FIRST NATIONAL BANCORP, INC.

A BANK HOLDING COMPANY FOR

FIRST NATIONAL BANK
of Michigan

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

May 13, 2010

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 2010 Annual Meeting of Shareholders to be held at the offices of First National Bank of Michigan at 348 West Michigan Avenue, Kalamazoo, Michigan 49007, at 5:00 p.m. on May 13, 2010, 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 Eric V. Brown, Jr., James J. DeKruyter, John M. Dunn, James S. Gunderson, David L. Holmes, Ben 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.; and

3. 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, 2010 (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 10, 2010. 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 12 director candidates who receive the most votes will be elected to fill the 12 seats on the Board. Approval of the other proposal 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 12 members who serve one-year terms. Therefore, all 12 seats are reelected each year. The 12 director nominees listed below, all of whom are current directors of First National Bancorp, Inc., were nominated by the Board to fill the 12 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.

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 internationally. 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 90 employees headquartered in Kalamazoo, Michigan. Prior to 1995, Mr. Holmes was in private practice as a Partner in the Kalamazoo office of Howard & Howard Attorneys, P.C. Through these professional endeavors, Mr. Holmes has expertise is of benefit to the Bank and the community it serves. Mr. Holmes has also been an active community volunteer, including having served on the City of Kalamazoo Planning Commission, as President of the LIFT Foundation, a non-profit corporation providing housing to low income families, and as Chairperson of the Greater Kalamazoo United Way Pacesetter Campaign. He is a member of the Finance Council at St. Catherine of Siena Parish.

BEN IPEMA. Mr. Ipema is President of QuikWall, a subsidiary of Job Management, which provides exhibit design, build and management services. Mr. Ipema is also involved in Airpower America, a local manufacturer of air powered consumer products, and Level Data, a software service company. 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. Seelye is President and owner of Don Seelye Ford, Inc. and Seelye-Wright KIA Stadium Drive 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, American Cancer Board, Big Brothers/Sisters Board and Capital Campaign Co-Chair, Greater Kalamazoo United Way Board and Campaign Chair, is a past member of the Kalamazoo Symphony Board and Adrian College Board of Trustees, as well as served in 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 March 11, 2010, 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.

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, 2010 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
Eric V. Brown, Jr.	20,000	0	0	1.12
James J. DeKruyter	66,050	0	0	3.69
John M. Dunn	10,100	0	0	0.56
James S. Gunderson	30,000	0	0	1.68
David L. Holmes	20,000	0	0	1.12
Ben Ipema	30,000	0	0	1.68
Larry D. Lueth	10,000	44,500	0	0.56
Sondra K. Phillips	500	0	0	0.03
John M. Schreuder	40,000	78,000	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	19,500	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 and 2009 Stock Option and Restricted Stock Plans. 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, 2010.

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. Luelli	Vice President	March 23, 2006
Michael F. Dimond	Secretary	April 12, 2007
Michael F. Dimond	Treasurer/CFO	March 23, 2006

FINANCIAL INFORMATION

The Profit and Loss Statement of First National Bancorp, Inc. for fiscal year 2009 and the Balance Sheet as of December 31, 2009 are 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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First National Bancorp, Inc. and Subsidiary

Consolidated Financial Report
December 31, 2009

ANNEX A

First National Bancorp, Inc. and Subsidiary

Contents

plante moran

Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

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, 2009 and 2008 and the related consolidated statements of operations, 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, 2009 and 2008 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 27, 2010

ANNEX A

First National Bancorp, Inc. and Subsidiary

Consolidated Balance Sheet

	December 31, 2009	December 31, 2008
Assets		
Cash and cash equivalents (Note 2)	$ 14,612,840	$ 2,159,411
Investment securities - Available for sale (Note 3)	25,416,698	5,135,474
Other securities (Note 3)	815,850	801,800
Loans - Net of allowance for loan losses of $1,926,665 and $968,000 in 2009 and 2008, respectively (Note 4)	117,013,743	86,544,002
Premises and equipment (Note 5)	521,566	645,778
Accrued interest receivable and late fees	615,791	293,403
Deferred tax asset (Note 8)	719,200	470,571
Other assets	1,541,953	77,694
Total assets	**$ 161,257,641**	**$ 96,128,133**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 6):		
Noninterest-bearing	$ 20,519,571	$ 12,781,711
Interest-bearing	117,447,027	60,580,664
Total deposits	137,966,598	73,362,375
Borrowings (Note 7)	5,000,000	5,333,702
Accrued interest payable	74,246	136,996
Accrued and other liabilities	35,173	46,966
Total liabilities	143,076,017	78,880,039
Stockholders' Equity (Notes 10, 11, and 12)		
Common stock - No par value: Authorized - 2,500,000 shares Issued and outstanding - 1,780,100 and 1,800,100 shares at December 31, 2009 and 2008, respectively	17,787,903	17,967,903
Additional paid-in capital	476,864	296,129
Accumulated deficit	(252,569)	(1,053,654)
Accumulated other comprehensive income	169,426	37,716
Total stockholders' equity	18,181,624	17,248,094
Total liabilities and stockholders' equity	**$ 161,257,641**	**$ 96,128,133**

See Notes to Consolidated Financial Statements.

Consolidated Statement of Stockholders' Equity

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance - January 1, 2008	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
Comprehensive income (loss):						
Net income	-	-	-	801,085	-	801,085
Changes in unrealized gain on securities	-	-	-	-	199,081	199,081
To record accumulated income tax effect	-	-	-	-	(67,371)	(67,371)
Total comprehensive income						932,795
Repurchase of 20,000 shares	(20,000)	(180,000)	-	-	-	(180,000)
Stock-based compensation	-	-	180,735	-	-	180,735
Balance - December 31, 2009	1,780,100	$ 17,787,903	$ 476,864	$ (252,569)	$ 169,426	$ 18,181,624

See Notes to Consolidated Financial Statements.

Consolidated Statement of Operations

	Year Ended December 31, 2009	Year Ended December 31, 2008
Interest Income		
Loans - Including fees	$ 6,047,347	$ 4,190,574
Debt securities:		
Taxable	590,460	340,192
Tax-exempt	101,556	-
Dividends	39,047	37,686
Other	45,353	14,139
Total interest income	6,823,763	4,582,591
Interest Expense	1,606,863	1,649,382
Net Interest Income	5,216,900	2,933,209
Provision for Loan Losses (Note 4)	975,000	540,483
Net Interest Income After Provision for Loan Losses	4,241,900	2,392,726
Noninterest Income		
Service charges and fees	243,139	107,574
Net gain on sale of loans	267,908	44,627
Other	40,865	40,028
Total noninterest income	551,912	192,229
Noninterest Expenses		
Salaries and employee benefits (Note 11)	2,062,606	1,763,669
Occupancy and equipment (Note 5)	412,778	212,662
Data processing	240,051	192,194
Professional fees	424,477	167,450
Other	476,815	427,705
Total noninterest expenses	3,616,727	2,763,680
Income (Loss) - Before income taxes	1,177,085	(178,725)
Income Tax Expense (Benefit) (Note 8)	376,000	(190,000)
Net Income	$ 801,085	$ 11,275

See Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	Year Ended December 31, 2009	Year Ended December 31, 2008
Cash Flows from Operating Activities		
Net income	$ 801,085	$ 11,275
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	162,823	115,523
Provision for loan losses	975,000	540,483
Accretion and amortization of securities	181,175	(13,203)
Deferred income taxes and change in valuation allowance	(316,000)	(190,000)
Stock-based compensation expense	180,735	162,136
Gain on sale of mortgages	(267,908)	(44,627)
Loans originated for sale	(19,548,913)	(3,132,625)
Proceeds from loan sales	17,031,148	3,177,821
Net change in:		
Accrued interest receivable	(322,388)	(1,383)
Other assets	(1,464,259)	50,303
Accrued interest payable	(62,750)	47,133
Accrued liabilities	(11,793)	(202,872)
Net cash (used in) provided by operating activities	(2,662,045)	519,964
Cash Flows from Investing Activities		
Purchase of other securities	(14,050)	(275,800)
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	9,811,511	7,381,685
Purchases	(30,074,829)	(4,642,447)
Net increase in loans	(28,659,068)	(34,920,730)
Additions to premises and equipment	(38,611)	(304,118)
Net cash used in investing activities	(48,975,047)	(32,761,410)
Cash Flows from Financing Activities		
Net increase in deposits	64,604,223	30,532,974
Proceeds from issuance of common stock	-	1,000
Repurchase of common stock	(180,000)	-
Net change in other borrowings	(333,702)	2,333,702
Net cash provided by financing activities	64,090,521	32,867,676
Net Increase in Cash and Cash Equivalents	12,453,429	626,230
Cash and Cash Equivalents - Beginning of year	2,159,411	1,533,181
Cash and Cash Equivalents - End of year	$ 14,612,840	$ 2,159,411
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 1,669,613	$ 1,602,249
Income taxes	700,000	-
Non-cash Activities - Loans transferred to other real estate	775,545	-

ANNEX A

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 1 - 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 and the fair market value of available-for-sale securities.

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.

Investment 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.

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.

ANNEX A

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.

Foreclosed Assets - Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of the foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

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, 2009 and 2008, gross unrealized gains on available-for-sale securities totaled $256,226 and $57,145, respectively. As of December 31, 2009 and 2008, the related deferred tax liability recorded totaled $86,800 and $19,429, 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.

ANNEX A

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

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.

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.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including January 27, 2010, which is the date the financial statements were available to be issued.

New Accounting Pronouncement - The FASB issued new guidance in 2009 on the accounting for transfers of financial assets. The new guidance eliminates the concept of a qualifying special-purpose entity. Other changes from current accounting standards include new derecognition criteria for a transfer to be accounted for as a sale, and changes to the amount of recognized gain/loss on transfers accounted for as a sale when beneficial interests are received by the transferor. This new standard will be applied prospectively to new transfers of financial assets and will be effective for the first annual period beginning after November 15, 2009 and interim periods within that first annual period. Early application is prohibited. The Corporation is currently assessing the impact this new standard will have on its financial statements.

Note 2 - Restrictions on Cash and Amounts Due from Banks

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2009, these reserve balances amounted to $300,000. At December 31, 2008, there was not a reserve requirement.

Note 3 - Securities

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

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. government and federal agency	$ 8,904,609	$ 76,564	$ -	$ 8,981,173
Corporate	800,817	3,706	-	804,523
Collateralized mortgage obligations	1,200,622	16,511	-	1,217,133
Mortgage-backed securities	245,057	1,072	-	246,129
State and municipal	14,009,367	158,373	-	14,167,740
Total available-for-sale securities	$25,160,472	$ 256,226	$ -	$25,416,698

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
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	$ 5,078,329	$ 57,145	$ -	$ 5,135,474

There were no securities pledged as of December 31, 2009. At December 31, 2008, securities with a carrying value of $5,135,474 were pledged to secure borrowing public deposits and for other purposes required or permitted by law.

ANNEX A

Note 3 - Securities (Continued)

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2009 follow:

	Available for Sale	
	Amortized Cost	Estimated Market Value
Due in one year or less	$ 5,932,236	$ 5,934,318
Due in one through five years	17,417,320	17,654,221
Due after five years through ten years	1,810,916	1,828,159
Total	$ 25,160,472	$ 25,416,698

There are no securities with unrealized losses over 12 consecutive months at either December 31, 2009 or 2008.

Other securities, totaling $815,850 and $801,800 at December 31, 2009 and 2008, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

Note 4 - Loans

A summary of the balances of loans is as follows:

	2009	2008
Mortgage loans on real estate:		
Residential 1-4 family	$ 6,344,118	$ 4,529,000
Commercial	53,087,917	40,906,150
Construction	2,440,496	1,495,735
Equity lines of credit	11,792,843	10,196,530
Total mortgage loans on real estate	73,665,374	57,127,415
Commercial loans	42,223,985	29,110,998
Consumer installment loans	3,129,773	1,220,743
Total loans	119,019,132	87,459,156
Less allowances for loan losses	(1,926,665)	(968,000)
Plus net deferred loan (fees) costs	(78,724)	52,846
Net loans	$ 117,013,743	$ 86,544,002

Note 4 - Loans (Continued)

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

	2009	2008
Balance at beginning of year	$ 968,000	$ 659,000
Provision for loan losses	975,000	540,483
Loans charged off	(56,150)	(231,483)
Recoveries of loans previously charged off	39,815	-
Balance at end of year	$ 1,926,665	$ 968,000

There were no nonaccrual loans or loans considered impaired as of December 31, 2009. There was one loan totaling $552,000 that was on nonaccrual status and considered impaired as of December 31, 2008.

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to $7,113,462 and $6,589,731 at December 31, 2009 and 2008, respectively.

Note 5 - Bank Premises and Equipment

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

	2009	2008
Leasehold improvements	$ 419,781	$ 409,465
Furniture, fixtures, and equipment	559,082	530,868
Total cost	978,863	940,333
Accumulated depreciation	(457,297)	(294,555)
Net bank premises and equipment	$ 521,566	$ 645,778

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 leased, however, not with a related party. Total rent expense for the years ended December 31, 2009 and 2008 amounted to $199,171 and $86,867, respectively.

Note 5 - Bank Premises and Equipment (Continued)

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2009 and 2008 pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

	Related Party Lease	Other Lease Agreements
2010	$ 123,114	$ 77,287
2011	123,114	22,451
2012	123,114	332
2013	123,114	-
2014	123,114	-
Thereafter	1,108,023	-
Total	$ 1,723,593	$ 100,070

Note 6 - Deposits

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

	2009	2008
Noninterest-bearing deposits	$ 20,519,571	$ 12,781,711
NOW accounts	5,101,248	3,598,057
Savings and money market accounts	76,414,686	18,756,245
Time:		
Under $100,000	6,866,019	2,652,184
$100,000 and over	29,065,074	35,574,178
Total	$ 137,966,598	$ 73,362,375

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	$ 19,763,126
2011	9,424,574
2012	4,702,077
2013	-
2014	2,041,316
Total	$ 35,931,093

Note 7 - Borrowings

The bank has a formula-based credit facility with the Federal Reserve Bank to meet its short-term borrowing needs. There were no amounts outstanding at December 31, 2009 and 2008. At December 31, 2009, the unused portion of the facility was $31,822,952. The collateral on the borrowing arrangement consists of commercial, commercial real estate, and consumer loans with a book balance of $51,694,522.

In 2008, the Bank had a secured fed-funds line of credit at correspondent banks with available borrowings of up to $3,500,000 to meet its short-term borrowing needs. The amount outstanding at December 31, 2008 was $2,333,702 at an interest rate of 0.26 percent and an unused portion of the facility was $1,166,298. At December 31, 2008, collateral on the borrowing arrangement consisted of investment securities with a value of $5,136,000. In 2009, the bank increased the availability of the secured fed-funds line of credit at the correspondent banks to $4,500,000. There was no amount outstanding at December 31, 2009.

The bank had three advances totaling $3,000,000 from the Federal Home Loan Bank at December 31, 2008 with interest rates ranging from 2.39 percent to 4.31 percent. As of December 31, 2009, the bank had five advances totaling $5,000,000 from the Federal Home Loan Bank with interest rates ranging from 2.39 percent to 4.31 percent. Interest is payable monthly. Advances with put options held by the Federal Home Loan Bank amounted to $1 million at December 31, 2009 and 2008. The advances were collateralized by approximately $7,483,700 and $6,651,500 of mortgage loans as of December 31, 2009 and 2008, respectively, 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, 2009:

2010	$ -
2011	2,000,000
2012	-
2013	3,000,000
Total	$ 5,000,000

Note 8 - Income Taxes

As of December, 31, 2008, the Corporation had net operating loss carryforwards of approximately $100,000 generated from inception that were available to reduce future taxable income through the years ending December 31, 2025. During 2009, the net operating loss carryforwards were utilized resulting in no remaining deferred tax asset.

Note 8 - Income Taxes (Continued)

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

	2009	2008
Deferred tax assets:		
Allowance for loan losses	$ 602,000	$ 280,000
Net deferred loan fees	-	18,000
Stock options	164,000	102,000
Start-up costs	90,000	98,000
Net operating loss	-	33,000
Total deferred tax assets	856,000	531,000
Deferred tax liabilities:		
Net unrealized gain on securities available for sale	86,800	19,429
Net deferred loan fees	27,000	-
Other	23,000	41,000
Total deferred tax liabilities	136,800	60,429
Net deferred tax assets	$ 719,200	$ 470,571

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

	2009	2008
Current expense	$ 692,000	$ -
Deferred income tax benefit	(316,000)	(43,000)
Change in valuation allowance	-	(147,000)
Total income tax expense (benefit)	$ 376,000	$ (190,000)

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:

	2009	2008
Income (loss) before income taxes	$ 1,177,085	$ (178,725)
Income tax benefit at federal statutory rate of 34 percent	$ 400,209	$ (60,767)
(Decreases) increases resulting from nondeductible expenses and decreases from nontaxable income	(24,209)	17,767
Change in valuation allowance	-	(147,000)
Income tax expense (benefit)	$ 376,000	$ (190,000)

Note 9 - 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, 2009 and 2008, the following financial instruments, whose contract amounts represent credit risk, were outstanding:

	Contract Amount	
	2009	2008
Commitments to grant loans	$ 7,730,000	$ 12,000,000
Unfunded commitments under lines of credit	41,450,467	33,634,439
Commercial and standby letters of credit	38,903,955	2,268,726

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.

ANNEX 2

Note 9 - 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 10 - 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 I capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

Note 10 - Minimum Regulatory Capital Requirements (Continued)

As of December 31, 2009, 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 risked-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, 2009 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, 2009						
Total capital to risk-weighted assets	$ 19,464	15.7 %	$ 9,944	8.0 %	$ 12,429	10.0 %
Tier I capital to risk-weighted assets	17,906	14.4	4,972	4.0	7,458	6.0
Tier I capital to average assets	17,906	10.5	6,797	4.0	8,496	5.0
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

Note 11 - Stock Option Plan

On December 31, 2009, 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 $180,735 and $162,136 for 2009 and 2008, respectively. The total income tax benefit recognized in the consolidated statement of operations for share-based compensation arrangements was $0 for 2009 and 2008.

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.

Note 11 - 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.

	2009	2008
Expected volatility	30 %	30 %
Expected dividends	0	0
Expected term (in years)	10	10
Risk-free rate	3.50 %	2.64 %

A summary of option activity under the Plan for the year ended December 31, 2009 is presented below:

Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2009	148,300	$ 10.00	8.6
Granted	27,400	10.00	10.0
Outstanding at December 31, 2009	175,700	10.00	8.0
Vested or expected to vest at December 31, 2009	113,484	10.00	7.4

The weighted average grant-date calculated value of options granted during 2009 and 2008 was $4.77 and $4.49, respectively.

As of December 31, 2009, there was approximately $258,000 of total unrecognized compensation costs related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized through December 31, 2012.

ANNEX A

Note 12 - 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, 2009, 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, 2009.

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, 2009, Bank funds available for loans or advances to the Corporation amounted to $1,790,000.

Loans made by the Bank to any one customer are generally limited to 15 percent of unconsolidated bank equity. At December 31, 2009, this limits the loans made by the Bank to any one customer to $2,710,000.

Note 13 - Fair Value of Financial Instruments

The carrying amounts and fair values of financial instruments are as follows:

	2009	
	Carrying Amount	Estimated Fair Value
Financial assets:		
Cash and cash equivalents	$ 14,612,840	$ 14,612,840
Investment securities - Available for sale	25,416,698	25,416,698
Other securities	815,850	815,850
Loans	117,013,743	118,730,757
Accrued interest receivable	614,339	614,339
Financial liabilities:		
Deposits	137,966,598	138,584,358
Borrowings	5,000,000	5,128,802
Accrued interest payable	74,246	74,246

Note 13 - Fair Value of Financial Instruments (Continued)

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. There are certain financial instruments and all nonfinancial instruments excluded from the disclosure requirements. Accordingly, the aggregate fair value amounts may not necessarily represent the underlying fair value of the Corporation.

A summary of the methods and significant assumptions used to estimate the fair values of financial instruments is as follows:

Cash and Cash Equivalents - The carrying amounts of cash and cash equivalents approximate fair values.

Investment Securities - Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. The carrying value of other securities approximates fair value based on the redemption provisions of the issuers.

Loans Held for Sale - Fair value of loans held for sale is based on commitments on hand from investors or prevailing market prices.

Loans Receivable - For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed rate certificates of deposit are estimated using discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings - The fair value of the Corporation's borrowings is estimated using fair value of debt based on current rates for similar financing.

Accrued Interest - The carrying amounts of accrued interest approximate fair value.

ANNEX A

Note 13 - Fair Value of Financial Instruments (Continued)

Other Financial Instruments - The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

Note 14 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value on the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation's assets measured at fair value on a recurring basis at December 31, 2009, 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. The Corporation's Level 1 securities consisted primarily of U.S. government agency notes and corporate bonds.

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. The Corporation's Level 2 investment securities consisted primarily of municipal securities, mortgage-backed securities, and collateralized mortgage obligations.

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. The Corporation had no investment securities for which it utilized Level 3 inputs to determine fair value.

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.

ANNEX A

Note 14 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2009

	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, 2009
Assets - Investment securities - Available for sale	$ 9,785,696	$ 15,631,002	$ -	$ 25,416,698

Assets 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, 2009
Assets - Investment securities - Available for sale	$ 4,476,596	$ 658,878	$ -	$ 5,135,474

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