

FIRST NATIONAL BANCORP, INC.

A BANK HOLDING COMPANY FOR



PROXY STATEMENT ANNUAL MEETING OF SHAREHOLDERS OF FIRST NATIONAL BANCORP, INC.

May 14, 2009

FIRST NATIONAL BANCORP, INC., a Michigan bank holding company is submitting this Proxy Statement to its shareholders (the "*Shareholders*") in connection with the solicitation of proxies by the Board of Directors of First National Bancorp, Inc. (the "*Board*") for use at the 2009 Annual Meeting of Shareholders to be held at the offices of First National Bank of Michigan at 2700 W. Centre Avenue, Portage, Michigan 49024, at 5:00 p.m. eastern standard time, on May 14, 2009, and at any adjournments or postponements thereof (the "*Annual Meeting*").

As indicated in the accompanying letter to the Shareholders and Notice of the Annual Meeting, the Shareholders will be asked to consider and vote upon the following proposals (collectively, the "*Proposals*"):

1. Election of Clarence J. Batts, Eric V. Brown, Jr., James J. DeKruyter, John M. Dunn, James S. Gunderson, David L. Holmes, Benjamin T. Ipema, Larry D. Lueth, Sondra K. Phillips, John M. Schreuder, Michael N. Seelye, Daniel R. Smith and Joshua T. Weiner as the members of the First National Bancorp, Inc. Board of Directors for one year until their successors are elected and qualified or upon their earlier resignation or removal;
2. To ratify the appointment of Plante & Moran, LLP, Certified Public Accountants, as independent public accountants for First National Bancorp, Inc.;
3. To adopt the 2009 Stock Option and Restricted Stock Plan and authorize and reserve for issuance thereunder 100,000 shares of the Corporation's Common Stock; and
4. To transact such other business as may properly become before the meeting or any adjournments thereof.

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The foregoing introductory information concerning the Proposals provides only a very brief overview. While this overview may be useful to you as you review the more detailed information in the remainder of this Proxy Statement, you should not rely exclusively upon this overview. Instead, you should carefully review this entire Proxy Statement and the attached Annex.

GENERAL INFORMATION

Attending in person

Only the Shareholders, their proxy holders and First National Bancorp, Inc. guests may attend the Annual Meeting.

Who may vote

The Shareholders of First National Bancorp, Inc., as recorded in our stock register on April 13, 2009 (the "*Record Date*"), may vote at the Annual Meeting. As of both the Record Date and the date of this Proxy Statement, First National Bancorp, Inc. had 1,790,100 issued and outstanding shares. Each such share is entitled to one vote on each of the matters presented for shareholder action at the Annual Meeting.

How to vote

You may either vote in person at the Annual Meeting or by proxy. We recommend you vote by proxy even if you plan to attend the Annual Meeting. You can always change your vote at the Annual Meeting.

How proxies work

Your proxy covers all shares registered in your name. By properly executing and returning your proxy, your shares will be voted at the Annual Meeting according to your instructions unless you revoke the proxy prior to or at the Annual Meeting. You may vote for all, some or none of the director candidates and you may vote for, against or abstain from voting on the other proposals.

If you return your proxy without voting instructions, your shares will be voted FOR the election of the director nominees. If you return a properly executed proxy, the persons named as proxy holders will have discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting.

To ensure your proxy is received prior to the Annual Meeting, please return it no later than May 11, 2009. If your proxy is not received prior to the Annual Meeting, your shares will not be voted at the Annual Meeting unless they are voted in person at the Annual Meeting.

Revoking a proxy

The grant of a proxy on the enclosed form of proxy does not preclude you from voting in person or otherwise revoking a proxy. Attendance at the Annual Meeting will not, in and of itself, constitute revocation of a proxy. You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date;
- notifying First National Bancorp, Inc.'s Secretary in writing before the Annual Meeting; or
- voting in person at the Annual Meeting.

Quorum

In order to carry on the business of the Annual Meeting, we must have a quorum. This means at least a majority of the outstanding shares of First National Bancorp, Inc. eligible to vote at the Annual Meeting must be represented at the Annual Meeting by proxy or in person.

Votes needed

The 13 director candidates who receive the most votes will be elected to fill the 13 seats on the Board. Approval of the other proposals requires the favorable vote of a majority of the votes cast. Only votes for or against a proposal count. Abstentions count for quorum purposes but not for voting purposes.

As of the date of this Proxy Statement, directors and officers of First National Bancorp, Inc. and their affiliates were not the beneficial owners of greater than a majority of the outstanding shares.

BUSINESS

First National Bancorp, Inc. is a Michigan bank holding company that was incorporated on July 7, 2005 to organize and serve as the holding company for First National Bank of Michigan (the "*Bank*"), a national bank with branches located at 348 West Michigan Avenue, Kalamazoo, Michigan 49007 and 2700 W. Centre Ave., Portage, Michigan 49024. First National Bancorp, Inc. received approval from the Federal Reserve Board to become a bank holding company and acquired all of the stock of the Bank. The Bank received regulatory approval to open from the Office of the Comptroller of the Currency and for deposit insurance with the Federal Deposit Insurance Corporation. The Bank focuses on the local community, emphasizing personal service to individuals and businesses in Kalamazoo County, Michigan.

The Bank offers convenient service, local decision-making and competitively priced deposit and loan products in its primary service area. By focusing its operations on the communities it serves, the Bank should be able to respond to changes in the market more quickly than large non-local institutions.

PROPOSAL 1 - ELECTION OF DIRECTORS

First National Bancorp, Inc.'s Board of Directors currently consists of 13 members who serve one-year terms. Therefore, all 13 seats are reelected each year. The 13 director nominees listed below, all of whom are current directors of First National Bancorp, Inc., were nominated by the Board to fill the 13 Board seats for the upcoming year. Biographical information on each of the nominees is given below. All director nominees have indicated their willingness to serve on the Board if elected. If, prior to the Annual Meeting, a director nominee determines that he or she will be unable to serve on the Board for the upcoming year, your proxy authorizes the proxy holders to vote your shares for a replacement nominee if one is selected.

CLARENCE J. BATTS. Mr. Batts, a certified public accountant, is Controller and Manager of Tax and Special Services for AZO Services, Inc., a management and accounting firm based in Kalamazoo, Michigan. AZO Services, Inc. leases employees and provides executive management for the Balkema group of companies. The Balkema group of companies are involved in real estate development and construction, aggregate production and sales, and waste disposal industries in Michigan and Indiana. Mr. Batts has worked for AZO or its affiliates since 1976, and prior thereto was with Beene, Garter & Orchard, CPA's from 1971 to 1976.

ERIC V. BROWN, JR. Mr. Brown is senior counsel to the law firm of Miller, Canfield, Paddock and Stone, P.L.C. Mr. Brown is a broad-based business counselor whose practice focuses on mergers and acquisitions, business combinations, joint ventures, corporate governance and corporate finance. He has served as an advisor and counselor in a substantial number of business transactions for both private and public companies as well as the organization of the Bank, First National Bancorp, Inc. and a venture capital firm. He served on the boards of two other banks and bank holding companies in Michigan for a period in excess of 20 years. He is a member of the board of directors of Kalamazoo Holdings, Inc., a spice, herb, hop and vegetable extraction company. He also is a member of the board of directors of Lafourche Realty Company, Inc., an oil and gas and real estate company. He has been active in the Business Law Section of the American Bar Association for the last 15 years, including participation as a regular member of the Mergers and Acquisitions Committee. As such, he was on the editorial board of a task force which published a Model Stock Purchase Agreement, with commentary, in 1995, and published a Model Asset Purchase Agreement, with commentary, in 2000. He has also been active with a task force which has published a Model Joint Venture Agreement. He is listed in the Corporate, Mergers & Acquisitions, and Securities Law Sections of the 2003-04, 2005-06, 2007-08 and 2009-2010 editions of The Best Lawyers in America.

JAMES J. DEKRUYTER. Now retired, Mr. DeKruyter founded Michigan Disposal Service Corporation in Kalamazoo, Michigan, which he operated until it was sold in 1993. His widespread knowledge of the Kalamazoo market and substantial business contacts will provide an active source of business for the Bank. He has served many volunteer organizations in Kalamazoo, including the Kalamazoo YMCA and the national board of Youth for Christ. He has served on the boards of Gull Lake Ministries, Open Hearts Ministries and Youth for Christ Foundation. Mr. DeKruyter also served as director of Michigan National Bank - Kalamazoo

JOHN M. DUNN. In July 2007, John M. Dunn was named president of Western Michigan University in Kalamazoo. Prior to his appointment, Dr. Dunn held administrative, research and

teaching, appointments at Southern Illinois University Carbondale, the University of Utah, Oregon State University and the University of Connecticut. Dr. Dunn is internationally recognized for his efforts to enhance the lives of individuals with disabilities, specifically their long-term health. He has been invited to speak throughout the United States and several international countries. In recognition of his efforts, Dunn has received numerous awards for his scholarship, teaching, and leadership and has held offices in several professional organizations. In addition to his professional responsibilities, Dunn is an active participant in state and community efforts that focus on quality-of-life issues and enhancing economic development. Dunn serves on several regional boards as well as the governing boards of the Greater Kalamazoo Area United Way, the internationally acclaimed Gilmore Keyboard Festival, First National Bank of Michigan and Southwest Michigan First. Dr. Dunn, who began his teaching at the University of Connecticut in 1972, earned bachelor's and master's degrees from Northern Illinois University in 1967 and 1969, respectively. He earned his doctoral degree from Brigham Young University in 1972.

JAMES S. GUNDERSON. Mr. Gunderson was the Founder and President of Engineered Packaging Systems (sold to Alco Standard in 1996). Currently, he serves on the Board of Bronson Healthcare Group (past Chairman) in Kalamazoo, Michigan. Mr. Gunderson has served numerous community organizations, including Kalamazoo County Chamber of Commerce (past Chairman) and the Kalamazoo County Chamber Foundation. Mr. Gunderson's business experience and knowledge of the Kalamazoo business environment will be valuable resources for the Bank.

DAVID L. HOLMES. Mr. Holmes is a Principal and General Counsel of Phoenix Properties, L.L.C., a real estate management and development firm with approximately 85 employees headquartered in Kalamazoo, Michigan. Prior to 1995, Mr. Holmes was in private practice as a Partner in the Kalamazoo, Michigan office of Howard & Howard Attorneys, P.C. Through these professional endeavors, Mr. Holmes has gained valuable expertise that will be of benefit to the Bank and the community it will serve. Mr. Holmes has also been an active community volunteer, including having served as President of the LIFT Foundation, a non-profit corporation providing housing to low income families, and as Chairperson of the United Way Pacesetter Campaign; he is Vice chairman of the Finance Council at St. Catherine of Siena Parish.

BENJAMIN T. IPEMA. Mr. Ipema is an owner and officer of Secant Technologies, Inc., which provides information technology hardware and software to diverse industries; and President of QuikWall, a subsidiary of Job Management, which provides convention exhibit design and construction services. Mr. Ipema's diverse experience provides a unique and valuable resource for the Bank. Mr. Ipema has served many charitable and civic organizations in Kalamazoo, including Kalamazoo Deacons Conference, Southern Heights Church Council, Kalamazoo Christian Schools and various organizations dedicated to education, poverty and housing.

LARRY D. LUETH. Until December 2005, Mr. Lueth served as Regional President for the Kalamazoo Region for National City Bank. He also was the Manager of Corporate Banking for Southwest Michigan. Prior to that Mr. Lueth served as Senior Vice President, Manager of

Corporate Banking for Southwest Michigan for National City Bank and he held the same title for First of America Bank Corporation in Kalamazoo until it merged with National City Corporation in 1998. Mr. Lueth had worked his entire working career for First of America Bank. Mr. Lueth has served many civic organizations including past chair and current board member of Greater Kalamazoo United Way, vice chair of Borgess Health, secretary and current board member of KVCC Foundation, past chair and current board member of Kalamazoo Community in Schools, board member of Downtown Tomorrow, Inc. and board member of WMU Alumni Association.

SONDRA K. PHILLIPS. Sondra K. Phillips is the sole owner of SKP Design, a firm that she founded in 1996. SKP Design offers interior design and architectural services in the Midwest. Sondra graduated from the University of Michigan in 1989. Prior to starting SKP Design, Sondra held positions with Tilton and Lewis in Chicago, Eckert-Wordell Architects and First of America Bank in Kalamazoo. Community activities include serving on the board of the Kalamazoo Institute of Arts and serves on the Executive Committee. Sondra was recently was a recipient of the Kalamazoo Chapter of the National Association of Women in Construction Crystal Vision Award. This award is given to women that are visionaries who help promote, expand and encourage the role of women in the construction industry. She was also recognized in the Business Review's Leaders Under 40 in 2006. Sondra's passion for marketing, her small business perspective and community connections as a lifelong resident make her an asset to First National Bank of Michigan Board.

JOHN M. SCHREUDER. Until January 2005, Mr. Schreuder served as the President of the Mid Michigan and Southwest Michigan Regions for National City Bank. He also served as President of First of America Bank - Michigan, N.A. from 1990 to 1998. His extensive banking experience demonstrates his considerable qualifications to serve as Chairman & CEO of the Bank. Mr. Schreuder is currently on the Board of Heritage Community of Kalamazoo as well as the State Chamber of Commerce. Mr. Schreuder has also served many civic organizations, including the Kalamazoo United Way, Western Michigan University Foundation, Michigan Bankers Association and the Gilmore Keyboard Festival, headquartered in Kalamazoo, Michigan.

MICHAEL N. SEELYE. Mr. Mike Seelye is President and sole owner of Don Seelye Ford, Inc., Seelye-Wright KIA West Main and VP and partner in several other regional automotive dealerships. His day to day activities involve managing real estate operations including commercial, residential home building and several local residential developments. Mike has served and chaired the American Heart Association Board, Kalamazoo Symphony Board, American Cancer Board Chair, Big Brothers/Sisters Chair and Capital Campaign Co-Chair, United Way Board and Campaign Chair as well as many other charitable organizations in the Kalamazoo Community.

DANIEL R. SMITH. Mr. Smith was the Chairman and Chief Executive Officer of First of America Bank Corporation, headquartered in Kalamazoo, Michigan from 1985 to 1996, prior to its acquisition by National City Corporation. He is a Past Chairman of American Bankers Association and the Michigan Bankers Association. He also served as a member of the Board of Directors of the Federal Reserve Bank of Chicago, Detroit Branch. Mr. Smith's 40 years of banking experience will be an invaluable resource to the Bank with regard to loan and deposit

generation, public relations and operational activities. Mr. Smith has served numerous charitable and civic organizations in Kalamazoo.

JOSHUA T. WEINER. Mr. Weiner is the Chief Executive Officer of the Meyer C. Weiner Company, a commercial real estate development firm headquartered in Portage, Michigan. Mr. Weiner is the principal in over 55 income producing real estate entities and his primary business interest is in ownership and management for long term asset appreciation. Mr. Weiner's historical experience has provided him with in depth knowledge of a variety of industries and this background provides the Bank with an extremely valuable resource. Mr. Weiner's familiarity with the Kalamazoo market and the region is another asset for the Bank. Mr. Weiner has extensive experience in the banking industry from prior developmental and regional board positions with National City Bank and Irwin Union Bank and Trust. Mr. Weiner has served numerous charitable and civic causes and organizations including the Kalamazoo Regional Chamber of Commerce, Western Michigan University Foundation, the United Way, the Jewish Federation of Southwest Michigan, Big Brothers/Big Sisters, Kalamazoo Civic Theatre and Farmers Alley Theatre.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS,
VOTE "FOR" THE ELECTION OF THE NOMINEES.**

**PROPOSAL 2 – RATIFICATION OF PLANTE & MORAN, LLP
AS INDEPENDENT PUBLIC ACCOUNTANTS**

At its meeting on February 12, 2009, the Board of Directors of First National Bancorp, Inc. appointed Plante & Moran, LLP, Certified Public Accountants, as independent public accountants for the holding company for the upcoming year.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS
VOTE "FOR" THE RATIFICATION OF PLANTE & MORAN, LLP
AS INDEPENDENT PUBLIC ACCOUNTANTS.**

**PROPOSAL 3 – ADOPTION OF THE 2009 STOCK OPTION AND
RESTRICTED STOCK PLAN AND RESERVATION FOR ISSUANCE THEREUNDER
100,000 SHARES OF THE CORPORATION'S COMMON STOCK**

At its meeting on February 12, 2009, the Board of Directors of First National Bancorp, Inc. adopted the 2009 Stock Option and Restricted Stock Plan (the "*2009 Stock Plan*"), under which 100,000 shares of the corporation's Common Stock would be authorized and reserved for issuance to participants. The Directors reviewed the 2009 Stock Plan and found the terms and conditions of the plan to be fair, reasonable and in the best interests of the Corporation and the Shareholders.

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS
VOTE "FOR" THE ADOPTION OF 2009 STOCK PLAN AND AUTHORIZE
THE RESERVATION OF 100,000 SHARES OF THE CORPORATION'S
COMMON STOCK FOR THE PLAN.**

OTHER MATTERS

The Shareholders of First National Bancorp, Inc. will also consider and vote upon such other matters as may properly be brought before the Annual Meeting or any adjournments or postponements thereof. We do not have any knowledge of any other matters to be presented at the Annual Meeting.

BENEFICIAL* STOCK OWNERSHIP

The following table sets forth information as of April 13, 2009 regarding each person (including any group as that term is defined in Section 13(d)(3) of the Securities Exchange Act of 1934) who was known to be the beneficial (the right to vote shares) owner of more than 5% of First National Bancorp, Inc.'s common stock as of that date, each of the directors (including each nominee for election as a director), each of our executive officers, and all directors and executive officers as a group.

Name of Beneficial Owner	Common Stock	Rights to Acquire ⁽¹⁾	Restricted Stock	Approximate Percent of Common Stock ⁽²⁾
AZO Services, Inc.	111,050	0	0	6.20
Clarence J. Batts	5,200	0	0	0.29
Eric V. Brown, Jr.	20,000	0	0	1.12
James J. DeKnyter	66,050	0	0	3.69
John M. Dunn	100	0	0	0.01
James S. Gundersen	30,000	0	0	1.68
David L. Holmes	20,000	0	0	1.12
Benjamin T. Ipema	30,000	0	0	1.68
Larry D. Lueth	10,000	36,000	0	0.56
Sondra K. Phillips	500	0	0	0.03
John M. Schreuder	40,000	68,000	0	2.22
Michael N. Seelye	25,000	0	0	1.40
Daniel R. Smith	30,000	0	0	1.68
Joshua T. Weiner	100,000	0	0	5.59
Michael F. Dimond	5,000	15,500	0	0.28

* "Beneficial" for the purposes of this table means the right to vote shares of First National Bancorp, Inc.

⁽¹⁾ The numbers in the "Rights to Acquire" column represent the shares that may be acquired by exercise of stock options granted under the First National Bancorp, Inc. 2006 Stock Option and Restricted Stock Plan. These numbers are not reflected in the "Approximate Percent of Common Stock" column.

⁽²⁾ Based on 1,790,100 shares issued and outstanding as of April 13, 2009.

EXECUTIVE OFFICERS

First National Bancorp, Inc.'s current executive officers are as follows:

Name	Position with First National Bancorp, Inc.	Officer Since
John M. Schreuder	Chairman/CEO and President	March 23, 2006
Larry D. Lueth	Vice President	March 23, 2006
Michael F. Dimond	Secretary	April 12, 2007
Michael P. Dimond	Treasurer/CFO	March 23, 2006

FINANCIAL INFORMATION

The Profit and Loss Statement of First National Bancorp, Inc. for fiscal year 2008 and the Balance Sheet as of December 31, 2008 is attached hereto in Annex A.

MISCELLANEOUS

Solicitation of Proxies

First National Bancorp, Inc. will bear the cost of the solicitation of proxies from Shareholders, including the cost of printing and mailing this Proxy Statement and the accompanying materials. In addition to solicitation by mail, proxies may be solicited in person, or by telephone, facsimile or otherwise in writing or electronic transmission, by directors, officers and regular employees of First National Bancorp, Inc. (none of whom will be paid any additional compensation for such services).

Interests of Certain Persons in the Proposals

You should note that that certain directors and members of management may have certain interests in the Proposals in addition to their interests as Shareholders of First National Bancorp, Inc. The Board was aware of any such interests and considered them, among other matters, in approving the Proposals and in recommending Shareholder approval of the Proposals.

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ANNEX A

First National Bancorp, Inc. and Subsidiary

Consolidated Financial Report
December 31, 2008

First National Bancorp, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Directors
First National Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of First National Bancorp, Inc. and Subsidiary as of December 31, 2008 and 2007 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 consolidated financial position of First National Bancorp, Inc. and Subsidiary at December 31, 2008 and 2007 and the consolidated results of their operations, changes in stockholders' equity, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 19, 2009

First National Bancorp, Inc. and Subsidiary

Consolidated Balance Sheet

	December 31, 2008	December 31, 2007
Assets		
Cash and cash equivalents	\$ 2,159,411	\$ 1,533,181
Investment securities - Available for sale (Note 2)	5,135,474	7,850,245
Other securities (Note 2)	801,800	526,000
Loans - Net of allowance for loan losses of \$968,000 and \$659,000 in 2008 and 2007, respectively (Note 3)	86,544,002	52,164,324
Premises and equipment (Note 4)	645,778	457,183
Accrued interest receivable and late fees	293,403	292,020
Deferred tax asset (Note 7)	470,571	300,000
Other assets	77,694	127,997
Total assets	\$ 96,128,133	\$ 63,250,950
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 5):		
Noninterest-bearing	\$ 12,781,711	\$ 8,678,120
Interest-bearing	60,580,664	34,151,281
Total deposits	73,362,375	42,829,401
Borrowings (Note 6)	5,333,702	3,000,000
Accrued interest payable	136,996	89,863
Accrued and other liabilities	46,966	249,838
Total liabilities	78,880,039	46,169,102
Stockholders' Equity		
Common stock - No par value:		
Authorized - 2,500,000 shares		
Issued and outstanding - 1,800,100 and 1,800,000 shares at December 31, 2008 and 2007, respectively	17,967,903	17,966,903
Additional paid-in capital	296,129	133,993
Accumulated deficit	(1,053,654)	(1,064,929)
Accumulated other comprehensive income	37,716	45,881
Total stockholders' equity	17,248,094	17,081,848
Total liabilities and stockholders' equity	\$ 96,128,133	\$ 63,250,950

First National Bancorp, Inc. and Subsidiary

Consolidated Statement of Operations

	Year Ended	
	December 31, 2008	December 31, 2007
Interest Income		
Loans - Including fees	\$ 4,190,574	\$ 2,767,023
Debt securities - Taxable	340,192	545,767
Dividends	37,686	29,784
Other	14,139	190,260
Total interest income	4,582,591	3,532,834
Interest Expense	1,649,382	1,279,649
Net Interest Income	2,933,209	2,253,185
Provision for Loan Losses (Note 3)	540,483	398,300
Net Interest Income After Provision for Loan Losses	2,392,726	1,854,885
Noninterest Income		
Service charges and fees	107,574	60,924
Net gain on sale of loans	44,627	50,275
Other	40,028	16,755
Total noninterest income	192,229	127,954
Noninterest Expenses		
Salaries and employee benefits	1,763,669	1,512,307
Occupancy and equipment (Note 4)	212,662	189,130
Data processing	192,194	169,032
Professional fees	167,450	128,609
Other	427,705	371,508
Total noninterest expenses	2,763,680	2,370,586
Loss - Before income taxes	(178,725)	(387,747)
Income Tax Benefit (Note 7)	(190,000)	(300,000)
Net Income (Loss)	<u>\$ 11,275</u>	<u>\$ (87,747)</u>

First National Bancorp, Inc. and Subsidiary

Consolidated Statement of Changes in Stockholders' Equity

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance - January 1, 2007	1,800,000	\$ 17,966,903	\$ 26,827	\$ (977,182)	\$ 10,052	\$ 17,026,600
Comprehensive income (loss):						
Net loss	-	-	-	(87,747)	-	(87,747)
Changes in unrealized gain on securities	-	-	-	-	35,829	35,829
Total comprehensive loss						(51,918)
Stock-based compensation	-	-	107,166	-	-	107,166
Balance - December 31, 2007	1,800,000	17,966,903	133,993	(1,064,929)	45,881	17,081,848
Comprehensive income (loss):						
Net income	-	-	-	11,275	-	11,275
Changes in unrealized gain on securities	-	-	-	-	11,264	11,264
To record accumulated income tax effect	-	-	-	-	(19,429)	(19,429)
Total comprehensive income						3,110
Issuance - Common voting	100	1,000	-	-	-	1,000
Stock-based compensation	-	-	162,136	-	-	162,136
Balance - December 31, 2008	1,800,100	\$ 17,967,903	\$ 296,129	\$ (1,053,654)	\$ 37,716	\$ 17,248,094

See Notes to Consolidated Financial Statements.

First National Bancorp, Inc. and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2008	December 31, 2007
Cash Flows from Operating Activities		
Net income (loss)	\$ 11,275	\$ (87,747)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation	115,523	105,548
Provision for loan losses	540,483	398,300
Accretion and amortization of securities	(13,203)	(45,168)
Stock-based compensation expense	162,136	107,166
Gain on sale of mortgages	(44,627)	(50,275)
Loans originated for sale	(3,132,625)	(4,237,961)
Proceeds from loan sales	3,177,821	4,288,367
Net change in:		
Accrued interest receivable	(1,383)	(50,455)
Other assets	(139,697)	(408,159)
Accrued interest payable	47,133	71,318
Accrued liabilities	(202,872)	215,382
Net cash provided by operating activities	519,964	306,316
Cash Flows from Investing Activities		
Purchase of other securities	(275,800)	(41,100)
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	7,381,685	9,363,903
Purchases	(4,642,447)	(5,970,446)
Net increase in loans	(34,920,730)	(35,531,327)
Additions to premises and equipment	(304,118)	(5,663)
Net cash used in investing activities	(32,761,410)	(32,184,633)
Cash Flows from Financing Activities		
Net increase in deposits	30,532,974	27,121,535
Proceeds from issuance of common stock	1,000	-
Net change in other borrowings	2,333,702	3,000,000
Net cash provided by financing activities	32,867,676	30,121,535
Net Increase (Decrease) in Cash and Cash Equivalents	626,230	(1,756,782)
Cash and Cash Equivalents - Beginning of year	1,533,181	3,289,963
Cash and Cash Equivalents - End of year	<u>\$ 2,159,411</u>	<u>\$ 1,533,181</u>
Supplemental Cash Flow Information - Cash paid for interest	<u>\$ 1,602,249</u>	<u>\$ 1,208,331</u>

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note I - Nature of Business and Significant Accounting Policies

Basis of Presentation and Consolidation - The consolidated financial statements include the accounts of First National Bancorp, Inc. (the "Corporation") and its wholly owned subsidiary, First National Bank of Michigan (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates - In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the fair market value of available-for-sale securities, and the valuation allowance for deferred tax assets.

Nature of Operations - The Corporation provides a variety of financial services to individuals and small businesses through its branch location and main office in Kalamazoo, Michigan. Its primary deposit products are savings and term certificate accounts and its primary lending products are commercial and consumer loans.

Cash and Cash Equivalents - For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold which mature within 90 days.

Securities - Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Loans Held for Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans - The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout southwestern Michigan. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

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

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income. As of December 31, 2008 and 2007, unrealized gains on available-for-sale securities totaled \$57,145 and \$45,881, respectively.

Off-balance-sheet Instruments - In the ordinary course of business, the Corporation has entered into commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Banking Premises and Equipment - The Bank operates out of leased facilities. Leasehold improvements and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Income Taxes - Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. A valuation allowance is recorded against the net deferred tax asset based on the Corporation's estimates of taxable income and the period over which its deferred tax assets will be recoverable. If it is determined by the Corporation that it is more likely than not that future taxable income will not be sufficient to realize such tax benefits, a valuation allowance is recorded against the net deferred tax asset.

New Accounting Pronouncement - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 were effective for financial assets and liabilities for the year ended December 31, 2008. The Corporation adopted the disclosure requirements of SFAS 157 for the year ended December 31, 2008.

Note 2 - Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, are as follows:

	2008			Estimated Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. government and federal agency	\$ 3,298,758	\$ 29,187	\$ -	\$ 3,327,945
Collateralized mortgage obligations	1,137,358	11,294	-	1,148,652
State and municipal	642,213	16,664	-	658,877
Total available-for- sale securities	<u>\$ 5,078,329</u>	<u>\$ 57,145</u>	<u>\$ -</u>	<u>\$ 5,135,474</u>

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 2 - Securities (Continued)

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government and federal agency	\$ 3,794,106	\$ 34,236	\$ (1,417)	\$ 3,826,925
Collateralized mortgage obligations	2,237,405	9,771	-	2,247,176
State and municipal	1,772,853	3,859	(568)	1,776,144
Total available-for- sale securities	<u>\$ 7,804,364</u>	<u>\$ 47,866</u>	<u>\$ (1,985)</u>	<u>\$ 7,850,245</u>

At December 31, 2008 and 2007, securities with a carrying value of \$5,135,474 and \$6,508,947, respectively, were pledged to secure borrowing public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2008 follow:

	Available for Sale	
	Amortized Cost	Market Value
Due in one year or less	\$ 2,999,576	\$ 3,030,897
Due in one through five years	1,080,142	1,100,827
Due after five years through ten years	998,611	1,003,750
Total	<u>\$ 5,078,329</u>	<u>\$ 5,135,474</u>

There are no securities with unrealized losses over 12 consecutive months at either December 31, 2008 or 2007. Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

Other securities, totaling \$801,800 and \$526,000 at December 31, 2008 and 2007, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 3 - Loans

A summary of the balances of loans is as follows:

	<u>2008</u>	<u>2007</u>
Mortgage loans on real estate:		
Residential 1-4 family	\$ 4,529,000	\$ 2,691,089
Commercial	40,906,150	28,667,291
Construction	1,495,735	1,089,707
Equity lines of credit	10,196,530	5,046,030
Total mortgage loans on real estate	57,127,415	37,494,117
Commercial loans	29,110,998	14,483,827
Consumer installment loans	1,220,743	785,380
Total loans	87,459,156	52,763,324
Less allowances for loan losses	(968,000)	(659,000)
Plus net deferred loan costs	52,846	60,000
Net loans	<u>\$ 86,544,002</u>	<u>\$ 52,164,324</u>

An analysis of the allowance for loan losses is as follows:

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	\$ 659,000	\$ 260,700
Provision for loan losses	540,483	398,300
Loans charged off	(231,483)	-
Balance at end of year	<u>\$ 968,000</u>	<u>\$ 659,000</u>

There is one loan totaling \$552,000 that was placed on nonaccrual status during July 2008 and is considered impaired as of December 31, 2008. There is a reserve of approximately \$55,000 recorded on this loan and there has been no interest income recognized on the loan while on nonaccrual. There were no loans considered impaired or on non accrual as of December 31, 2007.

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to \$6,589,731 and \$7,230,357 at December 31, 2008 and 2007, respectively.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 4 - Bank Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	2008	2007
Leasehold improvements	\$ 409,465	\$ 228,744
Furniture, fixtures, and equipment	530,868	407,471
Total cost	940,333	636,215
Accumulated depreciation	(294,555)	(179,032)
Net bank premises and equipment	\$ 645,778	\$ 457,183

Depreciation expense for the years ended December 31, 2008 and 2007 amounted to \$115,523 and \$105,548, respectively.

In November 2008, the Bank entered into a lease with a company in which a director is a part owner for a new branch location. The lease calls for monthly payments of \$10,259 for the next 15 years and is renewable for two additional five-year terms. The Bank's main facility is also a leased facility, however, not with a related party. Total rent expense for the years ended December 31, 2008 and 2007 amounted to \$86,867 and \$70,513, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2008 and 2007 pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

	Related Party Lease for New Location	Other Lease Agreements
2009	\$ 123,114	\$ 76,511
2010	123,114	77,287
2011	123,114	22,451
2012	123,114	332
2013	123,114	-
Thereafter	1,231,137	-
Total	\$ 1,846,707	\$ 176,581

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 5 - Deposits

The following is a summary of the distribution of deposits at December 31:

	<u>2008</u>	<u>2007</u>
Noninterest-bearing deposits	\$ 12,781,711	\$ 8,678,120
NOW accounts	3,598,057	2,065,789
Savings and money market accounts	18,756,245	9,885,802
Time:		
Under \$100,000	2,652,184	2,082,796
\$100,000 and over	<u>35,574,178</u>	<u>20,116,894</u>
Total	<u>\$ 73,362,375</u>	<u>\$ 42,829,401</u>

At December 31, 2008, the scheduled maturities of time deposits are as follows:

2009	\$ 21,474,141
2010	7,524,292
2011	5,780,855
2012	3,436,990
2013	-
Thereafter	<u>10,084</u>
Total	<u>\$ 38,226,362</u>

Note 6 - Borrowings

In 2007, the Bank had a formula-based credit facility with the Federal Reserve Bank to meet its short-term borrowing needs. The amount outstanding at December 31, 2007 was \$3,000,000 at an interest rate of 4.75 percent. The interest rate is variable at the Federal Reserve discount rate and has terms up to 30 days. There was no amount outstanding at December 31, 2008 and the unused portion of the facility was \$23,193,300. Collateral on the borrowing arrangement consists of commercial, commercial real estate, and consumer loans with a book value of \$29,665,478.

In 2007, the Bank had a secured fed-funds line of credit at a correspondent bank with available borrowings of up to \$5,000,000 to meet its short-term borrowing needs. The amount outstanding at December 31, 2007 was \$0. At December 31, 2007, collateral on the borrowing arrangement consists of investment securities with a value of \$6,508,000. In 2008, the Bank reduced the availability of the secured fed-funds line of credit at this correspondent bank to \$3,500,000.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 6 - Borrowings (Continued)

The amount outstanding at December 31, 2008 was \$2,333,702 at an interest rate of 0.26 percent and the unused portion of the facility was \$1,166,298. At December 31, 2008, collateral on the borrowing arrangement consists of investment securities with a value of \$5,136,000.

The Bank has three advances from the Federal Home Loan Bank. Interest rates range from 2.39 percent to 4.13 percent. Interest is payable monthly. The advances are collateralized by approximately \$6,651,500 of mortgage loans as of December 31, 2008 under a blanket collateral agreement.

The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank. Future obligations of the advances are as follows at December 31, 2008:

2009	\$	-
2010		-
2011		2,000,000
2012		-
2013		<u>1,000,000</u>
Total	\$	<u>3,000,000</u>

Note 7 - Income Taxes

The Corporation has net operating loss carryforwards of approximately \$100,000 generated from inception through December 31, 2008 that are available to reduce future taxable income through the years ending December 31, 2025.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 7 - Income Taxes (Continued)

The components of the net deferred tax assets, included in other assets, are as follows:

	2008	2007
Deferred tax assets:		
Allowance for loan losses	\$ 280,000	\$ 200,000
Net deferred loan fees	18,000	20,000
Deferred compensation	102,000	47,000
Start-up costs	98,000	106,000
Other	-	4,000
Net operating loss	33,000	100,000
Total deferred tax assets	<u>531,000</u>	<u>477,000</u>
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	19,429	15,600
Other	41,000	14,400
Total deferred tax liabilities	<u>60,429</u>	<u>30,000</u>
Valuation allowance	-	(147,000)
Net deferred tax assets	<u>\$ 470,571</u>	<u>\$ 300,000</u>

Allocation of income taxes between current and deferred portions is as follows:

	2008	2007
Deferred income tax benefit	\$ 43,000	\$ 118,000
Change in valuation allowance	147,000	182,000
Total income tax benefit	<u>\$ 190,000</u>	<u>\$ 300,000</u>

The reasons for the differences between the income tax expense at the federal statutory income tax rate and the recorded income tax benefit are summarized as follows:

	2008	2007
Loss before income taxes	<u>\$ (178,725)</u>	<u>\$ (387,747)</u>
Income tax benefit at federal statutory rate of 34 percent	\$ (60,767)	\$ (131,834)
Increases resulting from nondeductible expenses and decreases from nontaxable income	17,767	13,834
Change in valuation allowance	<u>(147,000)</u>	<u>(182,000)</u>
Income tax benefit	<u>\$ (190,000)</u>	<u>\$ (300,000)</u>

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 8 - Off-balance-sheet Activities

Credit-related Financial Instruments - The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2008 and 2007, the following financial instruments, whose contract amounts represent credit risk, were outstanding:

	Contract Amount	
	2008	2007
Commitments to grant loans	\$ 12,000,000	\$ 10,020,000
Unfunded commitments under lines of credit	33,634,439	23,785,054
Commercial and standby letters of credit	2,268,726	533,119

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Corporation is committed.

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 8 - Off-balance-sheet Activities (Continued)

Collateral Requirements - To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

If the counterparty does not have the right and ability to redeem the collateral or the Corporation is permitted to sell or repledge the collateral on short notice, the Corporation records the collateral in its balance sheet at fair value with a corresponding obligation to return it.

Legal Contingencies - Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Corporation's consolidated financial statements.

Note 9 - Minimum Regulatory Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 9 - Minimum Regulatory Capital Requirements (Continued)

As of December 31, 2008, the most recent notification from the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2008 are presented in the table.

(000s omitted)	Actual		For Capital Adequacy Purposes		To be Well-capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Total capital to risk weighted assets	\$ 17,889	21.3 %	\$ 6,719	8.0 %	\$ 8,399	10.0 %
Tier I capital to risk weighted assets	16,921	20.1	3,360	4.0	5,039	6.0
Tier I capital to average assets	16,921	18.4	3,681	4.0	4,602	5.0
As of December 31, 2007						
Total capital to risk weighted assets	17,227	32.4	4,258	8.0	5,323	10.0
Tier I capital to risk weighted assets	16,568	31.1	2,129	4.0	3,194	6.0
Tier I capital to average assets	16,568	26.8	2,469	4.0	3,086	5.0

Note 10 - Stock Option Plan

On December 31, 2008, the Corporation has one share-based compensation plan, which is described below. The compensation cost that has been charged against income for those plans was \$162,136 and \$107,166 for 2008 and 2007, respectively. The total income tax benefit recognized in the consolidated statement of operations for share-based compensation arrangements was \$0 for 2008 and 2007.

The Corporation's 2006 stock option and restricted stock plan (the "Plan"), which is stockholder approved and monitored by the board, permits the grant of stock options to its employees for up to 150,000 shares of common stock. The Corporation believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Corporation's stock at the date of grant; those option awards generally vest over three years of continuous service.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 10 - Stock Option Plan (Continued)

The calculated value of each option award is estimated on the date of grant using a Black Scholes option valuation model that uses the weighted average assumptions noted in the following table. Expected volatilities are based on similar volatility of comparable de novo banks. The Corporation uses comparable de novo bank data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2008	2007
Expected volatility	30	20
Expected dividends	0	0
Expected term (in years)	10	10
Risk-free rate	2.64%	4.04%

A summary of option activity under the Plan for the year ended December 31, 2008 is presented below:

Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2008	111,300	\$ 10.00	9.4
Granted	37,000	10.00	10.0
Outstanding at December 31, 2008	<u>148,300</u>	10.00	8.6
Vested or expected to vest at December 31, 2008	<u>31,647</u>	10.00	7.6

The weighted average grant-date calculated value of options granted during 2008 and 2007 was \$4.49 and \$4.12, respectively.

As of December 31, 2008, there was approximately \$308,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized through December 31, 2011.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 11 - Restrictions on Dividends, Loans, and Advances

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation.

Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank in a calendar year exceed the sum of the net profits of the Bank for the preceding three years, less any required transfers to surplus. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards. At December 31, 2008, the Bank does not have retained earnings available for the payment of dividends. Accordingly, all of the Corporation's investment in the Bank was restricted at December 31, 2008.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's capital stock and surplus. Accordingly, at December 31, 2008, Bank funds available for loans or advances to the Corporation amounted to \$1,690,000.

Loans made by the Bank to any one customer are generally limited to 15 percent of unconsolidated bank equity. At December 31, 2008, this limits the loans made by the Bank to any one customer to \$2,685,000.

Note 12 - Fair Value Measurements

The following tables present information about the Corporation's assets and liabilities measured at fair value on a recurring basis at December 31, 2008 and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

First National Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2008 and 2007

Note 12 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at December 31, 2008				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2008
Assets - Investment securities -				
Available for sale	\$ 4,476,596	\$ -	\$ 658,877	\$ 5,135,474

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis	
	Investment Securities - Available for sale
Balance at December 31, 2007	\$ 1,776,144
Total unrealized gains included in other comprehensive income	13,373
Calls and maturities	(1,130,640)
Balance at December 31, 2008	<u>\$ 658,877</u>

Of the Level 3 assets that were still held by the Corporation at December 31, 2008, the unrealized gain for the year ended December 31, 2008 was \$13,373, which is recognized in other comprehensive income in the accompanying balance sheet. There were no realized losses recognized in the consolidated statement of operations related to securities sold during the period, as the decrease in Level 3 assets related to calls and maturities.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

Available-for-sale investment securities categorized as Level 3 assets primarily consist of bonds issued by local municipalities. The Corporation estimates the fair value of these bonds based on the present value of expected future cash flows using management's best estimate of key assumptions, including forecasted interest yield and payment rates, credit quality, and a discount rate commensurate with the current market and other risks involved.

There were no financial assets or liabilities measured at fair value on a nonrecurring basis in which losses were recognized.