2017			
Accumulated other comprehensive loss, beginning balance	**$ (91,293)**	**$ 31,040**	**$ (60,253)**
Unrealized losses on securities available for sale:			
Unrealized holding losses arising during the period	**(98,917)**	**33,632**	**(65,285)**
Reclassification adjustment for gains included in earnings	**(1,122)**	**381**	**(741)**
Other comprehensive loss	**(100,039)**	**34,013**	**(66,026)**
Reclassification adjustment for tax rate change	**-**	**(24,873)**	**(24,873)**
Accumulated other comprehensive loss, ending balance	**$ (191,332)**	**$ 40,180**	**$ (151,152)**
2016			
Accumulated other comprehensive income, beginning balance	$ 49,741	$ (16,912)	$ 32,829
Unrealized losses on securities available for sale:			
Unrealized holding losses arising during the period	(125,989)	42,837	(83,152)
Reclassification adjustment for gains included in earnings	(15,045)	5,115	(9,930)
Other comprehensive loss	(141,034)	47,952	(93,082)
Accumulated other comprehensive loss, ending balance	$ (91,293)	$ 31,040	$ (60,253)

Note 22 – Investment in Qualified Affordable Housing Projects

The Bank holds investments in Cinnaire Michigan Community Fund Limited Partnership XX-2, Cinnaire Michigan Community Fund Limited Partnership XX-3 and Cinnaire Michigan Community Fund Limited Partnership XX-4 (collectively Cinnaire) which are limited liability companies that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The Bank accounts for its investment in Cinnaire using the proportional amortization method, under which the Bank amortizes the cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance as a component of income tax expense. The Bank recognized approximately $69,000 as an income tax benefit related to these investments in 2017 and $77,000 in 2016.

The Bank's recorded investment in Cinnaire was approximately $3,454,000 at December 31, 2017 and $3,995,000 at December 31, 2016. These investments are included in accrued interest receivable and other assets on the consolidated balance sheets. The Bank's remaining commitment to provide capital contributions to Cinnaire is $1,389,000 as of December 31, 2017 and $2,003,000 as of December 31, 2016. These amounts are included in accrued expenses and other liabilities on the consolidated balance sheets.

Commercial National Financial Corporation

Directors

Scott E. Sheldon	Chairperson of the Board; Owner, Kernen-Sheldon Agency and Shepherd Insurance Agency
Richard S. Prestage	Vice Chairperson of the Board; Partner, Nexcare Health Systems
Kevin D. Collison	President and CEO of the Corporation and Bank
Robert S. Elmore	Chief Financial Officer, Richmar Properties, Inc.
Charles M. Fortino	Retired Attorney, Fortino, Plaxton & Costanzo, P.C.
Randal K. Lewis	Assistant Vice President, The DLP Financial Group
Kim C. Newson	Owner, Alma Hardware Corporation
Loren R. Roslund	Chairman, Roslund Farms, LLC and Roslund Precision Machine, LLC
Heather M. Cook	Owner of Heather M. Cook CPA, PLC and former director of Capital Directions Inc. and Mason State Bank
Timothy P. Gaylord	Retired President, CEO and director of Capital Directions, Inc. and Mason State Bank

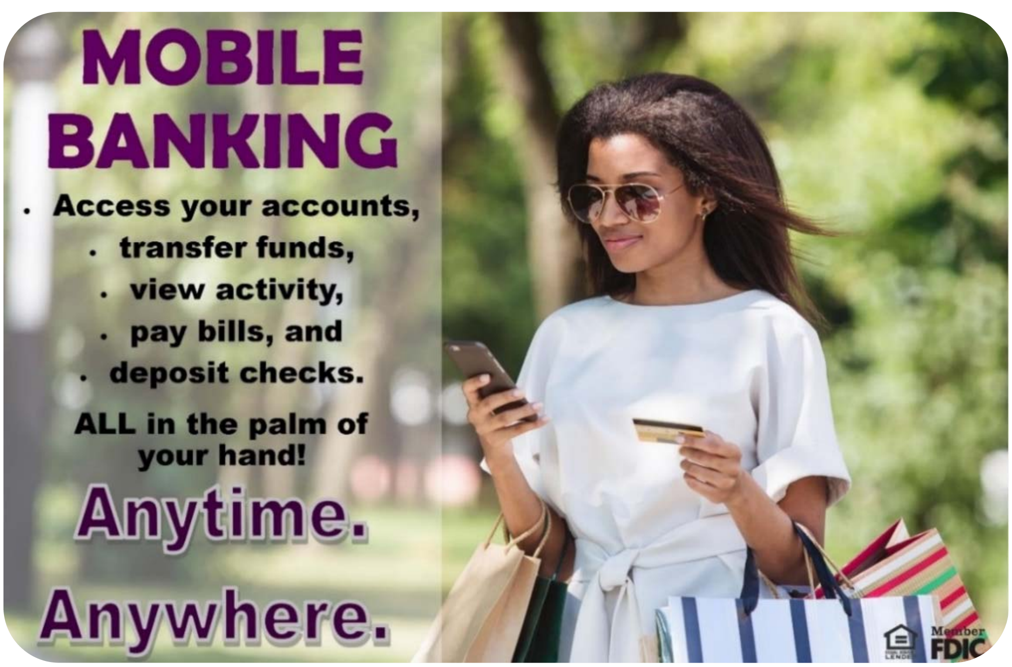
Officers

Kevin D. Collison	President and CEO of the Corporation and Bank

Commercial Bank

Officers

Scott E. Sheldon	Chairperson of the Board
Richard S. Prestage	Vice Chairperson of the Board
Kevin D. Collison	President and CEO of the Bank
Andrew P. Shafley	EVP and Chief Lending Officer
Kevin A. Twardy	Chief Financial Officer and COO
Matthew O. Fletcher	First VP - Credit Administration
Corey S. Bailey	VP - Commercial Lender - Ithaca
Kathleen R. Baker	VP - Mortgage Lender - Mason
Debra K. Bunting	VP - Deposit Operations
Heather A. Schaeffer	VP - Branch Admin./Human Resources
Linda M. Vaughn	VP - Loan Operations
Kathy M. Wakefield	VP - Mortgage Lender - Mason
Garth W. Anderson	AVP - Commercial Lender - Alma
Sherri J. Downing	AVP - Mortgage Lender - Mt. Pleasant
Chelsey A. Foster	AVP - Market President - Hastings/G.R.
Josh K. Gibbs	AVP - Market President - Greenville/G.R.
Gregory R. Hansen	AVP - Commercial Lender - E. Lansing
Paul D. Harger	AVP - IT Manager
Deborah R. Keyes	AVP - Commercial Lender - Mason
Michael D. Miller	AVP - Commercial Lender - Alma/Mt. P.
Benjamin Z. Ogle	AVP - Controller
Sandra Panella	AVP - Compliance/BSA Officer/CRA
Dawn K. Riley	AVP - Mortgage Lender - Greenville
Jessica L. Wright	AVP - Mortgage Lender - Ithaca
Melanie S. Baxter	Deposit Services Manager
Nate R. Kirk Jr.	Mortgage Lender - E. Lansing
Heidi L. Miller	Mortgage Lender - Hastings
Michelle L. Pitts	Mortgage Lender - Alma
Denise L. Reese	Security Officer/ISO
Dacia L. Watson	Mortgage Lender - Hastings



Commercial Bank Locations

ALMA	301 North State St.		Ph. (989) 463-2185	Fax (989) 463-5996
ALMA	1690 Wright Ave.	ATM on site	Ph. (989) 463-3901	Fax (989) 463-2265
ALMA	119 West Center	ATM only		
GRAND RAPIDS	50 Louis St., NW, Suite 612	Loan production office	Ph. (616) 608-0021	
GREENVILLE	10530 West Carson City Rd.	ATM on site	Ph. (616) 754-7166	Fax (616) 754-2118
EAST LANSING	2200 Coolidge Rd., Suite 14		Ph. (517) 337-5000	Fax (517) 337-5648
HASTINGS	629 West State St.	ATM on site	Ph. (269) 945-9561	Fax (269) 945-1587
ITHACA	101 North Pine River	ATM on site	Ph. (989) 875-4144	Fax (989) 875-4534
MASON	322 S. Jefferson St.	ATM on site	Ph. (517) 676-0500	Fax (517) 676-0528
MASON	661 N. Cedar St.	ATM on site	Ph. (517) 676-0515	Fax (517) 676-0510
MIDDLETON	101 North Newton St.	ATM on site	Ph. (989) 236-7236	Fax (989) 236-7732
MT. PLEASANT	114 East Broadway St. Ste. D	Loan production office	Ph. (989) 775-0355	Fax (989) 779-1946
ST. LOUIS	104 North Mill St.	ATM on site	Ph. (989) 681-5738	Fax (989) 681-3509

Transfer Agent

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Care of Ms. Bonnie Barrett
101 North Pine River, P.O. Box 280
Ithaca, Michigan 48847

Corporate Headquarters

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Phone (989) 875-4144
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Annual Report Availability

Commercial National's annual report is available upon written request without charge from:

Commercial National Financial Corporation
Care of Mr. Benjamin Z. Ogle
101 North Pine River, P.O. Box 280
Ithaca, Michigan 48847
Phone (989) 875-4144

Investment Brokers

Boenning & Scattergood—Thomas Dooley and Nick Bicking—1-866-326-8113
Brokerage and Advisory services offered through Boenning & Scattergood are not affiliated with Commercial Bank.
Member FINA/SIPC

Stifel, Nicolaus & Company, Incorporated—Kyle Travis, Financial Advisor—1-616-224-1559
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Stock Symbol: CEFC

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