FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

COMMERCIAL NATIONAL FINANCIAL CORP /MI

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SIC: **6022** State commercial banks

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

/X/ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended December 31, 1998

OR

/ / Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from __________ to __________

Commission File Number 0-17000

COMMERCIAL NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Michigan	38-2799780
(State of Incorporation)	(I.R.S. Employer Identification No.)

101 North Pine River Street Ithaca, Michigan	48847
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (517) 875-4144

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ----

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing.

Aggregate market value as of March 12, 1999: $25,783,791

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock outstanding as of March 12, 1999: 997,739 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's annual report to security holders for the year ended December 31, 1998, are incorporated by reference in Part II and Part IV.

Portions of the registrant's proxy statement for its April 27, 1999, annual shareholders meeting are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS

Commercial National Financial Corporation (the "Corporation" or "registrant"), a bank holding company, was incorporated in Michigan on December 30, 1987. On May 31, 1988, the Corporation acquired all of the stock of Commercial National Bank, a national banking association chartered in 1962. On December 30, 1992, Commercial National Bank converted to a state-chartered bank under the name Commercial Bank (the "Bank").

The Bank's business is concentrated in a single industry segment - commercial banking. The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses and light industries located in its service area. The Bank 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 offers a variety of deposit vehicles, including checking, savings, money market, individual retirement accounts and certificates of deposit.

The principal markets for the Bank's financial services are the mid-Michigan communities in which the Bank is located and the areas immediately surrounding these communities. The Bank serves these markets through seven offices located in and near these communities. Neither the Corporation nor the Bank has any material foreign assets or income.

The principal source of revenue for the Corporation and its subsidiary is interest and fees on loans. On a consolidated basis, interest and fees on loans accounted for 75.92% of the Corporation's total revenues in 1998, 79.69% in 1997, and 79.82% in 1996. Interest on investment securities accounted for 11.19% of the Corporation's total revenues in 1998, 9.85% in 1997, and 13.03% in 1996.

At December 31, 1998, the Bank had no significant concentrations of loans to any group of borrowers engaged in similar activities that would be impacted by economic or other conditions.

The business of banking is highly competitive. In addition to competition from other commercial banks, banks face competition from non-bank financial institutions. Savings associations compete with commercial banks for deposits and loans. Credit unions and finance companies compete for consumer loans. Commercial banks compete for deposits with other entities such as mutual funds and corporate and government debt securities. Financial service providers compete for customers principally through price (interest rates paid on deposits, interest rates charged on borrowings and fees charged for services) and service (convenience and quality of services rendered to customers).

The Bank competes directly with fifteen financial institutions in the market it serves. The Bank's competitors include other commercial banks, savings associations and local credit unions. The Bank ranks second in deposit size when compared to the total deposits of the branches located in the market the Bank serves. The Bank does not believe that its ability to compete for loans and deposits is affected by the rank among its competitors.

Banks and bank holding companies are extensively regulated. The Bank is chartered as a state bank under Michigan law and is supervised, examined and regulated by the Michigan Financial Institutions Bureau and the Federal Deposit Insurance Corporation ("FDIC"). The business activities of the registrant are limited to banking and to other activities determined by the Board of Governors of the Federal Reserve System to be closely related to banking. Deposits of the Bank are insured by the FDIC to the extent provided by law.

Commercial banks are subject to a number of federal and state laws and regulations that have a material impact on their business. These include, among others, state usury laws, state laws relating to fiduciaries, the Truth in Lending Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Expedited Funds Availability Act, the Community Reinvestment Act, electronic funds transfer laws, redlining laws, antitrust laws, environmental laws and privacy laws. The policies of the Federal Reserve System, and other authorities, may materially affect the growth and distribution of loans, investments and deposits and interest rates on deposits and loans.

The FDIC Improvement Act of 1991 (the "FDIC Improvement Act"), revised sections of the Federal Deposit Insurance Act affecting bank regulation, deposit insurance and provisions for the funding of the bank insurance fund. The FDIC Improvement Act also revised bank regulatory structures embodied in several other federal banking statutes, links the bank regulators' authority to

intervene to the deterioration of a bank's capital level, places limits on real estate lending and increases audit requirements. Among the significant revisions that could have an impact on the Corporation is the authority granted to the FDIC to impose special assessments on insured depository institutions to repay FDIC borrowings from the United States Treasury or other sources and to establish semiannual assessment rates on bank insurance fund member banks so as to maintain the bank insurance fund at the designated reserve ratio defined in the FDIC Improvement Act. The FDIC Improvement Act also required the FDIC to implement a system of risk-based premiums for deposit insurance pursuant to which the premiums paid by a depository institution are based on the perceived probability that the bank insurance fund will incur a loss in respect of such institution.

Under 1994 amendments to the Federal Bank Holding Company Act, the Corporation is authorized to acquire subsidiary banks in any state in which state laws permit such acquisitions. Out-of-state bank holding companies in any state are permitted to acquire banks located in Michigan if the laws of the state in which the out-of-state bank holding company is located authorize a bank holding company located in Michigan to acquire ownership of banks in that state on a reciprocal basis. Under amendments to the Michigan Banking Code which became effective on November 29, 1995, the Bank is authorized to merge with or acquire out-of-state banks or branches in any state in which state laws permit such acquisitions.

ITEM 2. PROPERTIES.

The Bank currently conducts business from seven banking offices. The executive offices of the Corporation are located at 101 North Pine River Street, Ithaca, Michigan. The main office of the Bank is located at 301 North State Street, Alma, Michigan. The main office property of the Bank is leased for a term expiring on December 31, 2013. The branches of the Bank are located in Alma, Greenville, Middleton, Pompeii, and St. Louis, Michigan.

The Bank owns the property for five of the branch office locations. One branch office is leased pursuant to a lease that expires August 1, 2008, subject to 2 renewals of 10 years each. The Corporation considers all of its facilities to be well maintained and in generally good operating condition and suitable for the purposes for which they are intended.

ITEM 3. LEGAL PROCEEDINGS.

The Corporation and the Bank are parties, as plaintiff or defendant, to several legal proceedings, none of which is considered material, and all of which arose in the ordinary course of business.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS.

The information under the captions "Common Stock Information" and "Dividend Information" of the registrant's annual report to shareholders for the year ended December 31, 1998, is here incorporated by reference to Exhibit 13.

ITEM 6. SELECTED FINANCIAL DATA.

The information under the caption "Selected Financial Data" of the registrant's annual report to shareholders for the year ended December 31, 1998, is here incorporated by reference to Exhibit 13.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The information under the heading "Management's Discussion and Analysis and Results of Operations" of the registrant's annual report to shareholders for the year ended December 31, 1998, is here incorporated by reference to Exhibit 13.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information under the heading "Quantitative and Qualitative Disclosures About Market Risk" of the registrant's annual report to shareholders for the year ended December 31, 1998, is here incorporated by reference to Exhibit 13.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements, notes and report of independent auditors' included in the registrant's annual report to shareholders for the year ended December 31, 1998, are here incorporated by reference to Exhibit 13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information set forth under the caption "Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the registrant's definitive Proxy Statement for its April 27, 1999, annual meeting of shareholders is here incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information set forth under the captions "Compensation of Executive Officers" and "Compensation of Directors" in the registrant's definitive Proxy Statement for its April 27, 1999, annual meeting of shareholders is here incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information set forth under the caption "Voting Securities" in the registrant's definitive Proxy Statement for its April 27, 1999, annual meeting of shareholders is here incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information set forth under the caption "Certain Relationships" in the registrant's definitive Proxy Statement for its April 27, 1999, annual meeting of shareholders is here incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) Financial Statements.

The following financial statements, notes to financial statements, and report of independent auditor of the Corporation and its subsidiary are filed as part of this report:

- Independent Auditors' Reports
- Consolidated Balance Sheets - December 31, 1998 and 1997
- Consolidated Statements of Income for each of the three years ended December 31, 1998, 1997 and 1996
- Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 1998, 1997 and 1996
- Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1998, 1997 and 1996
- Notes to Consolidated Financial Statements

The financial statements, notes to financial statements, and report of independent auditor for the years ended December 31, 1998, 1997 and 1996 listed above are incorporated by reference in Item 8 of this report from the corresponding portions of the registrant's annual report to shareholders for the year ended December 31, 1998. With the exception of the portions of the registrant's annual report to shareholders for the year ended December 31, 1998 specifically incorporated herein by reference, such report shall not be deemed filed as part of this annual report on Form 10-K.

(2) All schedules have been omitted because they are inapplicable or otherwise not required.

(3) The following exhibits are filed as part of this report:

Number	Exhibit
3(a)	Restated Articles of Incorporation. Previously filed as an exhibit to the registrant's Form S-4 filed January 22, 1988. Here incorporated by reference.
3(b)	Bylaws. Previously filed as an exhibit to the registrant's Form S-4 filed January 22, 1988. Here incorporated by reference.
10(a)	1991 Stock Option Plan. Previously filed as an exhibit to the registrant's Form 10-K for the year ended December 31, 1990. Here incorporated by reference.*
10(b)	Amendment to 1991 Stock Option Plan. Previously filed as an exhibit to the registrant's Form 10-K for the year ended December 31, 1995. Here incorporated by reference.*
10(c)	Lease for Main Office. Previously filed as an exhibit to registrant's Form 10-K for the year ended December 31, 1991. Here incorporated by reference.
10(d)	Amendment to 1991 Stock Option Plan.*
10(e)	Change in Control Agreement.*
13	Incorporated Portions from 1998 Annual Report to Shareholders.
21	Subsidiary of Registrant. Previously filed as an exhibit to the registrant's Form S-4 filed

January 22, 1988. Here incorporated by reference.

23 Consent of Certified Public Accountants.

27 Financial Data Schedule.

* Management contract or compensatory plan or arrangement.

The registrant will furnish a copy of any exhibit listed above to any shareholder of the registrant without charge upon written request to Patrick Duffy, Commercial National Financial Corporation, 101 North Pine River Street, Ithaca, Michigan 48847.

(b) Reports on Form 8-K.

No reports were filed for the fourth quarter of 1998.

(c) Exhibits.

See Item 14(a)(3)

(d) Financial Statement Schedules.

There are no financial statement schedules required to be filed with this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
(registrant)

March 26, 1999 By: /s/ Jeffrey S. Barker

Jeffrey S. Barker
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

March 26, 1999	/s/ Jeffrey S. Barker ---------------------------------- Jeffrey S. Barker Director, President and Chief Executive Officer (Principal Executive Officer)
March 26, 1999	/s/ Richard F. Abbott ---------------------------------- Richard F. Abbott Director
March 26, 1999	/s/ Jefferson P. Arnold ---------------------------------- Jefferson P. Arnold Director
March 26, 1999	/s/ Don J. Dewey ---------------------------------- Don J. Dewey Director
March 26, 1999	/s/ David A. Ferguson ---------------------------------- David A. Ferguson Director
March 26, 1999	/s/ Kenneth R. Luneack ---------------------------------- Kenneth R. Luneack Director
March 26, 1999	/s/ Kim C. Newson ---------------------------------- Kim C. Newson Director
March 26, 1999	/s/ Howard D. Poindexter ---------------------------------- Howard D. Poindexter Director
March 26, 1999	/s/ Scott E. Sheldon ---------------------------------- Scott E. Sheldon Director
March 26, 1999	/s/ Russell M. Simmet ---------------------------------- Russell M. Simmet Director
March 26, 1999	/s/ Patrick G. Duffy

Patrick G. Duffy
(Principal Financial and
Accounting Officer)

<TABLE>
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INDEX TO EXHIBITS

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*This exhibit is filed by incorporation by reference to a prior filing.

EXHIBIT 10(D)

AMENDMENT TO 1991 STOCK OPTION PLAN

AMENDMENT TO THE COMMERCIAL NATIONAL FINANCIAL CORPORATION 1991 STOCK OPTION PLAN

The Board of Directors has unanimously approved an amendment to the Commercial National Financial Corporation 1991 Stock Option Plan (the "Plan") to increase the maximum number of shares of Commercial National Financial Corporation common stock which may be issued under the Plan by 50,000 shares and unanimously recommends to the shareholders that they approve such amendment. The Plan was approved by shareholders at the annual meeting of shareholders held on April 23, 1991. An amendment to the Plan authorizing an additional 30,000 shares was approved by shareholders at the annual meeting of Shareholders held on April 25, 1995. After the 1995 amendment to the Plan was approved, 60,388 shares were authorized for issuance under the Plan. Through the issuance of stock dividends by the Corporation, the number of shares authorized under the Plan reached 69,906 as of December 31, 1997.

Pursuant to action by the stock option committee, options to purchase 61,773 of the 69,906 shares of Commercial National Financial Corporation common stock authorized for issuance under the Plan have been granted to qualified directors, officers and key employees of Commercial Bank. Consequently, there are currently only 8,133 shares of Commercial National Financial Corporation common stock available for option grants under the Plan. The Board of Directors would like to increase the number of shares available under the Plan so that options may be granted to a greater number of key employees. The Board of Directors believes that additional shares should be available under the Plan in order to achieve this goal and the other purposes behind the Plan.

DESCRIPTION OF THE PLAN

The following description of the Plan is a summary of its terms and is qualified in its entirety by the Plan, a copy of which is available by contacting Patrick Duffy. The following description incorporates the proposed amendment to the Plan.

Purpose. The Purpose of the Plan is to attract and retain qualified directors, officers, and key employees, and to recognize their contribution to the long-term performance and growth of the Corporation and the Bank.

Shares Subject to the Plan. The Plan would permit stock options, stock appreciation rights, and tax benefit rights to be issued with respect to an aggregate of 119,906 shares of the Corporation's Common Stock (subject to adjustment for stock dividends, stock splits, etc.).

Administration. The Plan is administered by the stock option committee (the "Committee"). The Committee determines the persons to be granted options, stock appreciation rights, and tax benefit rights; the amount of options or rights to be granted to each such participant; the time at which options would be granted; the terms of each option and right; the duration of each option and any exercise limitations; and all other determinations necessary or advisable for administration of the Plan.

The board of directors may terminate or amend the Plan at any time provided that no amendment could, without the approval of the shareholders, materially increase either the benefits to participants or the number of shares that may be issued under the Plan, materially modify the eligibility requirements, or reduce the option price, except pursuant to the

adjustments provided or in the Plan. Unless previously terminated by the board of directors, the Plan will terminate on April 22, 2001.

Eligibility. Options may be issued to directors, and both options and rights may be issued to officers, and other individuals identified as key employees of the Corporation and the Bank. Grants of options to directors of the Corporation and the Bank are made only on June 1 of each year, in an amount equal to the amount of the director's total cash compensation from the Corporation reported on IRS Form 1099 for the preceding calendar year. While it is not possible to indicate the number, names or positions of directors, officers or employees who may be selected for the grant of options and rights, in 1997 options were granted to 5 key management employees and 11 directors. It is likely that grants in the future will be to the same number of directors and to a greater number of officers and other key employees.

Stock Options. Certain options that may be granted to employees under the Plan may qualify as incentive stock options as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). Options may also be granted that do not qualify for incentive stock option treatment.
No participant may be granted incentive stock options that would result in the aggregate fair market value of the stock (determined at the time of grant) with respect to which participant's incentive stock options are exercisable for the

first time during any calendar year to exceed $100,000. There is no specified maximum for options which are not incentive stock options.

The per share option price is the market value of the Common Stock at the time the option is granted. There is no established market for the Common Stock, and no published information with respect to its market value. Accordingly, market value is the mean between the bid and asked prices obtained from an independent broker for the date of grant, or for the last preceding date (within 30 days) for which such information was available. If such information is not available, or if the Committee determines that such information is for any reason not a reliable determination of the fair market value of the Corporation's Common Stock, the Committee determines the market value of the Common Stock as of the date of grant. As of March 13, 1998, the market value of Common Stock so determined was $36 per share.

The term of each option is determined by the Committee, but no option may be exercisable after 15 years from the date granted, but no option designated as an incentive stock option may be exercisable after the expiration of 10 years from the date of grant. Options generally terminate in the event of retirement, death, or any other termination of employment. Options granted to participants under the Plan cannot be transferred except by will or the laws of descent and distribution.

Appreciation and Tax Benefit Rights. Under the Plan, the Corporation may grant stock appreciation rights or tax benefit rights with respect to specific stock options to eligible participants other than directors. A stock appreciation right would allow the participant to surrender the related option, in whole or part, or cash, shares of Common Stock, or a combination of cash and shares, in an amount not exceeding the excess of the market value of the shares covered by the related option at exercise over the option price of the shares. A tax benefit right provides the participant a cash payment upon exercise of an option. The payment

will not exceed the amount determined by multiplying the participant's income realized upon exercise of an option by the maximum federal income tax rate for corporations. The participant may use the cash realized from a tax benefit right to pay a portion of the option price unless the Committee provides otherwise.

When exercising all or a portion of an option, a participant may, with the Committee's consent, pay for stock with cash, shares of Common Stock, or other consideration equivalent to cash. The Committee may also permit payment of all or a portion of the option price through promissory notes or other installment payments, with or without interest or security.

Federal Income Tax Consequences. A participant exercising an incentive stock option would not recognize income at exercise. The difference between the market value and the exercise price would be, however, a preference item for calculating alternative minimum tax. Upon sale of the stock, so long as the participant holds the stock for at least 1 year after the exercise of the option and at least 2 years after the grant of the option, the participant's basis would equal the option price, the participant would be taxed on the difference between the sales proceeds and the option price as capital gain, and the Corporation would receive no federal tax deduction.

If, prior to the expiration of either of the above holding periods, the participant sells shares acquired under an incentive stock option, the tax deferral would be lost and the participant would realize compensation income equal to the difference between the option price and the fair market value as of the sale. The Corporation would receive a corresponding deduction for federal income tax purposes. If the participant exercises options which are not incentive stock options, he or she would have compensation income in the year of exercise equal to the difference between the option price and the fair market value at the time of exercise, and the Corporation would receive a corresponding deduction for federal income tax purposes

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EXHIBIT 10(e)

CHANGE IN CONTROL AGREEMENT

2

COMMERCIAL BANK AGREEMENT
WITH EXECUTIVE REGARDING BENEFITS PAID
IN THE EVENT OF A CHANGE OF CONTROL

Commercial Bank (the "Bank") and the Executive (as named below) agree that the Executive will be eligible for certain benefits in accordance with the following.

I. Change of Control Defined.

- "Change of Control" for purposes hereof shall occur on or after the date upon which more than 50% of the common stock of Commercial National Financial Corporation or its successor or successors is acquired by an entity, person or group.

II. Duration of Agreement.

- The Executive shall be eligible for benefits hereunder for a period of 24 months beginning on the date upon which a "Change of Control" occurs (the "Benefit Period").

III. Eligibility for Benefits.

- The Executive shall become eligible for benefits hereunder upon a Change of Control followed by one or more of the following events occurring during the Benefit Period:

    - Termination of Executive's employment for reasons other than "Good Cause." ("Good Cause" shall be deemed to exist if and only if Executive engages in acts or omissions constituting dishonesty, intentional breach of fiduciary obligation, or intentional wrongdoing or malfeasance, in each case that results in substantial harm to the business or property of the Bank or the Executive is convicted of a criminal violation involving fraud or dishonesty);

- There is a significant change in the nature or the scope of the Executive's authority or in his overall working environment;

- Executive is assigned duties materially inconsistent with his present duties, responsibilities and status;

- There is a material reduction in the Executive's monthly rate of base salary.

IV. Amount of Benefits to be Received by Executive.

- The amount payable to Executive shall be a single sum payment in the amount of 18 months of Executive's pay.

- The 18 months of Executive's pay shall be determined as follows:

  - A sum equal to the last 12 months of the Executive's base salary plus an amount equal to the Executive's average bonus over the last 3 years shall be divided by 12 and then multiplied by 18.

V. Timing of Benefit.

- Any benefits payable hereunder shall be paid to the Executive in the form of a single sum payment no later than 60 days after becoming eligible for benefits as set forth in paragraph III hereof.

VI. Other Benefits.

- No other benefits shall be payable under this document. Any other benefits to which Executive is entitled, including but not limited to health benefits, retirement benefits and the like shall be determined pursuant to the terms and conditions of each other separate respective plan.

Effective Date of Document: October 21, 1998

COMMERCIAL BANK

By: /s/ Scott E. Sheldon

Scott E. Sheldon
Its: Chairman

EXECUTIVE:
/s/ Jeffrey S. Barker

Jeffrey S. Barker

EXHIBIT 13

INCORPORATED PORTIONS FROM 1998 ANNUAL REPORT TO SHAREHOLDERS

CONTENTS

Featured on the cover are Katie Duffy, a Savasourus Club member since 1997, and Bonnie Barrett, Ithaca Customer Service Representative.

The Savasourus Club is a special deposit program for the next generation of Commercial Bank customers. Members receive an I.D. membership card, a dinosaur bank and other special features.

Dick's Studio located in Ithaca, Michigan took the photographs. E&S Graphics of Ithaca, Michigan created the cover. Local talent is not hard to find!

[JEFF'S PICTURE]

To Our Shareholders:

Certainly the highlight of 1998 was the substantial increase in net income. Earnings reached $2,560,000, a 51% increase over the prior year, and the highest level ever attained by Commercial National Financial Corporation. Significant improvement in operating efficiency, combined with an increase in net interest income and gains on sales of residential real estate mortgages, contributed to the record earnings. The resulting return on average assets of nearly 1.5% and return on average equity of 14.4% compare exceptionally well with those performance ratios of our peers.

Earnings per share rose to $2.54 during 1998 compared to $1.72 per share last year. Perhaps, more importantly 1998 cash dividends were $1.47 per share, up 25% over the $1.18 per share paid during 1997. In addition, during November 1998 a 5% stock dividend was distributed to shareholders for the ninth consecutive year. Along with the exceptional 4.3% cash dividend yield, shareholders experienced a 23% increase in the common stock price, closing the year at $37.50 per share.

Total loans grew at a steady 9% rate during 1998 and loan quality remains very strong. During 1998, $360,000 was provided for the allowance for loan losses, while net charge-offs for the same period were only $80,000. Therefore, the allowance at year-end totaled $2,344,000 or 1.73% of total loans. That amount is twenty-five times the nonperforming assets total of $92,000 at December 31, 1998.

January 1, 2000 will soon be upon us and you can be assured that we are prepared to handle any Y2K computer concerns without any disruption to customer service. In fact to demonstrate our confidence we are planning to celebrate the new millennium at our bank on New Year's Day by being open to serve our customers.

Management, along with the Board of Directors, has been working diligently to thoroughly test every critical system within the bank as well as document the readiness of our vendors and suppliers. Testing of our critical systems has been successfully completed, including tests of simulated processing by our mainframe computer well into the year 2001.

Throughout the year we will update all of our customers with a regularly published newsletter to keep everyone fully informed regarding our Y2K plans and preparations.

By every measure 1998 was a very successful year resulting from the hard work and dedication of our talented employees. Our continuing strategy will focus on the needs of our customers by maintaining the necessary flexibility that only a local community bank brings to the marketplace.

Thank you for your continued confidence and support. We look forward to rewarding that confidence by increasing the value of your investment in Commercial National Financial Corporation.

My best regards,

Jeffrey S. Barker
President and Chief Executive Officer

"EARNINGS REACHED $2,560,000, A 51% INCREASE OVER THE PRIOR YEAR, AND THE HIGHEST LEVEL EVER ATTAINED BY COMMERCIAL NATIONAL FINANCIAL CORPORATION."

Jeffrey S. Barker

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SELECTED FINANCIAL DATA

	1998	1997	1996	1995	1994
	(In thousands except financial ratios and per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
FOR THE YEAR					
Net interest income	$ 7,559	$ 7,354	$ 6,979	$ 6,870	$ 6,450
Provision for loan losses	(360)	(395)	(230)	(250)	(230)
Noninterest income	1,458	1,099	683	665	718
Noninterest expense	(5,173)	(5,867)	(5,684)	(5,126)	(4,925)
Income before income tax expense	3,484	2,191	1,748	2,159	2,013
Income tax expense	(924)	(499)	(316)	(491)	(481)
Net income	$ 2,560	$ 1,692	$ 1,432	$ 1,668	$ 1,532
AT YEAR END					
Total assets	$ 181,096	$ 172,405	$ 166,190	$ 151,075	$ 142,875
Net loans	133,526	122,458	120,501	107,611	98,525
Total deposits	141,175	133,947	133,017	129,701	125,090
FHLB advances	11,500	13,000	10,000	--	--
Shareholders' equity	17,660	16,883	15,496	14,643	13,458
FINANCIAL RATIOS					
Return on average assets	1.47%	1.03%	0.92%	1.15%	1.07%
Return on average shareholders' equity	14.39	10.49	9.41	11.73	11.76
Average shareholders' equity to average assets	10.19	9.81	9.76	9.79	9.12
Allowance for loan losses to loans	1.73	1.66	1.49	1.53	1.51
Tier 1 leverage	9.92	10.26	9.43	9.43	9.24
Total risk-based capital	14.26	14.73	14.29	14.29	15.23
Dividend pay-out	57.68	69.23	68.37	49.56	47.41
PER SHARE DATA(1)					
Basic earnings(2)	$ 2.54	$ 1.72	$ 1.50	$ 1.78	$ 1.67
Diluted earnings(2)	2.53	1.71	1.49	1.78	1.67
Dividends declared	1.47	1.18	1.03	.87	.80
Book value, end of year	17.76	16.81	16.06	15.49	14.52

</TABLE>

(1) All per share data adjusted to reflect stock splits and stock dividends.

(2) Restated to reflect adoption of SFAS No. 128 on December 31, 1997.

[NET INCOME BAR GRAPH] [RETURN ON AVERAGE EQUITY BAR GRAPH] [DIVIDENDS PER SHARE BAR GRAPH]

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion provides information about the financial condition and results of operations of Commercial National Financial Corporation. It should be read in conjunction with the consolidated financial statements included elsewhere in this Annual Report.

BUSINESS OF COMMERCIAL NATIONAL FINANCIAL CORPORATION

Commercial National Financial Corporation (the Corporation or Commercial), a bank holding company, was incorporated in Michigan on December 30, 1987. On May 31, 1988, the Corporation acquired all of the stock of Commercial National Bank, a national banking association chartered in 1962. On December 30, 1992, Commercial National Bank converted to a state-chartered bank under the name Commercial Bank (the Bank).

On July 16, 1997, the Bank acquired an inactive insurance agency, Commercial National Financial Services Incorporated (the Agency). The Agency in turn purchased a minority interest in Michigan Bankers Title of Northern Michigan, LLC (the Title Agency). Except for the investment in the Title Agency, the Agency is inactive. Management does not intend to offer insurance products to retail customers. The investment in the Title Agency and the related dividends earned during 1998 are not material to the Corporation.

The Bank's business is concentrated primarily in a single industry segment - commercial banking. The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses and light industries located in its service area. The Bank 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 offers a variety of deposit products, including checking, savings, money market, individual retirement accounts and certificates of deposit.

The principal markets for the Bank's financial services are the mid-Michigan communities in which the Bank is located and the areas immediately surrounding these communities. The Bank serves these markets through seven locations in or near these communities.
Neither the Corporation nor the Bank has any material foreign assets or income.

The principal source of revenue for the Corporation and its subsidiary is interest and fees on loans. On a consolidated basis, interest and fees on loans accounted for 75.92% of the Corporation's total revenue in 1998, 79.69% in 1997, and 79.82% in 1996. Interest on investment securities accounted for 11.19% of the Corporation's total revenues in 1998, 9.85% in 1997 and 13.03% in 1996.

1998 HIGHLIGHTS

Net income for the year ended December 31, 1998 was $2,560,000, 51.30% or $868,000 more than the $1,692,000 earned during the year ended December 31, 1997. Basic earnings per share increased to $2.54 in 1998 from $1.72 in 1997. The return on average equity improved to 14.39% from 10.49%. The return on average assets improved to 1.47% in 1998 from 1.03% in 1997.

The primary reasons for the improved earnings are as follows: a $205,000 or 2.79% increase in net interest income, a $359,000 or 32.67% increase in noninterest income, and a $694,000 or 11.83% decrease in non-interest expense.

Total assets increased to $181.1 million in 1998 from $172.4 million in 1997. This represents a $8.7 million or 5.04% increase.

NET INTEREST INCOME

<TABLE>
<CAPTION>

Average Balance Sheet and Analysis of Net Interest Income

	1998 AVERAGE BALANCE	1998 INTEREST	1998 YIELD/ RATE	1997 Average Balance	1997 Interest	1997 Yield/ Rate
	(Dollars in thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans receivable (1)(2)	$ 128,312	$ 11,385	8.87%	$ 124,710	$ 11,352	9.10%
Investment securities						
Taxable	16,048	935	5.83	11,689	668	5.71
Tax-exempt (2)	13,782	1,111	8.06	13,462	1,099	8.17
Federal funds sold	5,866	352	6.00	5,046	275	5.45
Federal Home Loan Bank stock	1,391	111	7.98	1,315	105	7.99

Years ended December 31

Total interest-earning assets	165,399	13,894	8.40	156,222	13,499	8.64
Non-earning assets:						
Cash and due from banks	6,612			4,828		
Premises and equipment, net	2,968			3,658		
Other assets	1,830			1,650		
Allowance for loan losses	(2,205)			(1,932)		
Total assets	$ 174,604			$ 164,426		
Interest-bearing liabilities:						
Interest-bearing deposits						
Interest-bearing demand	$ 23,200	477	2.06	$ 21,713	486	2.24
Savings	37,855	1,062	2.81	37,639	1,109	2.95
Time	58,454	3,239	5.54	55,468	3,079	5.55
Securities sold under agreements to repurchase	5,842	296	5.07	5,777	305	5.28
U.S. Treasury demand notes	456	24	5.26	557	30	5.39
Federal Home Loan Bank advances	12,849	790	6.15	11,225	680	6.06
Total interest-bearing liabilities	138,656	5,888	4.25	132,379	5,689	4.30
Noninterest-bearing liabilities:						
Noninterest-bearing demand	16,945			14,798		
Other liabilities	1,209			1,111		
Shareholders' equity	17,794			16,138		
Total liabilities and shareholders' equity	$ 174,604			$ 164,426		
Net interest income/interest rate spread		$ 8,006	4.15%		$ 7,810	4.34%
Net interest margin (3)			4.84%			5.00%

</TABLE>

(1) Average outstanding balances include non-accruing loans. Interest on loans receivable include fees. The inclusion of non-accruing loans and fees does not have material effect on either the average outstanding balance or the average yield.

(2) Yields on tax-exempt loans and securities are computed on a fully taxable-equivalent basis using a federal income tax rate of 34%.

(3) Net interest earnings divided by average interest-earnings assets.

The largest component of Commercial's operating income is net interest income. Net interest income is the difference between interest and fees earned on earning assets and the interest paid on deposits and other borrowings. A number of factors influence net interest income. These factors include: changes in volume and mix of interest-earning assets and interest-bearing liabilities, governmental

monetary and fiscal policies, national and local market interest rates and customer preference.

Net interest income on a tax equivalent basis was $8.0 million in 1998, an increase of $196,000 or 2.5%. Tax-equivalent net interest income increased $311,000 or 4.15% in 1997 compared to 1996. Commercial's annual increases in net interest income were the result of an increased volume of earning assets.

Net interest margin is net interest income (fully tax equivalent) divided by average earning assets. The net interest margin has decreased from 5.09% to 5.00% to 4.84% in 1996, 1997 and 1998, respectively. Commercial continues to experience competitive pressures on loan and deposit product pricing. This pressure has negatively impacted the Bank's interest margin.

During 1996, the Bank aggressively priced indirect automobile lending and shortened the average life of the U.S. Treasury and Agency securities to meet short-term liquidity needs. The general low interest rate environment and flat yield curve continued from the fourth quarter of 1997 through out 1998 making it difficult to replace maturing investment securities and loans with comparable or higher yielding investments.

We have attempted to obtain interest bearing deposits and other interest bearing liabilities at lower cost, however, we have been unable to reduce our cost of funds as quickly as our yield on earning assets has decreased.

The following table analyzes the effect of volume and rate changes on interest income and expense for the periods indicated.

	Years ended December 31,					
	1 9 9 8			1 9 9 7		
	COMPARED TO 1997			Compared to 1996		
	NET INCREASE (DECREASE)	AMOUNT DUE TO VOLUME	AMOUNT DUE TO RATE	Net Increase (Decrease)	Amount Due to Volume	Amount Due to Rate
	(In thousands)					
Interest income:						
Loans receivable (1) (2)	$ 33	$ 320	$ (287)	$ 881	$ 973	$ (92)
Investment securities:						
Taxable	267	254	13	(288)	(212)	(76)
Tax-exempt (2)	12	26	(14)	(7)	(32)	25
Federal funds sold	77	49	28	89	89	-
Federal Home Loan Bank stock	6	6	-	48	47	1
Total interest income	395	655	(260)	723	865	(142)
Interest expense:						
Interest-bearing deposits						
Interest-bearing demand	(9)	31	(40)	(20)	1	(21)
Savings	(47)	7	(54)	42	6	36
Time	161	165	(4)	(13)	29	(42)
Securities sold under agreements to repurchase	(10)	3	(13)	6	(7)	13
U.S. Treasury demand notes	(6)	(5)	(1)	-	(1)	1
Federal Home Loan Bank advances	110	100	10	397	371	26
Total interest expense	199	301	(102)	412	399	13
Net interest income	$ 196	$ 354	$ (158)	$ 311	$ 466	$ (155)

(1) Loan fees are included in interest income and are used to calculate average rates earned. Non-accrual loans are included in the average loan balance.

(2) Yields on tax-exempt loans and investment securities are computed on a fully taxable-equivalent basis using a federal income tax rate of 34%.

(3) For purposes of these tables, changes in interest due to volume and rate were determined as follows: Volume Variance = Change in volume times old rate; Rate Variance = change in rate times old volume; Rate/ Volume Variance =Change in rate times change in volume allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

PROVISION FOR LOAN LOSSES

The provision for loan losses is the amount added to the allowance for loan losses to absorb losses that are currently anticipated.
The loan loss provision is based on historical loss experience and such other factors, which, in management's judgment, deserve current recognition in maintaining an adequate allowance for loan losses.

The provision for loan losses was $360,000 in 1998 compared to $395,000 and $230,000 in 1997 and 1996, respectively. The provision was increased during 1997 to recognize weaknesses in the Bank's indirect auto loan portfolio. Those weaknesses have since been addressed, and the Bank no longer participates in the indirect auto loan market. The allowance for loan losses to total loan ratio was 1.73%, 1.66% and 1.49% for 1998, 1997 and 1996 respectively.

The Bank's loan portfolio continued to perform well during 1998. Net charge-offs during 1998 were $80,000 compared to $155,000 in 1997.

NONINTEREST INCOME

Noninterest income was $1,458,000 for the year ended December 31, 1998. This represents a $359,000 or 32.67% increase over 1997. The Bank benefited from a full year's effect of deposit fee increases instituted during the second quarter of 1997.

The low interest rate environment contributed to a heavy volume of mortgage loan refinancing. Net gain on mortgage loan sales increased $205,000 or 115.17%. A receivable financing program implemented during 1997 also contributed to the increase in fee income during 1998. The Bank's other fee and service charge structure remained unchanged during 1998.

In 1997, noninterest income increased $416,000 or 60.89% compared to 1996. The increase in noninterest income was primarily attributed to three factors: a general increase in service charges on deposit accounts, the addition of several new deposit account service charges, increased gains on sales of mortgage loans sold to the Federal Home Loan Mortgage Corporation (Freddie Mac) and the addition of gains on sales of government guaranteed loans.

The increase in other deposit related service charges and fees aligned the Bank's service charge structure with local competitors. The new fees included activity charges on high volume, low balance corporate accounts, and the surcharging of foreign ATM transactions. The improvement in Freddie Mac loan sale gains was the result of better pricing of mortgage products and increased origination volume.

The Bank also tested the secondary market for government guaranteed commercial loans during 1997. These sales were conducted to identify an additional source of liquidity and fee income.

The following table identifies the major sources of noninterest income and the change for 1998, 1997 and 1996.
<TABLE>
<CAPTION>

	Years ended December 31, 1998	1997	1996
	(In thousands)		
<S>	<C>	<C>	<C>
Service charge and fees	$ 485	$ 429	$ 292
Net gains on mortgage loan sales	383	178	21
Receivable financing fees	327	123	-
Net gains on government guaranteed loan sales	12	42	-
Other	251	327	370
Total noninterest income	$ 1,458	$ 1,099	$ 683

</TABLE>

NONINTEREST EXPENSE

In the second quarter of 1997, management restructured the Bank to improve efficiency and performance. Part of this process included:
reviewing branch performance, reducing full time equivalents and instituting tighter controls over overhead costs. Nineteen ninety-eight benefited from this process.

Noninterest expense decreased $694,000 or 11.83% compared to 1997. After adjusting for the $547,000 related to the 1997 branch closings, noninterest expense decreased $147,000 or 2.76%.

A small increase in 1997 noninterest expense compared to 1996 occurred despite $547,000 in expenses associated with closing two supermarket branches and expenses associated with severance packages paid in conjunction with a management restructuring. Without the branch closing expense, 1997 noninterest expense decreased $365,000 or 6.41% compared to 1996.

Full time equivalents (FTE's) increased to 71 at December 31, 1998 from 69 at December 31, 1997. This increase represented the hiring of several employees for positions that were vacant at December 31, 1997. The Bank received a full year's benefit from the staff reduction in 1997. This helped control 1998 salary expense.

FTE's were decreased from 95 at December 31, 1996 to 69 at December 31, 1997. This reduction was the result of a general staff reduction, and the closing of two supermarket branches. The reduction in FTE's helped decrease salaries and employee benefits expense as a percentage of average assets to 1.46% in 1998 from 1.53% in 1997 and 1.84% in 1996.

Management reviewed fixed assets for impairment in 1997. As a result of this review, approximately $40,000 in fixed assets were deemed impaired and disposed of or written off. Management also reduced the estimated useful life of several technology-related assets. The effects of these changes in useful lives negatively impacted depreciation expense by approximately $70,000 in 1998. The effect of the useful life changes occurred in the fourth quarter of 1997 and is reflected in the increase of $128,000 or 21.44% increase in 1997 furniture and equipment expense over 1996. Management sold the Bank's credit card portfolio in the first quarter of 1998 and the merchant VISA program during the fourth quarter of 1997. This reduced 1998 credit card processing fees by $97,000 or 75.78%.

Printing, postage and supplies expense decreased by $52,000 or 24.41% as a result of better ordering practices, improved inventory management and a general decrease in the need for supplies due to the closing of the two branches and the general staff reduction.

During 1998, the Bank contracted with third parties for independent loan review and compliance testing. The Bank also utilized the services of third parties to assist with the assessment and remediation of Y2K related systems. As a result, professional fees increased $36,000 or 16.74%.

<TABLE>
<CAPTION>

	Years ended December 31, 1998	1997	1996
	(In thousands)		
<S>	<C>	<C>	<C>
Salaries	$ 2,057	$ 2,058	$ 2,283
Employee benefits	501	459	583
Occupancy	278	264	289
Furniture and equipment	722	725	597
Credit card processing	31	128	109
FDIC insurance	22	10	126
Other taxes	117	87	82
Printing and supplies	161	213	367
Postage	87	96	93
Telephone	113	110	121
Advertising	67	64	69
Other insurance	38	44	55
Branch closing costs	-	547	-
Professional fees	251	215	220
Other expenses	728	847	691
Total noninterest expense	$ 5,173	$ 5,867	$ 5,685
Efficiency Ratio	54.66%	65.88%	69.48%
Noninterest expense as percentage of average assets	2.96%	3.57%	3.65%
Salaries and employee benefits as a percentage of average assets	1.46%	1.53%	1.84%

</TABLE>

INCOME TAX EXPENSE

Commercial's income tax expense was $924,000 in 1998 compared to $500,000 in 1997 and $316,000 in 1996. The increase from 1998 to 1997 was primarily the result of increased income before income tax and a decrease in tax-exempt interest income in relation to total pretax income.

The statutory federal tax rate during 1998, 1997 and 1996 was 34%. The Corporation's effective tax rate was lower than the statutory rate in all three years, primarily due to tax-exempt interest income. The reduction in tax-exempt income in relation to taxable income caused the effective tax rate to increase to 26.51% in 1998 from 22.80% in 1997. The effective tax rate in 1996 was 18.08%.

INVESTMENT PORTFOLIO

The following table shows, securities by classification as of December 31, 1998, the amounts and weighted-average yields by maturity period:
<TABLE>
<CAPTION>

	MATURING									
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	(Dollars in thousands)									
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
AVAILABLE FOR SALE										
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. Treasuries	$1,012,813	5.40%	$ -		$ -		$ -		$ 1,012,813	5.40%
U.S. Government agencies	3,566,093	5.83%	9,248,874	5.78%	-				12,814,969	5.79%
State and municipal(1)			1,803,638	6.06%	768,369	6.52%			2,572,005	6.20%
Other securities	404,250	6.18%	507,812	5.92%	-		-		912,062	6.04%
Total	$4,983,156		$11,560,324		$ 768,369		$		$17,311,849	
HELD TO MATURITY										
U.S. Treasuries	$ -		$ -		$ -		$ -		$ -	
U.S. Government agencies	1,000,125	5.80%	-		-		-		1,000,125	5.80%
State and municipal(1)	1,613,789	7.57%	5,471,831	6.06%	3,836,688	7.80%	95,000	9.16%	11,017,308	7.63%
Other securities	-		-		-		-		-	
Total	$2,613,914		$ 5,471,831		$ 3,836,688		$ 95,000		$12,017,433	

</TABLE>

(1) Yields on tax-exempt securities are computed on a fully taxable-equivalent basis.

The Bank's Asset/Liability Management Committee (Committee) is responsible for developing investment guidelines and strategies. The Committee relies on the expertise of an investment advisor to select appropriate investments for the portfolio.

The Committee does not invest in derivative securities. Commercial holds no impaired securities at December 31, 1998. As of December 31, 1998, the aggregate book value of investment securities issued by the State of Michigan and all its political subdivisions totaled $9.9 million with an aggregate market value of $10.4 million.

During 1997, the Committee elected to identify securities purchased as available for sale. The available for sale classification allows management more flexibility in managing interest rate risk and liquidity. Under most

interest rate environments, management should be able to lengthen the maturities of securities to improve yields without sacrificing liquidity. Previous management identified all securities as held to maturity.

The U.S. Government Treasury and agency securities identified as available for sale are laddered to mature more evenly over five years with a three year average life. The goal is to reduce the volatility of the investment portfolio.

Management is currently faced with the challenge of replacing maturing securities in a low rate environment with a historically flat yield curve. The high percentage of securities maturing during 1998 made it difficult to maintain the current yield on the investment portfolio, despite shifting the composition of the portfolio from treasury securities to agency securities.

The book value of investment securities, as of the dates indicated, are summarized as follows:
<TABLE>
<CAPTION>

	December 31,			
	1 9 9 8		1 9 9 7	
	AVAILABLE FOR SALE	HELD TO MATURITY	Available for Sale	Held to Maturity
	(In thousands)			

<S>	<C>	<C>	<C>	<C>
U.S. Treasuries	$ 1,013	$ -	$1,999	$ 3,981
U.S. Government agencies	12,815	1,000	5,034	2,016
State and municipal	2,572	11,017	-	12,417
Other	912	-	1,403	1,969
Total	$ 17,312	$ 12,017	$8,436	$ 20,383

</TABLE>

LOAN PORTFOLIO

Commercial's management understands that credit risk is a fundamental element of its business. Conservative lending philosophies supported by comprehensive policies and administrative functions help the Bank's lenders adhere to strict credit underwriting standards. Lending efforts are concentrated primarily in the Michigan communities in which Commercial's branches are located. The Bank has no foreign loans. Management continually monitors exposures to any single borrower, as well as industry concentrations.

Total loans increased $11.3 million or 9.11% from year-end 1997 to 1998. Commercial, real estate-construction and real estate-mortgage all increased during 1998 as a result of strong demand and a stable economy. Commercial, financial and agricultural loans increased $2.7 million or 3.94% in 1998. Real estate-construction and real estate-mortgage loans increased $5.3 million or 89.75% and $7.8 million or 22.32% in 1998, respectively. The relatively low interest rate environment experienced throughout 1997 and 1998 made it advantageous to sell the majority of all fixed rate loans originated during the year to the secondary market. The Bank originated approximately $16.1 million of mortgage loans for sale to the secondary market in 1998, which compared to approximately $11.0 million in 1997.

Consumer and other loans decreased $4.4 million or 27.81%. Previous management aggressively priced and marketed indirect automobile paper. This lead to strong growth in the consumer loan portfolio in prior years. An analysis of the quality and profitability of the indirect paper in the second quarter of 1997 resulted in the conclusion that the indirect market was both not profitable and posed unnecessary underwriting risk to the Bank. The Bank's exit from this market contributed to the decline in the consumer and other loan totals. The Bank has also reduced lending authorities and tightened underwriting standards to maintain credit quality.

The following table presents the amount of loans outstanding by loan type:
<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
	(In thousands)	
<S>	<C>	<C>
Commercial, financial and agricultural	$ 70,272	$ 67,606
Real estate - construction	11,127	5,864
Real estate - mortgage	42,988	35,144
Consumer and other	11,483	15,907
Total loans	$ 135,870	$ 124,521

</TABLE>

The following table shows the maturity of loans (excluding real estate-mortgage and consumer and other loans) outstanding at December 31, 1998. Also provided are the amounts due after one year classified according to their sensitivity to changes in interest rates.

<TABLE>
<CAPTION>

	Due Within One Year	Due After One But Within Five Years	Due After Five But Within Ten Years	Due After Ten Years	Total
<S>	<C>	<C>	<C>	<C>	<C>
Commercial, financial and agricultural	$ 21,174	$ 39,020	$ 8,562	$ 1,516	$ 70,272
Real estate - construction	4,874	3,731	2,144	378	11,127
Total	$ 26,048	$ 42,751	$ 10,706	$ 1,894	$ 81,399

Loans due after one year:	
Fixed rate	$ 35,799
Floating or adjustable rate	19,552
Total	$ 55,351

ASSET QUALITY

Management believes that a conservative credit culture is critical to successful Bank performance. Through Officer and Director Loan Committees, management reviews and monitors the quality of the various loan portfolios. Low interest rates and a strong local economy have contributed to an ideal lending environment. Management also took steps to reduce credit risk during 1997 by exiting the indirect automobile market and by restructuring credit authorities.

Loan performance is reviewed regularly by loan review personnel, loan officers and senior management. During 1998 the Bank contracted with a third party for periodic independent loan review services. Loans are placed on non-accrual status when principal or interest is past due 90 days or more and the loan is not well-secured, and in the process of collection or when reasonable doubt exists concerning collectibility of interest or principal. Any interest previously accrued in the current period but not collected is reversed and charged against current earnings.

At December 31, 1998 the Bank had $1,268,000 in domestic loans for which payments are presently current, but the borrowers are experiencing financial difficulties. Those loans are subject to ongoing management attention and their classification is reviewed on a regular basis. As of December 31, 1998 there were no concentrations of loans exceeding 10% of total loans.

The following table summarizes non-accrual, past due and restructured loans:

	December 31, 1998	December 31, 1997
	(In thousands)	
Non-accrual loans	$ 25	$ -
Accruing loans past due 90 days or more	30	-
Other real estate owned	-	-
Restructured loans	37	15
Total non-performing assets	$ 92	$ 15
Total non-performing assets as a percentage of total loans	0.07%	.01%

ALLOWANCE FOR LOAN LOSSES

The following table summarizes changes in the allowance for possible loan losses.

	Years ended December 31, 1998	1997

	(In thousands)	
<S>	<C>	<C>
Loans		
Amount of loans outstanding at end of year	$ 135,870	$ 124,521
Daily average of loans outstanding for the year	$ 128,312	$ 124,710
Balance of allowance at beginning of year	$ 2,064	$ 1,824
Loans charged off:		
Commercial, financial and agricultural	(33)	(44)
Real estate - mortgage	--	--
Consumer and other	(139)	(234)
Total loans charged off	(172)	(278)
Recoveries of loans previously charged off:		
Commercial, financial, and agricultural	33	50
Real estate - mortgage	10	9
Consumer and other	49	64
Total recoveries	92	123
Net charge-offs	(80)	(155)
Provision for loan losses (1)	360	395
Allowance at end of period	$ 2,344	$ 2,064
Ratio of net charge-offs during period to average loans outstanding during the period	.06%	.12%
Ratio of allowance for loan losses to loans outstanding at end of period	1.73%	1.66%

</TABLE>

(1) The provision for loan losses charged to expense is based on loan loss experience and other factors which, in management's judgment, deserve current recognition in maintaining an adequate allowance for loan losses. These other factors include, but are not limited to, a review of current economic conditions as they relate to loan collectibility and reviews of specific loans to evaluate their collectibility.

The allowance for loan losses has been allocated according to the amount deemed to be reasonably necessary to provide for the probability of losses being incurred as follows:

<TABLE>
<CAPTION>

	December 31, 1 9 9 8		1 9 9 7	
	ALLOWANCE	PERCENT OF LOANS TO TOTAL LOANS	Allowance	Percent of Loans to Total Loans
	(In thousands)			
<S>	<C>	<C>	<C>	<C>
Commercial, financial and agricultural	$ 596	51.72%	$ 704	54.29%
Real estate - construction	--	8.19	--	4.71
Real estate - mortgage	96	31.64	89	28.22
Consumer and other	362	8.45	512	12.78
Unallocated	1,290	--	759	--
Total	$ 2,344	100.00%	$2,064	100.00%

</TABLE>

[BONNIE AND KATIE]

LIQUIDITY

Liquidity is generally defined as the ability to meet cash flow needs of customers for loans and deposit withdrawals. To meet cash flow requirements, sufficient resources of liquid funds must be available. These sources include short-term investments, repayments of loans, maturing and called securities, sales of assets, growth in deposits and other liabilities and Bank profits.

At December 31, 1998, the Bank had $4 million in federal funds sold and $17.3 million in securities classified as available for sale. The Bank also has $12.5 million of additional borrowing capacity at the Federal Home Loan Bank and $6.0 million of borrowing capacity with correspondent banks. During 1998, the Banks also generated $4.8 million in cash from operating activities. All of these sources are available to meet cash flow needs of loan and deposit customers.

The Corporation also needs cash to pay dividends to its shareholders. The primary source of cash is the dividends paid to the parent by the Bank. Management believes that cash from operations is sufficient to supply the cash needed to continue paying a reasonable dividend.

CAPITAL RESOURCES

At December 31, 1998, the capital of the Corporation totaled $17,660,000. Management monitors the capital levels of the Corporation and the Bank to provide for current and future business opportunities and to meet regulatory guidelines for "well capitalized" institutions. "Well capitalized" institutions are eligible for reduced FDIC premiums, and also enjoy other reduced regulatory restrictions.

At December 31, 1998, the Corporation and the Bank exceeded all regulatory minimum capital requirements and are considered to be "well capitalized".

ASSET LIABILITY MANAGEMENT

Commercial's static gap position at December 31, 1998 is illustrated in the following table:

<TABLE>
<CAPTION>

	0-90 days	91-365 days	1-5 years	Over 5 years	Total
			(In thousands)		
<S>	<C>	<C>	<C>	<C>	<C>
INTEREST-EARNING ASSETS:					
Federal funds sold	$ 4,000	$ -	$ -	$ -	$ 4,000
Securities	1,705	5,790	16,790	4,670	28,955
Loans receivable	11,303	18,788	66,882	38,896	135,869
Federal Home Loan Bank stock	1,391	-	-	-	1,391
Total interest-earning assets	18,399	24,578	83,672	43,566	170,215
INTEREST-BEARING LIABILITIES:					
Demand deposits	25,462	-	-	-	25,462
Savings deposits	38,783	-	-	-	38,783
Time deposits	16,024	24,124	16,484	249	56,881
Securities sold under agreements to repurchase	6,965	-	-	-	6,965
U.S. Treasury demand notes	1,553	-	-	-	1,553
Federal Home Loan Bank advances	2,000	2,000	6,500	1,000	11,500
Total interest-bearing liabilities	90,787	26,124	22,984	1,249	141,144
Asset (liability) gap	$ (72,388)	$ (1,546)	$ 60,688	$ 42,317	$ 29,071
Cumulative asset (liability) gap	$ (72,388)	$ (73,934)	$ (13,246)	$ 29,071	

</TABLE>

Asset liability management involves developing, implementing and monitoring strategies to maintain sufficient liquidity, maximize net interest income and minimize the impact that significant fluctuations in market interest rates would have on earnings. Commercial's Asset/Liability Committee is responsible for managing the process.

As shown, Commercial had a $72.4 million cumulative liability gap position within the one year timeframe. This implies that if interest rates drop, the Bank has the potential to earn more net interest income. However, there are significant limitations to the static gap model.

The static gap does not consider the timing or magnitude of non-contractual repricing. As a general rule, residential real estate, consumer and most business loan contracts do not include prepayment penalties. In a falling rate environment, loan customers will refinance existing loans at lower rates without regard for the contractual maturity of the loan agreement. Taking into account the effect of interest rate sensitivity and other factors, management believes that the Bank's margin is exposed to decreases in interest rates. Margin has decreased since 1996 from 5.09% to 5.00% in 1997 to 4.84% in 1998. This decrease occurred in a generally falling rate environment.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commercial's primary market risk exposure is interest rate risk and, to a lesser extent, liquidity risk. All of the Corporation's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. The Corporation has a limited exposure to commodity prices related to agricultural loans. Any impacts that changes in foreign exchange rate and commodity prices would have on interest rates are assumed to be insignificant.

Interest rate risk (IRR) is the exposure of a banking organization's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and stockholder value; however, excessive levels of IRR could pose a significant threat to the Corporation's earnings and capital base. Accordingly, effective risk management that maintains IRR at prudent levels is essential to the Corporation's safety and soundness.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control IRR and the organization's quantitative level of exposure. When assessing the IRR management process, the Corporation seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain IRR at prudent levels with consistency and continuity. Evaluating the quantitative level of IRR exposure requires the Corporation to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality.

The Federal Reserve Board, together with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, adopted a Joint Agency Policy Statement on IRR effective June 26, 1996. The policy statement provides guidance to examiners and bankers on sound practices for managing IRR, which will form the basis for ongoing evaluation of the adequacy of IRR management at supervised institutions. The policy statement also outlines fundamental elements of sound management that have been identified in prior Federal Reserve guidance and discusses the importance of these elements in the context of managing IRR. Specifically, the guidance emphasizes the need for active board of director and senior management oversight and a comprehensive risk management process that effectively identifies, measures and controls IRR.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest rate changes. For example, assume that an institution's assets carry intermediate or long term fixed rates and that those assets are funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution's interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution's profits could decrease on existing assets because the institution will either have lower net interest income or possibly, net interest expense. Similar risks exist when assets are subject to contractual interest rate ceilings, or rate sensitive assets are funded by longer-term, fixed-rate liabilities in a decreasing rate environment.

Various techniques might be used by an institution to minimize IRR. One approach used by the Corporation is to periodically analyze its assets and liabilities and make future financing and investment decisions based on payment streams, interest rates, contractual maturities, and estimated sensitivity to actual or potential changes in market interest rates. Such activities fall under the broad definition of asset/liability management.

Several ways an institution can manage IRR include: selling existing assets or repaying certain liabilities; matching repricing periods for new assets and liabilities, for example, by shortening terms of new loans or investments and hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change IRR. Interest rate swaps, futures contracts, options on futures, and other such derivative financial instruments are often used for this purpose. Because these instruments are sensitive to interest rate changes, they require management's expertise to be effective. The Corporation has not purchased derivative financial instruments in the past and does not presently intend to purchase such instruments.

Financial institutions are also subject to repayment risk in falling rate environments. For example, mortgage loans and other financial assets may be prepaid by a debtor so that the debtor may refinance their obligations at new, lower rates. Prepayments of assets carrying higher rates reduce the Corporation's interest income and overall asset yields.

Principal/notional amount as of December 31, 1998 maturing in:
<TABLE>
<CAPTION>

	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
			(In thousands)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
RATE SENSITIVE ASSETS								
Federal funds sold	$ 4,000	$ --	$ --	$ --	$ --	$ --	$ 4,000	$ 4,000
Average interest rate	5.00%	--	--	--	--	--	5.00%	
Fixed interest rate securities	5,495	5,030	4,810	3,760	3,190	6,670	28,955	29,821
Average interest rate	6.44%	6.20%	6.04%	6.29%	6.67%	7.12%	6.49%	
FHLB stock	1,391	--	--	--	--	--	1,391	1,391
Average interest rate	8.00%	--	--	--	--	--	8.00%	
Fixed interest rate loans	8,709	8,960	14,152	8,870	2,125	18,263	81,079	81,327
Average interest rate	12.12%	9.50%	8.81%	8.71%	8.50%	7.73%	8.90%	
Variable interest rate loans	21,679	2,806	2,381	4,881	2,410	20,633	54,790	54,790
Average interest rate	9.00%	8.97%	8.86%	8.75%	8.80%	7.63%	8.45%	
RATE SENSITIVE LIABILITIES								
Interest-bearing demand	25,462	--	--	--	--	--	25,462	25,462
Average interest rate	1.79%	--	--	--	--	--	1.79%	
Savings	38,783	--	--	--	--	--	38,783	38,783
Average interest rate	2.59%	--	--	--	--	--	2.59%	
Time deposits	40,148	10,511	3,129	1,591	1,252	250	56,881	57,577
Average interest rate	4.76%	4.88%	5.14%	4.66%	4.91%	5.29%	4.75%	
Variable interest rate securities sold under agreements to repurchase	6,965	--	--	--	--	--	6,965	6,965
Average interest rate	4.66%	--	--	--	--	--	4.66%	
Variable interest rate U.S. Treasury demand notes	1,553	--	--	--	--	--	1,553	1,553
Average interest rate	4.42%	--	--	--	--	--	4.42%	
Fixed interest rate FHLB advances	3,000	4,000	1,000	--	2,500	--	10,500	10,248
Average interest rate	6.11%	6.40%	6.50%	--	5.30%	--	6.01%	
Variable interest rate FHLB advances	1,000	--	--	--	--	--	1,000	1,000
Average interest rate	4.95%	--	--	--	--	--	4.95%	

</TABLE>

Certain portions of an institution's liabilities may be short-term or due on demand, while most of its assets may be invested in long-term loans or investments. Accordingly, the Corporation seeks to have in place sources of cash to meet short-term demands. These funds can be obtained by increasing deposits, borrowing or selling assets. Also, Federal Home Loan Bank advances and short-term

borrowings provide additional sources of liquidity for the Corporation.

The above table provides information about the Corporation's financial instruments that are sensitive to changes in interest rates as of December 31, 1998. The Corporation had no derivative financial instruments, or trading portfolio, as of that date. The expected maturity date values for loans receivable, mortgage-backed securities and investment securities were calculated without adjusting the instrument's contractual maturity date for expectations of prepayments. Expected maturity date values for interest-bearing core deposits were not based upon estimates of the period over which the deposits would be outstanding, but rather the opportunity for repricing.

YEAR 2000 ISSUES

Commercial is aware of the issues associated with the programming code in existing computer systems as the Year 2000 approaches. The Year 2000 will affect virtually every computer operation in some way by the rollover of the two digit value used to represent the year to 00. The issue is whether computer software will properly recognize the date-sensitive information when the year changes to 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system failure.

Commercial recognizes the need to ensure that its operation will not be adversely impacted by Year 2000 (Y2K) software failures. Commercial has established a process for evaluating and managing risks associated with this issue. A Technology Committee comprised of management and independent members of the Board of Directors meet regularly to ensure that progress is made in identifying non-compliant systems and developing appropriate responses to correct the deficiencies.

THE STATE OF READINESS

The process of addressing the Y2K issue includes seven phases: I-Awareness, II-Inventory, III-Assessment, IV-Analysis, V-Conversion, VI-Implementation, VII-Post Implementation.

The Bank has successfully completed Phases I-IV. Phase V and VI are substantially complete. Final remediation of critical systems should be completed by March 31, 1999. Management is confident that all mission critical systems will perform on December 31, 1999.

COST TO ADDRESS THE YEAR 2000 ISSUE

Management has prepared a budget to estimate the cost of completing the seven phases in our Y2K plan. The expenses associated with Y2K are compared to budget and reported to the Technology Committee.

During 1998 we purchased and upgraded software and hardware specifically to address the Y2K issue of $15,000. In addition, we have contracted with third parties to test and remediate various systems within the Bank. This includes, but is not limited to, the testing of personal computers, software and hardware used to maintain customers records, imaging software and hardware, etc. The cost of using these third parties was $19,000.

The largest cost element associated with the Y2K has been the opportunity cost associated with management, board of directors and employee time developing our plan, completing the seven phases and documenting our plan results.

During 1999 we will upgrade equipment and technology that may directly or indirectly address Y2K issues totaling an estimated $480,000.

RISK ASSOCIATED WITH THE YEAR 2000 ISSUE

Management is confident that all mission critical systems will function correctly on January 1, 2000. We are also confident that our large deposit and loan customers are aware of, and are addressing Y2K.

However, there are several risks that management cannot fully control. These risks include the ability of large institutional and government agencies to be adequately prepared, the public's perception and response to the negative media portrayal of the Y2K, and regulatory risk that the agencies responsible for the Bank's oversight are not satisfied with our efforts to address the Y2K issue.

Large institutional entities include the Social Security Administration, Internal Revenue Service, etc. These entities electronically deposit and gather funds from our customers' accounts. We are unable to control or influence their level of preparedness. Our customers may perceive their inability to properly process and deliver transactions to the Bank as the Bank's Y2K failure.

The media is increasingly focused on the Y2K issue. Their focus has been on what can go wrong, rather than what companies have done to address the issue. Some of the "alleged" experts are advocating drastic preparedness plans for individuals, including the withdrawal of all or most of their cash. The public's response to this media information is difficult to predict. Though we are addressing the anticipated need for additional liquidity and cash, we cannot accurately predict the actual requirement. During 1999 we will focus our energy on public relations to explain what we have done to reduce the risk of Y2K and what our contingency plans are for dealing with any problems.

The Bank is subject to regulatory examination related to the Y2K issue. The Federal Depository Insurance Corporation (FDIC) examines the Bank to determine if our plan appears adequate, we are making sufficient progress in addressing our Y2K issues, and that we are adequately reporting the status of Y2K to the Bank's board of directors. In the event that the regulators determine that we are meeting their expectations, they have the authority to enforce compliance.

CONTINGENCY PLANS

During the first quarter of 1998, the mid-Michigan area experienced an unusually powerful storm system that interrupted electrical power for 4 business days. During the course of this event, we activated our disaster recovery plan, including the full staffing of offsite imaging and mainframe sites. We were able to perform all necessary functions.

From this experience we were able to revise and modify our disaster plan in preparedness for a complete system failure related to the year 2000 problem. Included in the modified disaster plan are purchasing an emergency electrical generator, and increasing available sources of liquidity. Modifications to the plan should be completed by March 31, 1999.

FORWARD LOOKING STATEMENT

This discussion and analysis of financial condition and results of operations and other sections of this Annual Report contain forward looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy and about the Corporation itself.

Words such as "anticipates", "believes", "estimates", "expects", "forecasts", "foresee", "intends", "is likely", "plans", "product", "projects", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. Furthermore, Commercial undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

Future Factors include:

- changes in interest rates and interest rate relationships; demand for products and services;

- the degree of competition by traditional and non-traditional competitors;

- changes in banking regulations;

- changes in tax laws;

- changes in prices, levies and assessments;

- the impact of technology, governmental and regulatory policy changes;

- the outcome of pending and future litigation and contingencies;

- trends in customer behavior as well as their ability to repay loans; and

- changes in the national and local economies.

These are representative of the Future Factors that could cause a difference between an actual outcome and a forward-looking statement.

REPORT OF INDEPENDENT AUDITORS

[CROWE LOGO]

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

We have audited the accompanying consolidated balance sheets of Commercial National Financial Corporation as of December 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years ended December 31, 1998, 1997 and 1996. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commercial National Financial Corporation as of December 31, 1998 and 1997, and the results of its operations, and its cash flows for each of the years ended December 31, 1998, 1997 and 1996 in conformity with generally accepted accounting principles.

Crowe, Chizek and Company LLP

South Bend, Indiana
February 4, 1999

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation of the Commercial National Financial Corporation's 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 generally accepted accounting principles. Management also has included in the Corporation's financial statements, amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

Commercial National Financial Corporation maintains a system of 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 and by independent certified public accountants. Management recognizes that the cost of a system of internal controls should not exceed the benefits derived and that there are inherent limitations to be considered in the potential effectiveness of any system. Management believes that Commercial National Financial Corporation's system provides the appropriate balance between costs of controls and the related benefits.

The independent auditors have audited the Corporation's consolidated financial statements in accordance with generally accepted auditing standards and provide 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 six non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

Jeffrey S. Barker
President and
Chief Executive Officer

Patrick G. Duffy
Vice President and
Chief Financial Officer

<TABLE>
<CAPTION>

CONSOLIDATED BALANCE SHEETS

<S>	December 31 1998 <C>	1997 <C>
ASSETS		
Cash and due from banks	$ 8,555,428	$ 5,576,724
Federal funds sold	4,000,000	9,600,000
Total cash and cash equivalents	12,555,428	15,176,724
Securities available for sale	17,311,849	8,436,349
Securities held to maturity (fair value $12,510,000 - 1998, $20,847,000 - 1997)	12,017,433	20,383,446
Federal Home Loan Bank stock, at cost	1,391,300	1,391,300
Loans receivable, net of allowance for loan losses $2,343,976 - 1998, $2,063,668 - 1997	133,525,631	122,457,789
Premises and equipment, net	2,790,001	3,188,743
Accrued interest receivable and other assets	1,503,999	1,370,472
TOTAL ASSETS	$ 181,095,641	$ 172,404,823
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	$ 20,048,154	$ 17,102,386
Interest-bearing demand	25,461,761	22,076,363
Savings	38,783,466	35,523,362
Time	56,881,316	59,244,780
Total deposits	141,174,697	133,946,891
Securities sold under agreements to repurchase	6,965,058	4,151,844
U.S. Treasury demand notes	1,552,997	2,753,486
Federal Home Loan Bank advances	11,500,000	13,000,000
Accrued expenses and other liabilities	2,242,787	1,669,460
Total liabilities	163,435,539	155,521,681
Shareholders' equity		
Common stock and paid-in-capital, no par value-1998, $1 par -1997: 1,750,000 shares authorized; shares issued and outstanding 1998 - 994,331 and 1997 - 954,322	17,525,466	16,231,861
Retained earnings (deficit)	(8,483)	647,697
Accumulated other comprehensive income, net of tax	143,119	3,584
Total shareholders' equity	17,660,102	16,883,142
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 181,095,641	$ 172,404,823

</TABLE>

See accompanying notes to consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

<S>	Years ended December 31 1998 <C>	1997 <C>	1996 <C>
Interest and dividend income			
Loans receivable, including fees	$ 11,315,309	$ 11,269,750	$ 10,328,228
Taxable securities	934,747	667,930	956,006
Nontaxable securities	733,098	725,491	729,396
Federal funds sold	351,723	274,965	185,564
Federal Home Loan Bank stock dividends	111,409	105,098	56,982
Total interest and dividend income	13,446,286	13,043,234	12,256,176
Interest expense			
Deposits	4,778,263	4,674,419	4,665,374
Securities sold under agreements to repurchase	295,611	305,330	293,689
Federal Home Loan Bank advances	789,975	680,023	283,428

Other	23,704	29,504	34,715
Total interest expense	5,887,553	5,689,276	5,277,206
NET INTEREST INCOME	7,558,733	7,353,958	6,978,970
Provision for loan losses	360,000	395,000	230,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,198,733	6,958,958	6,748,970
Noninterest income			
Service charges and fees	484,521	429,349	291,903
Net gains on loan sales	394,762	219,935	21,307
Receivable financing fees	327,161	123,363	-
Other	251,687	326,783	370,130
Total noninterest income	1,458,131	1,099,430	683,340
Noninterest expense			
Salaries and employee benefits	2,557,625	2,516,696	2,865,591
Occupancy and equipment	1,000,482	989,213	886,080
FDIC insurance	22,047	9,925	125,619
Branch closing costs	-	546,614	-
Printing, postage and supplies	247,876	309,718	460,220
Professional and outside services	251,417	214,636	219,615
Other	1,093,866	1,279,826	1,127,433
Total noninterest expense	5,173,313	5,866,628	5,684,558
INCOME BEFORE INCOME TAX EXPENSE	3,483,551	2,191,760	1,747,752
Income tax expense	923,537	499,650	316,000
NET INCOME	$ 2,560,014	$ 1,692,110	$ 1,431,752
Per share information			
Basic earnings	$ 2.54	$ 1.72	$ 1.50
Diluted earnings	$ 2.53	$ 1.71	$ 1.49
Dividends declared	$ 1.47	$ 1.18	$ 1.03

</TABLE>

See accompanying notes to consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 1998, 1997and 1996

<TABLE>
<CAPTION>

	Common Stock and Paid In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income Net of Tax	Total Shareholders' Equity
<S>	<C>	<C>	<C>	<C>
BALANCE AT JANUARY 1, 1996	$ 12,439,407	$ 2,203,281		$ 14,642,688
Net income		1,431,752		1,431,752
Cash dividends declared, $1.03 per share		(978,958)		(978,958)
Issued 41,457 shares in payment of 5% stock dividend	1,153,324	(1,156,653)		(3,329)
Issued 11,852 shares under dividend reinvestment program	296,530			296,530
Issued 4,995 shares under stock option plans	107,144			107,144
Repurchase of 6 shares	(164)			(164)
BALANCE AT DECEMBER 31, 1996	13,996,241	1,499,422		15,495,663
Comprehensive income:				
Net income		1,692,110		1,692,110
Net change in unrealized gains on securities available for sale			$ 5,430	5,430
Tax effect			(1,846)	(1,846)
Total other comprehensive income			3,584	3,584

Total comprehensive income				1,695,694
Cash dividends declared, $1.18 per share		(1,171,442)		(1,171,442)
Issued 45,246 shares in payment of 5% stock dividend	1,368,669	(1,372,393)		(3,724)
Issued 14,839 shares under dividend reinvestment program	390,739			390,739
Issued 21,255 shares under stock option plans	476,212			476,212
BALANCE AT DECEMBER 31, 1997	16,231,861	647,697	3,584	16,883,142
COMPREHENSIVE INCOME:				
NET INCOME		2,560,014		2,560,014
NET CHANGE IN UNREALIZED GAINS ON SECURITIES AVAILABLE FOR SALE			211,418	211,418
TAX EFFECT			(71,883)	(71,883)
TOTAL OTHER COMPREHENSIVE INCOME			139,535	139,535
TOTAL COMPREHENSIVE INCOME				2,699,549
CASH DIVIDENDS DECLARED, $1.47 PER SHARE		(1,476,518)		(1,476,518)
ISSUED 47,779 SHARES IN PAYMENT OF 5% STOCK DIVIDEND	1,735,374	(1,739,676)		(4,302)
ISSUED 16,622 SHARES UNDER DIVIDEND REINVESTMENT PROGRAM	548,186			548,186
ISSUED 4,943 SHARES UNDER STOCK OPTION PLANS	122,357			122,357
REPURCHASE OF 29,997 SHARES	(1,112,312)			(1,112,312)
BALANCE AT DECEMBER 31, 1998	$ 17,525,466	$ (8,483)	$ 143,119	$ 17,660,102

</TABLE>

See financial notes to consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 1998, 1997 and 1996

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,560,014	$ 1,692,110	$ 1,431,752
Adjustments to reconcile net income to net cash from operating activities			
Provision for loan losses	360,000	395,000	230,000
Net gains on loan sales	(394,762)	(219,935)	(21,307)
Originations of loans held for sale	(16,139,058)	(11,069,099)	(4,164,440)
Proceeds from sales of loans held for sale	17,234,909	10,898,784	4,185,747
Depreciation, amortization and accretion	728,296	404,668	579,699
Net change in accrued interest receivable and other assets	(129,818)	488,214	(239,718)
Net change in accrued expenses and other liabilities	490,275	482,802	225,963
Net cash from operating activities	4,709,856	3,072,544	2,227,696
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of securities available for sale	(15,729,554)	(8,422,708)	-
Purchases of securities held to maturity	-	(4,454,227)	(6,433,248)
Proceeds from maturities of securities held to maturity	8,385,000	9,560,000	10,430,000
Proceeds from maturities of securities available for sale	7,000,000	-	-
Purchases of Federal Home Loan Bank stock	-	(128,900)	(825,900)
Net change in loans	(12,307,032)	(1,980,964)	(13,120,723)
Purchases of premises and equipment, net	(180,560)	344,157	(1,159,833)
Net cash from investing activities	(12,832,146)	(5,082,642)	(11,109,704)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in deposits	7,227,806	930,069	3,315,543
Net change in securities sold under agreements to repurchase	2,813,214	(1,450,402)	296,811
Net change in U.S. Treasury demand notes	(1,200,489)	1,811,518	381,977
Proceeds from Federal Home Loan Bank advances	10,500,000	7,000,000	10,000,000
Repayment of Federal Home Loan Bank advances	(12,000,000)	(4,000,000)	-
Dividends paid and fractional shares	(1,397,768)	(1,122,158)	(940,346)
Proceeds from sale of common stock	670,543	866,951	403,674
Repurchase of shares of common stock	(1,112,312)	-	(164)
Net cash from financing activities	5,500,994	4,035,978	13,457,495

Net change in cash and cash equivalents	(2,621,296)	2,025,880	4,575,487
Cash and cash equivalents, at beginning of year	15,176,724	13,150,844	8,575,357
CASH AND CASH EQUIVALENTS, AT END OF YEAR	$ 12,555,428	$ 15,176,724	$ 13,150,844
Cash paid during the year for			
Interest	$ 5,937,086	$ 5,624,266	$ 5,448,854
Federal income taxes	740,000	469,250	286,455

</TABLE>

See accompanying notes to consolidated financial statements.

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998, 1997 and 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Commercial National Financial Corporation (the Corporation) and its wholly-owned subsidiary, Commercial Bank (the Bank) (together referred to as the Corporation), conform to generally accepted accounting principles 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 the Corporation, 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, INDUSTRY SEGMENTS AND CONCENTRATIONS OF CREDIT RISK The Corporation 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 offers a variety of deposit products, including checking, savings, money market, individual retirement accounts and certificates of deposit. While the Corporation's chief decision makers monitor the revenue stream of various Corporate products and services, operations are managed and financial performance is evaluated on a Corporation-wide basis. Accordingly, all of the Corporation's banking operations are considered by management to be aggregated into one operating segment.

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 seven offices located in Gratiot and Montcalm Counties in Michigan.

USE OF ESTIMATES To prepare financial statements in conformity with generally accepted accounting principles, 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 and fair values of securities and other financial instruments 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. Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with net unrealized holding gains and losses reported in other comprehensive income and shareholder equity net of tax. Trading securities are bought principally for sale in the near term, and are reported at fair value with unrealized gains and losses included in earnings. Securities are written down to fair value when a decline in fair value is not temporary.

Gains and losses on sales are determined using the amortized cost of the specific security sold. Interest and dividend income, adjusted by amortization of purchase premiums and discounts, is included in 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.

LOANS RECEIVABLE Loans receivable 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 payments are past due over 90 days, unless the loan is both well secured and in the process of collection. Payments received on such loans are reported as principal reductions.

ALLOWANCE FOR LOAN LOSSES The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Estimating the risk of loss and the amount of loss on any loan is necessarily subjective. Accordingly, management estimates the allowance balance required based on past loan loss experience, known and inherent risks in 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. A problem loan is charged-off by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage and consumer loans and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

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 10 to 40 years for buildings and improvements, and 3 to 10 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 both purchased rights and 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 groupings of the underlying loans as to interest rates and then, secondarily, as to geographic and prepayment characteristics. Any impairment of a grouping is reported as a valuation allowance.

Excess servicing receivable is reported when a loan sale results in servicing in excess of normal amounts and is expensed over the life of the servicing on the interest method.

OTHER REAL ESTATE OWNED Real estate properties acquired in collection of a loan receivable are recorded at fair value at acquisition. Any reduction to fair value from the carrying value of the related loan is accounted for as a loan loss. After acquisition, a valuation allowance reduces the reported amount to the lower of the initial amount or fair value less costs to sell. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported in other expense. Other real estate owned amounted to $0 and $0 at December 31, 1998 and 1997, respectively.

GOODWILL AND IDENTIFIED INTANGIBLES Goodwill is the excess of purchase price over identified net assets in business acquisitions. Goodwill is expensed on the straight-line method over no more than 25 years. Identified intangibles represent the value of depositor relationships purchased and are expensed on accelerated methods over 10 years.

Goodwill and identified intangibles are assessed for impairment based on estimated undiscounted cash flows, and written down if necessary. Goodwill and identified intangibles amounted to $0 and $25,841 at December 31, 1998 and 1997, respectively.

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 cover substantially all employees. The plan allows participant compensation deferrals. The amount of any Corporation matching contribution is based solely on the discretion of the board of directors. Historically, the Corporation has matched up to 6% of such deferrals at 100%.

Expense for employee compensation under stock option plans is reported only if options are granted below market price at grant date. Proforma disclosures of net income and earnings per share are provided as if the option's fair value had been recorded using an option pricing model.

INCOME TAXES Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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. Earnings and dividends per common share are restated for all stock splits and stock dividends, including the 5% stock dividends paid in November 1998, 1997 and 1996.

STOCK DIVIDENDS Dividends issued in stock are reported by transferring the market value of the stock issued from retained earnings to common stock and additional paid-in capital. Fractional shares are paid in cash for all stock dividends.

COMPREHENSIVE INCOME Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes the net change in unrealized appreciation (depreciation) on securities available for sale, net of tax, which is also recognized as a separate component of shareholders' equity. The accounting standard that requires reporting comprehensive income first applies for 1998, with prior information restated to be comparable.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK The Corporation, in the normal course of business, makes commitments to make loans, which are not recorded in the financial statements.

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 does not include the value of anticipated future business or values of assets and liabilities not considered financial instruments.

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

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTES 2 - SECURITIES

The amortized cost and fair value of securities identified as available for sale are as follows:

<TABLE>
<CAPTION>

DECEMBER 31, 1998

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
U.S. TREASURIES	$ 1,007,974	$ 4,839	$ -	$ 1,012,813
U.S. GOVERNMENT AGENCIES	12,654,920	160,049		12,814,969
STATE AND MUNICIPALS	2,529,666	42,339		2,572,005
CORPORATE	902,441	9,621		912,062
TOTAL	$ 17,095,001	$ 216,848	$ -	$ 17,311,849

</TABLE>

<TABLE>
<CAPTION>

December 31, 1997

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<S>	<C>	<C>	<C>	<C>
U.S. Treasuries	$ 1,995,580	$ 3,482	$ -	$ 1,999,062
U.S. Government agencies	5,029,062	7,902	(2,519)	5,034,445
State and municipals	-	-	-	-
Corporate	999,321	-	(4,729)	994,592
Other securities	406,956	1,294	-	408,250
Total	$ 8,430,919	$ 12,678	$ (7,248)	$ 8,436,349

</TABLE>

The amortized cost and fair value of securities identified as held to maturity are as follows:
<TABLE>
<CAPTION>

DECEMBER 31, 1998

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
U.S. GOVERNMENT AGENCIES	$ 1,000,125	$ 875	$ -	$ 1,001,000
STATE AND MUNICIPALS	11,017,308	491,692	-	11,509,000
CORPORATE	-	-	-	-
TOTAL	$ 12,017,433	$ 492,567	$ -	$ 12,510,000

<CAPTION>

December 31, 1997

U.S. Treasuries	$ 3,980,642	$ 15,358	$ -	$ 3,996,000
U.S. Government agencies	2,015,945	777	(9,722)	2,007,000
State and municipals	12,417,335	463,665	-	12,881,000
Other securities	1,969,524	-	(6,524)	1,963,000
Total	$ 20,383,446	$ 479,800	$ (16,246)	$ 20,847,000

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

The amortized cost and fair value of debt securities at year-end 1998, by contractual maturity are shown below.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,955,173	$ 4,983,156	$ 2,613,914	$ 2,635,000
Due from one to five years	11,389,768	11,560,324	5,471,831	5,693,000
Due from five to ten years	750,060	768,369	3,836,688	4,079,000
Due after ten years	-	-	95,000	103,000
Total	$ 17,095,001	$ 17,311,849	$ 12,017,433	$ 12,510,000

There were no sales of securities during 1998, 1997 and 1996.

In addition to Federal Home Loan Bank (FHLB) stock, securities having an amortized cost of approximately $18,400,000 and $15,198,000 at year end 1998 and 1997 were pledged to secure FHLB advances, public deposits, securities sold under agreements to repurchase and U.S. Treasury demand notes.

Except as indicated, total securities of any state (including all its political subdivisions) were less than 10% of shareholders' equity. At year-end 1998 and 1997, the amortized cost of securities issued by the state of Michigan and all its political subdivisions totaled $9,892,000 and $9,546,000 with an estimated market value of $10,350,000 and $9,933,000, respectively.

NOTE 3 - LOANS RECEIVABLE

Year-end loans receivable are as follows:

	1998	1997
Real estate		
Secured by single family residential properties	$42,988,361	$ 35,144,378
Secured by non-farm nonresidential properties	41,199,791	40,745,864
Secured by farmland	4,796,595	4,740,489
Secured by multi-family residential properties	5,607,091	5,509,556
Construction and land development	11,126,942	5,864,433
Consumer		
Installment loans	11,482,473	15,172,025
Credit card and related plans	-	734,634

Commercial	18,668,354	16,610,078
Gross loans receivable	135,869,607	124,521,457
Allowance for loan losses	(2,343,976)	(2,063,668)
Net loans receivable	$133,525,631	$122,457,789

Loans held for sale, included in real estate secured by single family residential properties, were $809,000 and $390,000 at year-end 1998 and 1997.

Certain directors and executive officers of the Corporation, including associates of such persons, were loan customers of the Corporation during 1998 and 1997. A summary of aggregate related party loan activity for loans aggregating $60,000 or more to any related party is as follows:

	1998	1997
Balance at beginning of year	$ 4,149,000	$ 3,998,000
New loans	11,578,000	12,859,000
Repayments	(11,361,000)	(12,725,000)
Other changes, net	(188,000)	17,000
Balance at end of year	$ 4,178,000	$ 4,149,000

Other changes include adjustments for persons included in one reporting period that are not reported in the other reporting period.

Activity in the allowance for loan losses was as follows:

	1998	1997	1996
Beginning balance	$ 2,063,668	$ 1,824,080	$ 1,668,555
Loan charge-offs	(171,467)	(278,129)	(175,051)
Loan recoveries	91,775	122,717	100,576
Net loan charge-offs	(79,692)	(155,412)	(74,475)
Provision for loan losses	360,000	395,000	230,000
Ending balance	$ 2,343,976	$ 2,063,668	$ 1,824,080

Impaired loans were as follows:

	1998	1997
Year-end loans with allowance for loan losses allocated	$ 54,694	$ --
Year-end loans with no allowance for loan losses allocated	--	--

Total impaired loans	$ 54,694	$ --
Amount of the allowance allocated	$ --	$ --
Average balance of impaired loans during the year	50,640	60,580
Interest income recognized during impairment	2,115	2,542
Cash-basis interest income recognized	--	5,574

</TABLE>

At year-end 1998 and 1997, there were no nonaccrual loans.

NOTE 5 - LOAN SERVICE

Mortgage loans serviced for others are not reported as assets. These loans totaled $36,156,000 and $31,689,000 at year-end 1998 and 1997. Related escrow deposit balances were approximately $(7,000) and $(20,000) at year-end 1998 and 1997.

NOTE 6 - PREMISES AND EQUIPMENT, NET

Year-end premises and equipment consist of:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Land	$ 310,689	$ 310,689
Buildings and improvements	2,937,780	2,889,651
Equipment	3,310,811	3,455,082
Total cost	6,559,280	6,655,422
Less accumulated depreciation	(3,769,279)	(3,466,679)
Net premises and equipment	$ 2,790,001	$ 3,188,743

</TABLE>

Depreciation expense was $578,045, $514,474 and $431,784 in 1998, 1997 and 1996, respectively.

NOTE 7 - DEPOSITS

At year-end 1998, stated maturities of time deposits were as follows, for the years ending December 31:
<TABLE>

<S>	<C>
1999	$ 40,148,258
2000	10,511,320
2001	3,129,121
2002	1,591,076
2003	1,252,103
Thereafter	249,438
Total time deposits	$ 56,881,316

</TABLE>

Time deposits in denominations of $100,000 or more were $12,871,000 and $13,930,000 at year-end 1998 and 1997.

At year-end 1998, stated maturities of time deposits in denominations of $100,000 or more were as follows:
<TABLE>

<S>	<C>
In 3 months or less	$ 6,580,000
Over 3 through 6 months	2,375,000

Over 6 through 12 months	2,643,000
Over 12 months	1,273,000
Total deposits > $100,000	$ 12,871,000

</TABLE>

Related party deposits were $1,716,000 and $1,522,000 at year-end 1998 and 1997.

NOTE 8 - BORROWINGS

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Amount outstanding at year-end	$ 6,965,058	$ 4,151,844
Weighted average interest rate at year-end	4.55%	5.29%
Average daily balance during the year	$ 5,842,000	$ 5,777,000
Weighted average interest rate during the year	5.07%	5.28%
Maximum month end balance during the year	$ 7,244,000	$ 8,987,000

</TABLE>

FEDERAL HOME LOAN BANK ADVANCES

Federal Home Loan Bank (FHLB) advances totaled $11,500,000 at year-end 1998. A majority of the advances have fixed interest rates ranging from 5.04% to 6.66%. The advance with a variable rate is based on the FHLB overnight discount rate plus 30 basis points.

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-to-4 family mortgage loans and U.S. Government agency securities with a carrying value of approximately $42,681,000 at year-end 1998.

At year-end 1998, scheduled principal reductions on these advances were as follows for the years ending December 31:
<TABLE>

<S>	<C>
1999	$ 4,000,000
2000	4,000,000
2001	1,000,000
2002	-
2003	1,500,000
Thereafter	1,000,000
Total FHLB advances	$ 11,500,000

</TABLE>

NOTE 9 - EMPLOYEE BENEFITS

401(K) PLAN The Corporation maintains a 401(k) salary reduction plan under which participants may make deferrals up to 15% of compensation. The Corporation's annual contribution to the plan is based solely on the discretion of the Corporation's board of directors. Historically, the Corporation has matched 100% of the elective deferrals on the first 6% of the participant's compensation. Employee and employer contributions are vested immediately. The plan covers substantially all employees of the Corporation.

Contributions attributable to the plan were approximately $88,000, $72,000 and $92,000 in 1998, 1997 and 1996. Expense related to the plan was approximately $86,000, $51,000 and $113,000 in 1998, 1997 and 1996.

STOCK OPTION PLANS SFAS No. 123, Accounting for Stock-Based Compensation, which became effective for 1996, requires proforma disclosures for companies that do not adopt its fair value accounting method for stock-based employee compensation. Accordingly, the following proforma information presents net income and basic and diluted earnings per share had the fair value method been used to measure compensation cost for stock option plans. The exercise price of options granted is equivalent to the market value of underlying stock at the grant date. Accordingly, no compensation cost was actually recognized for stock options in 1998, 1997 and 1996.

The fair value of options granted during 1998, 1997 and 1996 is estimated using the following weighted-average information: risk-free interest rate of 4.52%, 6.00% and 6.15%, respectively, expected life of 5.4, 4.0 and 3.9 years, respectively, expected dividends of 4.0% per year, and nominal expected stock price volatility.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Net income as reported	$ 2,560,014	$ 1,692,110	$ 1,431,752
Proforma net income	2,528,496	1,674,677	1,420,533
Basic earnings per share as reported	$ 2.54	$ 1.72	$ 1.50
Proforma basic earnings per share	2.51	1.70	1.49
Diluted earnings per share as reported	2.53	1.71	1.49
Proforma diluted earnings per share	2.50	1.70	1.48

</TABLE>

In future years, the proforma effect of not applying this standard is expected to increase as additional options are granted.

Stock option plans are used to reward employees and provide them with an additional equity interest. Options are issued for 2 and 7 year periods, with 100% vesting occurring six months after grant date. At year-end 1998, 54,201 shares were authorized for future grants. Information about option grants follows.

<TABLE>
<CAPTION>

<S>	Number of Options <C>	Weighted Average Exercise Price <C>
Outstanding, beginning of 1996	25,013	$ 18.87
Granted	12,380	24.19
Exercised	(5,773)	18.55
Forfeited	(243)	20.56
Outstanding, end of 1996	31,376	21.02
Granted	10,697	24.94
Exercised	(23,248)	20.48
Forfeited	(846)	22.78
OUTSTANDING, END OF 1997	17,979	24.11
GRANTED	9,928	36.49
EXERCISED	(4,943)	24.75
OUTSTANDING, END OF 1998	22,964	$ 29.37

</TABLE>

The weighted-average fair value of options granted in 1998, 1997 and 1996 was $3.17, $1.63 and $1.92, respectively. At year end 1998, options outstanding had a weighted-average remaining life of 5.2 years and a range of exercise price from $20.56 to $36.49.

Options exerciseable at year-end are as follows.
<TABLE>
<CAPTION>

Number of Options	Weighted Average Exercise Price

1996	18,996	$ 18.96
1997	17,979	24.11
1998	22,964	29.37

COMMERCIAL NATIONAL FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE 10-FEDERAL INCOME TAXES

Income tax expense consists of:

	1998	1997	1996
Current	$1,029,420	$ 512,496	$ 326,000
Deferred	(105,883)	(12,846)	(10,000)
	$ 923,537	$ 499,650	$ 316,000

Income tax expense calculated at the statutory federal income tax rate of 34% differs from actual income tax expense as follows:

	1998	1997	1996
Statutory rates	$1,184,000	$ 745,000	$ 594,000
Increase (decrease) from			
Tax-exempt interest income	(257,000)	(262,000)	(299,000)
Goodwill amortization	9,000	14,000	14,000
Other, net	(12,463)	2,650	7,000
	$ 923,537	$ 499,650	$ 316,000

Year-end deferred tax assets and liabilities consist of:

	1998	1997
Allowance for loan losses	$ 421,000	$ 326,000
Accumulated depreciation	(225,000)	(276,000)
Mortgage servicing rights	(51,000)	(17,000)
Net unrealized gain on securities available for sale	(73,729)	(1,846)
Other	3,729	9,846
	75,000	41,000
Valuation allowance	--	--
Net deferred tax asset	$ 75,000	$ 41,000

NOTE 11 - EARNINGS PER SHARE

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

	1998	1997	1996
<S>	<C>	<C>	<C>
BASIC EARNINGS PER SHARE:			
Net income available to common shareholders	$2,560,014	$1,692,110	$1,431,752
Weighted-average common shares outstanding for basic earnings per share	1,007,811	985,954	955,659
BASIC EARNINGS PER SHARE	$ 2.54	$ 1.72	$ 1.50

	1998	1997	1996
DILUTED EARNINGS PER SHARE:			
Net income available to common shareholders	$2,560,014	$1,692,110	$1,431,752
Weighted-average common shares outstanding for basic earnings per share	1,007,811	985,954	955,659
Add:			
Dilutive effect of assumed exercise of stock options	5,000	1,293	2,045
Weighted-average common and dilutive additional potential common shares outstanding	1,012,811	987,247	957,704
Diluted earnings per share	$ 2.53	$ 1.71	$ 1.49

</TABLE>

NOTE 12 - 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 consolidated financial condition or results of operations.

CASH RESERVE AND CLEARING BALANCES

At year-end 1998 and 1997, cash reserve and clearing balance requirements of $1,191,000 and $1,127,000 were required as deposits with the Federal Reserve or as cash on hand. These balances do not earn interest.

LEASES

The Corporation leases certain branch facilities under lease agreements expiring through 2018, with optional renewal periods through 2028. During 1997 and 1996, two of the leases were with a related party. Both of the related party leases were terminated during 1997 in conjunction with the closing of two branches. Rental expense on all leases totaled $16,000, $84,000 and $32,000 in 1998, 1997 and 1996, including $0 in 1998, $68,000 in 1997 and $16,000 in 1996 paid to the related party. Included in the 1997 expense to the related party were costs of $60,000 related to the termination of the leases. As of year-end 1998, there were no significant future rental commitments.

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. The Corporation's exposure to credit loss in the event of non-performance by the other party to financial instruments for commitments to make loans, unused lines of credit and standby letters of credit is represented by the contractual amount of those instruments. 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 below do 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 year-end are as follows:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Commitments to extend credit	$ 21,683,000	$ 21,769,000
Standby letters of credit	850,000	815,000
Total commitments	$ 22,533,000	$ 22,584,000

</TABLE>

NOTE 13 - FAIR VALUES ON FINANCIALS INSTRUMENTS

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

- Carrying amount is considered to estimate fair value for cash and cash equivalents, Federal Home Loan Bank (FHLB) stock, demand and savings deposits, securities sold under agreements to repurchase, U.S. Treasury demand notes, and variable rate loans or deposits that reprice frequently and fully.
- Securities fair values are based on quoted market prices or, if no quotes are available, on the rate and term of the security and on information about the issuer.
- Fixed rate loans and deposits, and variable rate loans and deposits with infrequent repricing or repricing limits fair value, is 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 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, 1998 and 1997, 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, 1998 and 1997 should not necessarily be considered to apply at subsequent dates.

In addition, other assets and liabilities that are not defined as financial instruments are not included in the following disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in financial statements may have value but are not included in the following disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill and similar items.

Financial instruments at year-end are as follows, in thousands:
<TABLE>
<CAPTION>

	1998		1997	
	CARRYING VALUE	FAIR VALUE	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	$ 12,555	$ 12,555	$ 15,177	$ 15,177
Securities	29,329	29,822	28,820	29,283
FHLB stock	1,391	1,391	1,391	1,391
Loans, net of allowance	133,526	133,774	122,458	122,613
Total financial assets	$ 176,801	$ 177,542	$ 167,846	$ 168,464
FINANCIAL LIABILITIES				
Demand and savings deposits	$ (84,293)	$ (84,293)	$ (74,702)	$ (74,702)
Time deposits	(56,881)	(57,577)	(59,245)	(59,414)
Securities sold under agreements to repurchase	(6,965)	(6,965)	(4,152)	(4,152)
U.S. Treasury demand notes	(1,553)	(1,553)	(2,753)	(2,753)
Federal Home Loan Bank advances	(11,500)	(11,248)	(13,000)	(12,968)
Total financial liabilities	$ (161,192)	$ (161,636)	$ (153,852)	$ (153,989)

</TABLE>

NOTE 14 - REGULATORY MATTER

The Corporation and Bank are 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 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 Corporation and Bank were categorized as well capitalized at year-end 1998 and 1997.

Actual capital levels (in millions) and minimum required levels were:
<TABLE>
<CAPTION>

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
1998	Amount	Ratio	Amount	Ratio	Amount	Ratio
TOTAL CAPITAL (TO RISK WEIGHTED ASSETS)						
CONSOLIDATED	$ 19.1	14.3%	$ 10.7	8.0%	$ 13.4	10.0%
BANK	16.2	12.1	10.7	8.0	13.4	10.0
TIER 1 CAPITAL (TO RISK WEIGHTED ASSETS)						
CONSOLIDATED	17.4	13.0	5.4	4.0	8.0	6.0
BANK	14.6	10.9	5.3	4.0	8.0	6.0
TIER 1 CAPITAL (TO AVERAGE ASSETS)						
CONSOLIDATED	17.4	9.9	7.0	4.0	8.8	5.0

BANK	14.6	8.3	7.0	4.0	8.7	5.0
1997						
Total capital (to risk weighted assets)						
Consolidated	$ 18.4	14.7%	$ 10.0	8.0%	$ 12.5	10.0%
Bank	16.3	13.1	10.0	8.0	12.5	10.0
Tier 1 capital (to risk weighted assets)						
Consolidated	16.9	13.5	5.0	4.0	7.5	6.0
Bank	14.8	11.8	5.0	4.0	7.5	6.0
Tier 1 capital (to average assets)						
Consolidated	16.9	10.3	6.6	4.0	8.2	5.0
Bank	14.8	8.6	6.8	4.0	8.6	5.0

</TABLE>

NOTE 15- PARENT CORPORATION CONDENSED

The Corporation's primary source of funds to pay dividends to shareholders is the dividends it receives from the Bank. The Bank is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval. Accordingly, in 1999, the Bank may distribute to the Corporation, in addition to 1999 net profits, approximately $2,167,000 in dividends without prior approval from regulatory agencies.

Following are condensed parent corporation financial statements.

<TABLE>
<CAPTION>

CONDENSED BALANCE SHEETS
December 31,

<S>	1998 <C>	1997 <C>
ASSETS		
Cash	$ 2,013,394	$ 2,338,746
Securities available for sale	1,226,341	-
Investment in subsidiary	14,770,125	14,814,179
Other	48,196	45,119
Total assets	$ 18,058,056	$17,198,044
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 397,954	$ 314,902
Shareholders' equity	17,660,102	16,883,142
Total liabilities and shareholders' equity	$ 18,058,056	$17,198,044

</TABLE>

CONDENSED STATEMENTS OF INCOME
Years ended December 31,

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Dividends from subsidiary	$ 2,730,000	$ 1,199,460	$ 1,059,300
Interest on securities	36,495	3,334	12,019
Other income	500	--	--
Total income	2,766,995	1,202,794	1,071,319
Other expense	45,722	71,865	18,538
Income before income taxes and equity in undistributed net income of subsidiary	2,721,273	1,130,929	1,052,781
Income tax benefit	9,000	17,350	--

Equity in undistributed (excess distribution) net income of subsidiary	(170,259)	543,831	378,971
NET INCOME	$ 2,560,014	$ 1,692,110	$ 1,431,752

</TABLE>

CONDENSED STATEMENTS OF CASH FLOWS
Years ended December 31,

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,560,014	$ 1,692,110	$ 1,431,752
Adjustment:			
Equity in (undistributed net income)/excess distribution of subsidiary	170,259	(543,831)	(378,971)
Amortization	10,350		
Change in other assets	(9,943)	378,045	(358,283)
Net cash from operating activities	2,730,680	1,526,324	694,498
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of securities available for sale	(1,216,495)		
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends and fractional shares paid	(1,397,768)	(1,122,158)	(940,346)
Sale of common stock	670,543	866,951	403,674
Repurchase of common stock	(1,112,312)	--	(164)
Net cash from financing activities	(3,056,032)	(255,207)	(536,836)
Net change in cash and cash equivalents	(325,352)	1,271,117	157,662
Cash and cash equivalents at the beginning of year	2,338,746	1,067,629	909,967
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,013,394	$ 2,338,746	$ 1,067,629

</TABLE>

NOTE 16 - DIVIDEND REINVESTMENT PLAN

The Corporation established a Dividend Reinvestment Plan for its shareholders in 1992. The Plan permits the issuance of previously authorized and unissued shares. As of December 31, 1998 7,574 shares of authorized but unissued common stock were reserved for Plan requirements.

NOTE 17 - STOCK REPURCHASE PLAN

The Corporation announced a stock repurchase plan in 1998. The Plan permits the repurchase of up to 52,500 shares of the Corporation's outstanding shares of common stock. As of December 31, 1998 the Corporation had repurchased 29,997 shares, in accordance with the program.

NOTE 18 - IMPACT OF NEW ACCOUNTING STANDARDS

Beginning January 1, 2000 a new accounting standard will require all derivatives to be recorded at fair value. Unless designated as hedges, changes in these fair values will be recorded in the income statement. Fair value changes involving hedges will generally be recorded by offsetting gains and losses on the hedge and on the hedged item, even if the fair value of the hedged item is not otherwise recorded. This is not expected to have a material effect but the effect will depend on derivative holdings when this standard applies.

Mortgage loans originated in mortgage banking are converted into securities on occasion. A new accounting standard for 1999 will allow classifying these securities as available for sale, trading, or held to maturity, instead of the current requirement to classify as trading. This is not expected to have a material effect but the effect will vary depending on the level and designation of securitizations as well as on market price movements.

COMMON STOCK INFORMATION

Commercial National Financial Corporation common stock is listed on the NASD Over the Counter Bulletin Board under the symbol CEFC. Several brokers provide a market for the stock. There were approximately 630 shareholders of record and 994,331 common shares outstanding at December 31, 1998.

Management is aware of 56 sales involving a total of 111,875 shares of stock during 1998. The price was reported to management for only some of these transactions. All prices have been adjusted for the 5% stock dividends issued in November 1998 and November 1997.

During 1998 and 1997 the price ranges of transactions reported were:

	Shares Traded	Actual Price Range	
1998		Low	High
FIRST QUARTER	27,597	$28.57	$36.19
SECOND QUARTER	25,600	33.33	37.85
THIRD QUARTER	27,708	34.76	37.14
FOURTH QUARTER	30,970	35.23	38.50
1997			
First Quarter	25,578	$22.91	$26.31
Second Quarter	11,687	23.58	27.90
Third Quarter	12,458	26.98	28.34
Fourth Quarter	3,717	25.85	30.48

DIVIDEND INFORMATION

The holders of Commercial National Financial Corporation common stock are entitled to dividends when, and if, declared by the Board of Directors of the Corporation out of funds legally available for that purpose. The Board of Directors does not declare dividends based on any predetermined dividend policy but has paid regular quarterly cash dividends for the past nine years.

The following table sets forth the dividends per share declared during 1998 and 1997. The dividends per share have been adjusted for the 5% stock dividends issued in November 1998 and November 1997.

	1998	1997
First Quarter	$ .34	$.27
Second Quarter	.35	.30
Third Quarter	.38	.30
Fourth Quarter	.40	.31
Total dividend per share	$1.47	$1.18

EXECUTIVE OFFICERS

Jeffrey S. Barker	President and Chief Executive Officer
Patrick G. Duffy	Vice President and Chief Financial Officer

BOARD OF DIRECTORS

Howard D. Poindexter	Chairperson of the Board, Manager of Poindexter Farms
Richard F. Abbott	Vice Chairperson of the Board, Retired EVP of the Corporation and Bank
Jefferson P. Arnold	Attorney, Arnold Law Office
Jeffrey S. Barker	President and CEO of the Corporation and Bank
Don J. Dewey	President and Funeral Director, Dewey Funeral Homes, Inc.
David A. Ferguson	Member, Chodoka LLC
Kenneth R. Luneack	President, Ken Luneack Construction, Inc.
Kim C. Newson	President, Alma Hardware Corporation
Scott E. Sheldon	Owner, Kernen-Sheldon, Shepherd and LaDu-Brundage Insurance Agencies
Russell M. Simmet	President, Simmet Insurance Agency, Inc.

COMMERCIAL BANK OFFICERS

Scott E. Sheldon	Chairperson of the Board
Howard D. Poindexter	Vice Chairperson of the Board
Jeffrey S. Barker	President and Chief Executive Officer
Patrick G. Duffy	Vice President and Chief Financial Officer
Daniel E. Raleigh	Vice President - Marketing and Branch Administration
Andrew P. Shafley	Vice President - Senior Loan Officer
Kevin D. Collison	Vice President - Commercial Lending-Ithaca
Thomas D. Cooper	Vice President - Commercial Lending-Middleton
Sheryl L. Allen	Assistant Vice President - Human Resources
Corey S. Bailey	Assistant Vice President - Consumer Lending-Alma
Janet M. Davison	Assistant Vice President - Manager/Information Systems
Donna L. Kelley	Assistant Vice President - Branch Supervisor-St. Louis
Wendy M. Lombard	Assistant Vice President - Mortgage Lending
Vicki L. Nelson	Assistant Vice President - Mortgage Lending
Karen M. Taylor	Assistant Vice President - Mortgage Lending
Carol L. Vallance	Assistant Vice President - Customer Relations
Kathryn K. Greening	Loan Officer
Dawn K. Riley	Loan Officer
Rebecca A. Smith	Administrative Assistant - Transfer Agent

</TABLE>

[PICTURES]

[Scott Jeff and Howard]

[Duffy]

[PicturesRaleigh]

[Shafley]

[Lenders]

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COMMERCIAL BANK LOCATIONS

<S>	<C>	<C>	<C>	<C>	<C>
ALMA	ITHACA	POMPEII	GREENVILLE	ST. LOUIS	MIDDLETON
301 NORTH STATE ST.	101 N. PINE RIVER*	105 E. FULTON STREET	101 NORTH LAFAYETTE STREET*	104 N. MILL STREET*	101 NORTH NEWTON STREET*
Ph. (517) 463-2185	Ph. (517) 875-4144	Ph. (517) 838-2525	Ph. (616) 754-7166	Ph. (517) 681-5738	Ph. (517) 236-7236
Fax (517) 463-5996	Fax (517) 875-4534		Fax (616) 754-2118	Fax (517) 681-3509	Fax (517) 236-7732
119 WEST CENTER*					
Ph. (517) 463-3120					
1500 WRIGHT AVENUE*					
Ph. (517) 463-3901					

</TABLE>

* Denotes Bank locations with ATMs on site.

DIVIDEND REINVESTMENT PLAN

As a service to its shareholders, Commercial National Financial Corporation sponsors a Dividend Reinvestment Plan. The Plan allows a shareholder to purchase this stock without brokerage commissions using dividends. For information about this plan, contact the Corporation's Transfer Agent.

TRANSFER AGENT

Commercial National Financial Corporation
Care of Mrs. Rebecca A. Smith
101 North Pine River, P.O. Box 280
Ithaca, Michigan 48847

CORPORATE HEADQUARTERS

101 North Pine River
Ithaca, Michigan 48847
Phone (517) 875-4144
Fax (517) 875-4534

10-K AVAILABILITY

Commercial National's Annual report on Form 10-K is available upon written request without charge from:

Commercial National Financial Corporation,
Care of Mr. Patrick G. Duffy, Vice President and Chief Financial Officer,
101 North Pine River, P.O. Box 280
Ithaca, Michigan 48847
Phone (517) 875-4144

<TABLE>
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Market Makers

<S>	<C>	<C>	<C>	<C>
WILLIAM KAHL	MICHAEL T. SEEKELL	PETER VANDERSCHAAF	CHRISTOPHER TURNER	JAMES CRAWFORD
Everen Securities	Robert W. Baird & Co.	Stifel, Nicolaus & Co.	McDonald & Co.	Roney & Co.

East Lansing, MI	Grand Rapids, MI	Grand Rapids, MI	Grand Rapids, MI	Flint, MI
1-800-292-1960	1-800-888-6200	1-800-676-0477	1-800-548-6011	1-800-521-9767

</TABLE>

[LOGO]

[COMMERCIAL NATIONAL FINANCIAL CORPORATION LETTERHEAD]

EXHIBIT 23

[CROWE CHIZEK LOGO]

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference and use of our report dated February 4, 1999, which appears in Commercial National Financial Corporation's annual report on Form 10-K for 1998, in that corporation's previously filed registration statements, as amended, for that corporation's 1989 Stock Option Plan (Registration No. 33-30392), Dividend Reinvestment Plan (Registration No. 33-30239), and 1991 Stock Option Plan (Registration No. 33-39772 and 33-92666).

/s/ Crowe, Chizek and Company
Crowe, Chizek and Company LLP

March 19, 1999
South Bend, Indiana

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