



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

Board of Directors

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

**THIRD QUARTER REPORT
SEPTEMBER 30, 2016**



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

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www.commercial-bank.com



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

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

To Our Shareholders,

Net income for the quarter ended September 30, 2016 totaled \$673,000, or \$.21 per share compared to net income for the quarter ended September 30, 2015 of \$762,000, or \$.23 per share. Excluding merger-related expenses of the previously announced merger with Capital Directions, Inc., the holding company for Mason State Bank, and expenses related to the conversion to our new Online Banking system, third quarter 2016 net income was \$809,000, or \$.25 per share.

For the quarter ended September 30, 2016, net interest income increased \$189,000, or 7% due to the growth in interest-earning assets, mainly loans. Loss share reimbursement revenue, a component of non-interest income, decreased by \$69,000 primarily due to its linkage to the lower provision for loan losses expense. Loss share reimbursement revenue represents an expected reimbursement from the FDIC of 80% of losses on covered loans acquired in 2010 in the FDIC-assisted transaction of MainStreet Savings Bank. Operating expenses increased by \$172,000 primarily due to merger-related costs of \$99,000 as well as by \$55,000 of data processing conversion costs related to our new Online Banking system.

Total assets were \$399.8 million at September 30, 2016 compared to \$381.2 million at September 30, 2015. Total loans grew \$16.1 million, or 5.6% when comparing September 30, 2016 to September 30, 2015. The majority of loan growth occurred in the commercial loan portfolio. We have also experienced increased residential mortgage loan activity compared to last year with the continued low interest rate environment and an uptick in home listings and new construction loans. We are continuing our efforts to increase loan volume while maintaining our credit quality standards.

The merger with Capital Directions, Inc. is progressing as planned and we expect the closing to be effective January 1, 2017. We will provide you with more details about the merger in the coming months.

We encourage you to recommend Commercial Bank to your friends and business associates for their banking needs. Our great team members will be happy to assist them. We will continue to pursue opportunities to improve earning and provide shareholders with a satisfactory return. As always, please feel free to contact me with questions or concerns.

Kevin D. Collison
President and CEO

COMMERCIAL NATIONAL FINANCIAL CORPORATION

FINANCIAL HIGHLIGHTS

	9/30/2016	9/30/2015
	QUARTER ENDING	
Basic Earnings	\$ 0.21	\$ 0.23
Diluted Earnings	\$ 0.21	\$ 0.23
Return on Average Equity	10.86%	12.92%
Return on Average Assets	0.68%	0.80%
Net Interest Margin	3.04%	3.05%

	YEAR TO DATE	
Basic Earnings	\$ 0.61	\$ 0.64
Diluted Earnings	\$ 0.61	\$ 0.64
Return on Average Equity	10.97%	12.04%
Return on Average Assets	0.67%	0.74%
Cash Dividends Paid	\$ 0.39	\$ 0.39
Book Value	\$ 7.60	\$ 7.29
Market Price	\$ 10.55	\$ 8.75
Price/Earnings Ratio	13.02X	10.67X
Dividend Yield	4.93%	5.94%
Allowance for Loan Loss to Total Loans	0.91%	0.86%
Net Interest Margin	2.99%	3.10%

INVESTMENT BROKERS

Stifel, Nicolaus & Company, Incorporated

Kyle Travis- Financial Advisor

1-616-224-1559

Products & services are offered through Stifel. Stifel is not affiliated with Commercial Bank. Member SIPC/NYSE

Boenning & Scattergood

Thomas Dooley/Nick Bicking

1-866-326-8113

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

Stock Symbol: CEFC

CONSOLIDATED BALANCE SHEETS

	9/30/2016	9/30/2015
	(Unaudited)	(Unaudited)
Assets		
Cash and due from banks	\$ 17,799,338	\$ 11,260,726
Federal funds sold	<u>250,000</u>	<u>325,000</u>
Total cash & cash equivalents	18,049,338	11,585,726
Time deposits in banks	35,818,000	28,354,000
Securities	26,972,669	36,429,571
Loans	301,420,050	285,328,243
Less: Allowance for loan losses	<u>(2,743,998)</u>	<u>(2,444,689)</u>
Net loans	298,676,052	282,883,554
Bank premises & equipment- net	4,520,048	4,378,991
Trust Preferred	310,000	310,000
Other assets	<u>15,486,157</u>	<u>17,304,013</u>
Total Assets	<u>\$ 399,832,264</u>	<u>\$ 381,245,855</u>
Liabilities		
Deposits		
Non-interest bearing	\$ 53,640,038	\$ 49,042,767
Interest bearing	<u>265,829,988</u>	<u>252,373,419</u>
Total deposits	319,470,026	301,416,186
Repurchase agreements	7,006,912	5,233,565
Federal Home Loan Bank borrowings	35,215,000	36,735,000
Trust Preferred	10,310,000	10,310,000
Accrued interest and other liabilities	<u>3,123,103</u>	<u>3,843,478</u>
Total Liabilities	375,125,041	357,538,229
Shareholders' Equity		
Common stock & paid-in-capital	13,572,835	13,572,835
Accumulated other comprehensive income, net of tax	227,932	134,219
Retained earnings	<u>10,906,456</u>	<u>10,000,572</u>
Total Shareholders' Equity	<u>24,707,223</u>	<u>23,707,626</u>
Total Liabilities & Shareholders' Equity	<u>\$ 399,832,264</u>	<u>\$ 381,245,855</u>

CONSOLIDATED STATEMENTS OF INCOME

	QUARTER ENDING		YEAR TO DATE	
	9/30/2016	9/30/2015	9/30/2016	9/30/2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Interest & fees on loans	\$ 3,350,242	\$ 3,270,766	\$ 9,942,282	\$ 9,782,608
Interest on federal funds sold	335	150	1,101	435
Interest on deposits in banks	152,043	63,150	428,308	177,552
Interest & dividends on securities	<u>116,859</u>	<u>186,881</u>	<u>426,548</u>	<u>591,491</u>
Total interest income	3,619,479	3,520,947	10,798,239	10,552,086
Interest Expense				
Interest on deposits	501,253	616,765	1,748,381	1,892,659
Interest on other borrowings	2,642	1,448	7,764	4,094
Trust Preferred	67,333	57,352	195,500	168,446
Interest on other borrowings	<u>159,688</u>	<u>145,577</u>	<u>473,616</u>	<u>362,023</u>
Total interest expense	730,916	821,142	2,425,261	2,427,222
Net Interest Income	2,888,563	2,699,805	8,372,978	8,124,864
Provision for loan losses	<u>1,476</u>	<u>1,840</u>	<u>44,536</u>	<u>214,256</u>
Net interest income after provision	2,887,087	2,697,965	8,328,442	7,910,608
Non-interest Income				
Service charges and fees	189,057	195,474	555,306	570,108
Loss share reimbursement	(63,746)	5,693	(29,215)	180,959
Other income	<u>280,827</u>	<u>284,619</u>	<u>652,114</u>	<u>612,630</u>
Total other income	406,138	485,786	1,178,205	1,363,697
Operating Expenses				
Salaries & employee benefits	1,235,035	1,151,805	3,653,589	3,463,459
Net occupancy & equipment expense	342,061	375,905	1,057,331	1,109,514
Other expenses	<u>740,091</u>	<u>617,800</u>	<u>1,974,472</u>	<u>1,799,357</u>
Total operating expenses	2,317,187	2,145,510	6,685,392	6,372,330
Income Before Income Taxes	976,038	1,038,241	2,821,255	2,901,975
Income tax expense	<u>302,840</u>	<u>275,874</u>	<u>822,947</u>	<u>815,883</u>
Net Income	<u>\$ 673,198</u>	<u>\$ 762,367</u>	<u>\$ 1,998,308</u>	<u>\$ 2,086,092</u>

OFFICERS OF COMMERCIAL BANK

President & CEO	
Kevin D. Collison	
Executive Vice President & Chief Lending Officer	
Andrew P. Shafley	
Chief Financial Officer & Chief Operating Officer	
Kevin A. Twardy	
First Vice President	
Matthew O. Fletcher	
Vice President & Controller	
Cathy M. Patterson	
Vice Presidents	
Corey S. Bailey	Debra K. Bunting
Linda M. Vaughn	
Assistant Vice Presidents	
Garth W. Anderson	Paul D. Harger
Sherri J. Downing	Michael D. Miller
Chelsey A. Foster	Sandra Panella
Josh K. Gibbs	Dawn K. Riley
Greg R. Hansen	Heather A. Schaeffer
Jessica L. Wright	
Officers	
Heidi L. Miller	Denise L. Reese
Michelle L. Pitts	Dacia L. Watson

OFFICES

Alma- N. State St. 989-463-2185	Ithaca 989-875-4144	Middleton 989-236-7236
*Alma- Center St. 989-463-2185	St. Louis 989-681-5738	Greenville 616-754-1766
Alma- Wright Ave. 989-463-3901	Hastings 269-945-9561	Lake Odessa 616-374-8849
**Mt. Pleasant 989-775-0355	**Grand Rapids 616-608-0021	
*Drive thru only	**Loan production office only	