



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

Board of Directors

Kevin D. Collison
 Heather M. Cook
 Robert S. Elmore
 Charles M. Fortino
 Timothy P. Gaylord
 Alan C. Kommel
 Randal K. Lewis
 Kim C. Newson
 Richard S. Prestage
 Loren R. Roslund
 Scott E. Sheldon

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**SECOND QUARTER REPORT
JUNE 30, 2017**



**COMMERCIAL NATIONAL
FINANCIAL CORPORATION**

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

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



To Our Shareholders,

Net income for the second quarter of 2017 was \$1,043,000, or \$.26 per share compared to net income for the second quarter of 2016 of \$689,000, or \$.21 per share. Second quarter 2016 net income would have been \$750,000, or \$.23 per share when excluding merger-related expenses of the merger with Capital Directions, Inc., the holding company for Mason State Bank.

Total assets were \$522.7 million at June 30, 2017 compared to \$397.9 million at June 30, 2016. Total loans grew \$86.8 million, or 29.3% year over year. Most of the loan growth was related to the merger with Mason State Bank with the remainder related to commercial loan originations. We are continuing our efforts to increase loan volume while maintaining our credit quality standards.

For the quarter ended June 30, 2017, net interest income increased \$865,000, or 31.2% primarily due to the growth in loans mentioned above as compared to the June 30, 2016 quarter. Non-interest income increased \$159,000, or 37.8% over the same time frame primarily due to higher service charges and other income levels as a result of combining both banks. In addition, a \$61,000 gain was recognized related to the settlement and termination of the Shared Loss Agreement with the FDIC. Operating expenses increased by \$507,000 mostly due to combining both banks. The increase in operating expenses also included \$42,000 of expenses related to the upcoming closing of the Lake Odessa and Leslie branches.

Jeff Barker recently decided to step down from the board of the bank and holding company. We thank Mr. Barker for his many years of service. The board of directors has appointed Heather M. Cook to fill the open board seat. Heather has been a CPA since 1996 and runs her own accounting firm, serving small to mid-sized business clients in the Clinton and Ingham County areas. She also volunteers with several non-profit organizations and previously served on Mason State Bank's board for several years. We are very excited to have Heather join the board.

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

	6/30/2017	6/30/2016
	QUARTER ENDING	
Basic Earnings	\$ 0.26	\$ 0.21
Diluted Earnings	\$ 0.26	\$ 0.21
Return on Average Equity	13.08%	11.39%
Return on Average Assets	0.79%	0.69%
Net Interest Margin	2.96%	2.93%

	YEAR TO DATE	
Basic Earnings	\$ 0.21	\$ 0.41
Diluted Earnings	\$ 0.21	\$ 0.41
Return on Average Equity	5.21%	11.03%
Return on Average Assets	0.32%	0.67%
Cash Dividends Paid	\$ 0.26	\$ 0.26
Book Value	\$ 8.13	\$ 7.52
Market Price	\$ 11.20	\$ 9.65
Dividend Yield	4.64%	5.39%
Allowance for Loan Loss to Total Loans	0.73%	0.91%
Net Interest Margin	2.96%	2.93%

INVESTMENT BROKERS

Stifel, Nicolaus & Company, Incorporated

Kyle Travis- Financial Advisor

1-616-224-1559

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

Boening & Scattergood

Thomas Dooley/Nick Bicking

1-866-326-8113

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

Stock Symbol: CEFC

CONSOLIDATED BALANCE SHEETS

	6/30/2017	6/30/2016
	(Unaudited)	(Unaudited)
Assets		
Cash and due from banks	\$ 22,073,706	\$ 13,443,063
Federal funds sold	253,000	387,000
Total cash & cash equivalents	22,326,706	13,830,063
Time deposits in banks	51,568,000	41,548,000
Securities	37,991,116	28,978,881
Loans	383,028,784	296,230,389
Less: Allowance for loan losses	(2,790,614)	(2,704,905)
Net loans	380,238,170	293,525,484
Bank premises & equipment- net	7,162,001	4,261,337
Trust Preferred	403,000	310,000
Other assets	22,989,621	15,477,746
Total Assets	\$ 522,678,614	\$ 397,931,511
Liabilities		
Deposits		
Non-interest bearing	\$ 79,766,539	\$ 56,603,855
Interest bearing	336,717,913	261,428,709
Total deposits	416,484,452	318,032,564
Repurchase agreements	6,299,030	6,545,567
Federal Home Loan Bank borrowings	49,815,000	35,215,000
Trust Preferred	13,403,000	10,310,000
Accrued interest and other liabilities	4,429,113	3,362,111
Total Liabilities	490,430,595	373,465,242
Shareholders' Equity		
Common stock & paid-in-capital	21,237,061	13,572,835
Accumulated other comprehensive income, net of tax	122,238	237,284
Retained earnings	10,888,720	10,656,150
Total Shareholders' Equity	32,248,019	24,466,269
Total Liabilities & Shareholders' Equity	\$ 522,678,614	\$ 397,931,511

CONSOLIDATED STATEMENTS OF INCOME

	QUARTER ENDING		YEAR TO DATE	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Interest & fees on loans	\$ 4,244,443	\$ 3,310,758	\$ 8,435,672	\$ 6,592,040
Interest on federal funds sold	1,053	328	1,642	766
Interest on deposits in banks	251,201	152,712	440,311	276,265
Interest & dividends on securities	182,540	147,078	362,268	309,689
Total interest income	4,679,237	3,610,876	9,239,893	7,178,760
Interest Expense				
Interest on deposits	726,494	614,479	1,391,953	1,247,128
Interest on FHLB advances	208,345	157,663	404,305	313,928
Trust Preferred	99,825	65,391	193,503	128,167
Interest on other borrowings	8,901	2,609	13,638	5,122
Total interest expense	1,043,565	840,142	2,003,399	1,694,345
Net Interest Income	3,635,672	2,770,734	7,236,494	5,484,415
Provision for loan losses	(15,814)	11,308	-	43,060
Net interest income after provision	3,651,486	2,759,426	7,236,494	5,441,355
Non-interest Income				
Service charges and fees	217,632	190,679	448,366	366,249
Other income	360,380	228,674	550,169	405,818
Total other income	578,012	419,353	998,535	772,067
Operating Expenses				
Salaries & employee benefits	1,533,859	1,193,926	3,965,364	2,418,554
Net occupancy & equipment expense	451,173	347,022	936,466	715,270
Other expenses	737,562	674,357	2,210,290	1,234,381
Total operating expenses	2,722,594	2,215,305	7,112,120	4,368,205
Income Before Income Taxes	1,506,904	963,474	1,122,909	1,845,217
Income tax expense	464,000	274,052	286,000	520,107
Net Income	\$ 1,042,904	\$ 689,422	\$ 836,909	\$ 1,325,110

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	Lori A. Wallace
Jessica L. Wright	
Officers	
Melanie S. Baxter	Michelle L. Pitts
Nate R. Kirk, Jr.	Denise L. Reese
Heidi L. Miller	Dacia L. Watson

OFFICES

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

**Loan production office only