



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

Board of Directors

Kevin D. Collison
Heather M. Cook
Robert S. Elmore
Charles M. Fortino
Timothy P. Gaylord
Randal K. Lewis
Kim C. Newson
Richard S. Prestage
Loren R. Roslund
Scott E. Sheldon
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**THIRD QUARTER REPORT
SEPTEMBER 30, 2018**



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

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

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

To Our Shareholders,

Net income for the third quarter of 2018 was \$1,177,000, or \$.30 per share compared to third quarter 2017 net income of \$1,248,000, or \$.31 per share. Return on Equity (ROE) was 13.68% for the third quarter of 2018 compared to 15.19% for the third quarter of 2017.

Total assets were \$519.1 million at September 30, 2018 compared to \$528.8 million at September 30, 2017. Total loans of \$381.7 million decreased \$7 million, or 1.8% year-over-year. The lending environment remains very competitive in our markets and we experienced several large commercial loan payoffs during 2018. However, our commercial loan pipeline is growing and we continue to develop new and existing customer relationships.

For the quarter ended September 30, 2018, net interest income decreased \$283,000, or 7.5% primarily due to a higher cost of funds. Also, interest income in the prior year's quarter included \$141,000 related to the payoff of several non-accrual loans. Non-interest income increased \$82,000, or 14.9% primarily due to the sale of a former branch land parcel for a \$148,000 gain, partially offset by lower mortgage banking revenue. We continue to see challenges in residential loan demand due to the limited supply of housing inventory. Operating expenses increased by \$101,000, or 3.9% primarily due to higher wages and benefits expense. Federal income tax expense was lower by \$306,000 primarily due to the decrease in the statutory rate from 34% to 21%.

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

Kevin D. Collison
President and CEO

**COMMERCIAL NATIONAL FINANCIAL
CORPORATION**

FINANCIAL HIGHLIGHTS

	9/30/2018	9/30/2017
QUARTER ENDING		
Basic Earnings	\$ 0.30	\$ 0.31
Diluted Earnings	\$ 0.30	\$ 0.31
Return on Average Equity	13.68%	15.19%
Return on Average Assets	0.91%	0.94%
Net Interest Margin	2.88%	3.06%

	YEAR TO DATE	
Basic Earnings	\$ 0.86	\$ 0.53
Diluted Earnings	\$ 0.86	\$ 0.53
Return on Average Equity	13.62%	8.56%
Return on Average Assets	0.88%	0.53%
Cash Dividends Paid	\$ 0.39	\$ 0.39
Book Value	\$ 8.67	\$ 8.31
Market Price	\$ 12.47	\$ 11.70
Dividend Yield	4.17%	4.44%
Allowance for Loan Loss to Total Loans	0.70%	0.71%
Net Interest Margin	2.93%	2.99%

INVESTMENT BROKERS

Stifel, Nicolaus & Company, Incorporated

Kyle Travis- Financial Advisor
1-616-224-1559

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

Boenning & Scattergood

Eugene B. Bodo
1-800-842-8928

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

Stock Symbol: CEFC

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CONSOLIDATED BALANCE SHEETS

	9/30/2018	9/30/2017
	(Unaudited)	(Unaudited)
Assets		
Cash and due from banks	\$ 20,877,682	\$ 20,536,323
Federal funds sold	258,000	251,000
Total cash & cash equivalents	21,135,682	20,787,323
Time deposits in banks	49,052,000	53,039,000
Securities	38,988,839	38,560,348
Loans	381,715,154	388,750,132
Less: Allowance for loan losses	(2,668,424)	(2,766,673)
Net loans	379,046,730	385,983,459
Bank premises & equipment- net	8,114,616	6,946,910
Other assets	22,733,983	23,505,584
Total Assets	\$ 519,071,850	\$ 528,822,624
Liabilities		
Deposits		
Non-interest bearing	\$ 72,687,746	\$ 77,267,867
Interest bearing	340,490,139	340,737,841
Total deposits	413,177,885	418,005,708
Repurchase agreements	6,464,515	5,516,046
Federal Home Loan Bank borrowings	48,805,000	54,815,000
Trust Preferred	13,403,000	13,403,000
Accrued interest and other liabilities	2,855,188	4,132,806
Total Liabilities	484,705,588	495,872,560
Shareholders' Equity		
Common stock & paid-in-capital	20,517,682	21,237,061
Accumulated other comprehensive income (loss), net of tax	(495,581)	91,345
Retained earnings	14,344,161	11,621,658
Total Shareholders' Equity	34,366,262	32,950,064
Total Liabilities & Shareholders' Equity	\$ 519,071,850	\$ 528,822,624

CONSOLIDATED STATEMENTS OF INCOME

	QUARTER ENDING		YEAR TO DATE	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Interest & fees on loans	\$ 4,254,818	\$ 4,350,052	\$ 12,766,683	\$ 12,785,724
Interest on federal funds sold	1,426	956	3,764	2,598
Interest on deposits in banks	315,670	277,997	885,433	718,308
Interest & dividends on securities	221,257	186,571	651,181	548,839
Total interest income	4,793,171	4,815,576	14,307,061	14,055,469
Interest Expense				
Interest on deposits	924,601	705,945	2,496,587	2,097,898
Interest on FHLB advances	227,196	228,378	704,526	632,683
Trust Preferred	140,775	104,497	389,863	298,000
Interest on other borrowings	15,681	8,721	38,527	22,359
Total interest expense	1,308,253	1,047,541	3,629,503	3,050,940
Net Interest Income	3,484,918	3,768,035	10,677,558	11,004,529
Provision for loan losses	-	(75,000)	-	(75,000)
Net interest income after provision	3,484,918	3,843,035	10,677,558	11,079,529
Non-interest Income				
Service charges and fees	221,957	223,244	649,630	671,610
Other income	406,062	323,149	863,007	873,318
Total other income	628,019	546,393	1,512,637	1,544,928
Operating Expenses				
Salaries & employee benefits	1,568,573	1,455,212	4,662,961	5,420,576
Net occupancy & equipment expense	466,884	441,416	1,435,792	1,377,882
Other expenses	668,622	706,374	1,947,762	2,916,664
Total operating expenses	2,704,079	2,603,002	8,046,515	9,715,122
Income Before Income Taxes	1,408,858	1,786,426	4,143,680	2,909,335
Income tax expense	231,851	538,000	717,851	824,000
Net Income	\$ 1,177,007	\$ 1,248,426	\$ 3,425,829	\$ 2,085,335

OFFICERS OF COMMERCIAL BANK

President & CEO	
Kevin D. Collison	
Executive Vice President & Chief Lending Officer	
Andrew P. Shafley	
Chief Financial Officer & Chief Operating Officer	
Kevin A. Twardy	
First Vice President	
Matthew O. Fletcher	
Vice Presidents	
Corey S. Bailey	Heather A. Schaeffer
Kathleen R. Baker	Linda M. Vaughn
Debra K. Bunting	Kathy M. Wakefield
Assistant Vice Presidents	
Garth W. Anderson	Deborah R. Keyes
Sherri J. Downing	Michael D. Miller
Chelsey A. Foster	Benjamin Z. Ogle
Josh K. Gibbs	Sandra Panella
Greg R. Hansen	Dawn K. Riley
Paul D. Harger	Jessica L. Wright
Officers	
Melanie S. Baxter	Michelle L. Pitts
Nate R. Kirk, Jr.	Denise L. Reese
Heidi L. Miller	Dacia L. Watson

OFFICES

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

**Loan production office only