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 11, 2017

FIRST NATIONAL BANCORP, INC., a Michigan corporation and registered 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 (the ***"Board"***) of First National Bancorp, Inc. (the "***Company***") for use at the 2017 Annual Meeting of Shareholders to be held at the Park Club at 219 West South Street, Kalamazoo, Michigan 49007, at 5:00 p.m. on May 11, 2017 and at any adjournments or postponements thereof (the ***"Annual Meeting"***).

As indicated in the accompanying Notice of the Annual Meeting, the Shareholders will be asked to consider and vote upon the following proposals:

1. Election of Daniel E. Bitzer, Eric V. Brown, Jr., Joseph S. Calvaruso, James J. DeKruyter, James S. DeMoss, John M. Dunn, James S. Gunderson, David L. Holmes, Ben Ipema, Larry D. Lueth, Sondra K. Phillips, John M. Schreuder and Joshua T. Weiner as directors of First National Bancorp, Inc. for a one year term expiring at the 2018 annual meeting of shareholders.

2. Ratification of the appointment of the independent auditors for the year ending December 31, 2017.

We will also transact such other business as may properly come before the meeting or any adjournments thereof.

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The foregoing introductory information 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 A.

GENERAL INFORMATION

Attending in person

Only the Shareholders, their proxy holders and guests of the Company may attend the Annual Meeting.

Who may vote

The Shareholders of the Company, as recorded in our stock register on April 11, 2017 (the ***"Record Date"***), may vote at the Annual Meeting. As of both the Record Date and the date of this Proxy Statement, the Company had 1,920,616 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.

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 nominees and you may vote for, against or abstain from voting on Proposal 2.

If you return your proxy without voting instructions, your shares will be voted FOR the election of all of the director nominees and FOR Proposal 2. 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, 2017. 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 the Company'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 Company common stock eligible to vote at the Annual Meeting must be represented at the Annual Meeting by proxy or in person, including abstentions.

Votes needed

The director nominees who receive a plurality of the votes cast will be elected to fill the 11 seats on the Board. Abstentions will not be included in the vote count.

Proposal 2 will be approved if a majority of shares voted on the proposal are voted in favor of the proposal. Abstentions will not be included in the vote count.

We do not know of any other matters to be presented at the Annual Meeting. Generally, any other proposal to be voted on at the Annual Meeting would be approved if a majority of shares voted on the proposal are voted in favor of the proposal. Abstentions would not be included in the vote count.

As of the date of this Proxy Statement, the Company's directors and executive officers were the beneficial owners of 25.37% of the issued and outstanding shares of common stock of the Company. *See* "Beneficial Stock Ownership" below.

BUSINESS

First National Bancorp, Inc. is a Michigan corporation that was incorporated on July 7, 2005 to organize and serve as the bank holding company for First National Bank of Michigan, a national banking association with branches located at 348 West Michigan Avenue, Kalamazoo, Michigan 49007, 2700 W. Centre Ave., Portage, Michigan 49024, 5313 West Main Street, Kalamazoo, Michigan 49009, 141 Ionia NW, Grand Rapids, Michigan 49503 and a loan production office located at 148 S. River Avenue, Suite 150, Holland, MI 49423. The Company 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 its primary service area.

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

The Board currently consists of 13 members who serve one-year terms. The 13 director nominees listed below, all of whom are current directors of the Company, were nominated by the Board to fill the 13 Board seats for one year terms expiring at the 2018 annual meeting of shareholders. Biographical information on each of the director 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.

DANIEL E. BITZER. Mr. Bitzer was promoted to President and CEO of First National Bank of Michigan effective January 1, 2017. He joined the bank in December 2011 as the Grand Rapids Market President, after more than three decades in the commercial banking business in Michigan. Bitzer was promoted to Executive Vice President and Senior Lender in July 2014 after successfully leading the bank's expansion into the Grand Rapids market. In December 2015, he was named President of the bank, where he oversaw the activities of all locations, including operations in the downtown Kalamazoo headquarters and its branches in Portage, West Kalamazoo, Grand Rapids and the Holland LPO. Mr. Bitzer earned a Bachelor's degree in Mathematics from Ferris State University and a Master of Arts in Economics from Western Michigan University. Deeply involved in the community, he has served in numerous volunteer capacities. Currently, Bitzer serves on the Gilmore International Keyboard Festival Board of Trustees and Commissioning Committee for the USS Gerald R. Ford CVN 78. He is also an active member of the Economic Club of Grand Rapids and the Elks Lodge.

ERIC V. BROWN, JR. Mr. Brown is of counsel to the law firm of Warner, Norcross & Judd LLP. Mr. Brown is a broad-based business counselor. 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, the Holding

Company for the Bank 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 30 years. He is a member of the board of directors and General Counsel of Kalsec, Inc., a producer of natural colors, flavors, hops and nutritional ingredients for the food and beverage industries. He was also a member of the board of directors of Lafourche Realty Company, Inc., a publicly held oil and gas and real estate company. He has been active in the Business Law Section of the American Bar Association for the last 25 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 The Model Stock Purchase Agreement, with commentary, in 1995, and the Model Asset Purchase Agreement, with commentary, in 2000. He has also been active with an American Bar Association task force which published a Model Joint Venture Agreement. Mr. Brown is listed in the 2003-2017 editions of The Best Lawyers in America under Corporate, Mergers & Acquisitions and Securities Law Sections. Mr. Brown's extensive experience with the business and banking communities is a great asset to the Board.

JOSEPH S. CALVARUSO. Mr. Calvaruso is the Executive Director of the Gerald R. Ford Presidential Foundation. During his tenure at the Foundation, Mr. Calvaruso's leadership roles have included the Campaign for the Legacy of Gerald R. Ford to build the DeVos Learning Center and the New Gerald R. Ford Presidential Museum, the ceremonies to unveil the Statue of President Ford in the U.S. Capitol Rotunda and tributes to First Lady Betty Ford when she passed away in 2011, and centennial events in tribute to President Ford's 100th Birthday. He has led the effort to bring prominent speakers to the Library and Museum through conferences, educational outreach, and public programming. Prior to joining the Foundation, Mr. Calvaruso was a banker for over 29 years holding several senior management positions. He also served in leadership positions with the Risk Management Association (RMA) including its International Board of Directors. Currently, Mr. Calvaruso is a Trustee of Albion College, Chairman of the Michigan Certified Development Corporation, and Vice President of the Comstock Township Library Board. He is a graduate of Albion College and Western Michigan University.

JAMES J. DEKRUYTER. Mr. DeKruyter currently serves on the board of the Kalamazoo Christian Schools Foundation and the Christian School board, and Gull Lake Ministries. Mr. DeKruyter has been appointed to the Zoning Board of Appeals for Ross Township in Kalamazoo County. He has served many volunteer organizations including the Kalamazoo YMCA, Sherman Lake YMCA, Open Hearts Ministries, the national board of Youth for Christ, and the Youth for Christ Foundation. Mr. DeKruyter also served as director of Michigan National Bank – Kalamazoo.

JAMES S. DEMOSS. Dr. DeMoss is a practicing Emergency Medicine physician and President of Southwestern Michigan Emergency Services, P.C., which has staffed Bronson Methodist Hospital's Emergency Department for over 40 years. His organization also provides emergency physician staffing of several other hospitals in southwest Michigan. Prior to becoming President of SWMES, P.C., Dr. DeMoss served in several administrative positions within the organization and brings with him a unique knowledge regarding the operations and needs of a midsize professional company providing healthcare in southwest Michigan. An avid outdoor sportsman and enthusiast, Dr. DeMoss supports many wildlife habitat conservation efforts.

JOHN M. DUNN. Dr. Dunn is the president of Western Michigan University in Kalamazoo, Michigan. Prior to his appointment in 2007, 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. Dr. Dunn is an active participant in state and community efforts that focus on quality-of-life issues and enhancing economic development. He serves on several regional governing boards which include Southwest Michigan First, the W.E. Upjohn Institute and the WMU Foundation. Dr. Dunn's presidency at WMU has been one of vision, collaboration and achievement. His leadership has strengthened Higher Education, the Community and the State in countless ways. Among the principal initiatives of his presidency are a heightened commitment to globalization and sustainability, educational opportunities for former foster care youth, and the establishment of collaborative affiliations with the WMU Home Stryker M.D. School of Medicine and the WMU Thomas M. Cooley Law School. His focus remains on ensuring that every University and community resource, including human potential, be provided the support needed to develop fully and fulfill its promise.

JAMES S. GUNDERSON. Mr. Gunderson was the Founder and President of Engineered Packaging Systems (sold to Alco Standard in 1996). Currently, he is involved in the ownership of a number of small businesses including, Technical Packaging Systems, My Shower Door, Orlando, Your Shower Door, Grand Rapids, My

Shower Door, Tampa, My Shower Door, St. Pete and The Shower Door Place Rosedale, MN. Additionally, he has served 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 are valuable resources for the Bank.

DAVID L. HOLMES. Mr. Holmes was an owner and general legal counsel of Phoenix Properties, LLC, a real estate management and development firm in Kalamazoo, Michigan from 1995 to 2010, at which time the business was sold to other partners of the company. Prior to 1995 he was in private practice as a partner in the Kalamazoo office of Howard & Howard Attorneys, P.C. Mr. Holmes remains an active commercial real estate investor. He has been involved as a community volunteer, including having served on the City of Kalamazoo Planning Commission, President of the LIFT Foundation, Chairperson of the Greater Kalamazoo United Way Pacesetter campaign and Vice Chairman of the Finance Council at St. Catherine of Siena Parish. Mr. Holmes brings to the Board extensive experience with the community's real estate market.

BEN IPEMA. Mr. Ipema is Chief Operating Officer at Level Data, Inc. a "software as a service" (SaaS) company which provides custom software and data integration services for K-12 Public School Districts throughout the United States. Ben was previously President for The Exhibit House, providing trade show exhibit design, build and management services; and, a Director at Airpower America, a local company producing air powered consumer products. 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 Bronson Health Foundation, Kalamazoo Deacons Conference, Southern Heights Church, Kalamazoo Christian Schools and various organizations dedicated to education, poverty, health and housing.

LARRY D. LUETH. Mr. Lueth currently serves as Senior Executive and Co-Chairman of the Company. He also has served as CEO and President of the Bank and Senior Lender for the Bank since its inception in 2006. Prior to founding the Bank, Mr. Lueth served as Regional President for the Kalamazoo Region of National City Bank, now PNC Bank. Mr. Lueth has served many civic organizations in Kalamazoo and is President of The Park Club, finance committee member of Ascension Health – Michigan, board member of Downtown Tomorrow, Inc. and Chair of the Trustees at First United Methodist Church, Kalamazoo.

SONDRA K. PHILLIPS. Ms. Phillips is the sole owner of SKP Design, a firm that she founded in 1996 and Interior Design Schemes, a web based company that offers based pre-packaged interior design schemes. SKP Design offers both commercial and residential interior design services; Sondra is NCIDQ and EDAC certified. Ms. Phillips 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. Her community activities include serving on the Permanent Collection Committee at the Kalamazoo Institute of Arts and the Development Committee at the Kalamazoo Symphony Orchestra. She has two children. Ms. Phillips' passion for marketing, her small business perspective and community connections as a lifelong resident make her an asset to the Bank Board.

JOHN M. SCHREUDER. Mr. Schreuder is the Senior Executive and Co-Chairman of the Board of both the Company and the Bank. Mr. Schreuder has been Chairman of the Board since the Bank's inception in April, 2006. He has over 35 years of banking experience in Kalamazoo, Michigan. Mr. Schreuder has served on behalf of many civic and charitable organizations and currently is on the Board of Directors of the Michigan Bankers Association.

JOSHUA T. WEINER. Mr. Weiner is the CEO 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 a 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, Farmers Alley Theatre and Bronson Health Foundation.

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF ALL OF THE DIRECTOR NOMINEES.

Committees of the Board

Audit Committee

The Audit Committee oversees the financial reporting and accounting processes of the Company. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditors and reviews its fees for audit and non-audit services and the scope and results of audits performed by them. The Audit Committee also reviews the Company's internal accounting controls, the proposed form of its financial statements, the results of internal audits and compliance programs, and the results of the examinations received from regulatory authorities. As of the date of this proxy statement, and Eric V. Brown, Jr., James J. DeKruyter, and Ben Ipema serve on the Audit Committee. All of the members of the Audit Committee are "independent" directors as determined by the Board. The Audit Committee met three times during 2016.

Compensation Committee

The Compensation Committee determines and oversees the Company's executive compensation philosophy, structure, policies and programs, assesses whether the Company's compensation structure establishes appropriate incentives for management and employees, reviews salaries, bonuses and other compensation of all officers of the Company, administers the Company's stock-based compensation plans, makes recommendations to the board of directors regarding the grants of stock-based compensation awards under these plans, and annually reviews the Company's benefit programs. As of the date of this proxy statement, Eric V. Brown, John M. Dunn, James S. Gunderson, and Joshua T. Weiner serve on the Compensation Committee. All of the members of the Compensation Committee are "independent" directors as determined by the Board. The Compensation Committee met two times during 2016.

Board Governance Committee

On November 10, 2016, the Directors established the Governance Committee. The purpose of the Governance Committee is to advise and make recommendations to the Board of Directors with respect to corporate governance principles and practices, and to recommend qualified candidates to the Board for election as directors of the Company, including the slate of directors that the Board proposes for election by shareholders at the annual meetings and candidates to fill vacancies occurring between annual meetings. As of the date of this proxy statement, Eric V. Brown, Ben Ipema, and Joseph S. Calvaruso, serve on the Governance Committee. All of the members of the Governance Committee are "independent" directors as determined by the Board. The Governance Committee met one time during 2016.

PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2017

The Audit Committee has appointed Plante & Moran, PLLC as the Company's independent auditors to audit the consolidated financial statements of the Company and its subsidiaries as of and for the year ending December 31, 2017, and to perform such other appropriate audit-related accounting, tax compliance or other tax services as may be approved by the Audit Committee. The Audit Committee and the Board propose and recommend that shareholders ratify the appointment of Plante & Moran, PLLC as the independent auditors for the year ending December 31, 2017.

This appointment is being submitted to shareholders for ratification. While ratification is not required, the Company believes it is an important corporate decision in which shareholders should participate. If the shareholders do not ratify the selection of Plante & Moran, PLLC to act as the Company's independent auditors for the year ending December 31, 2017, the Audit Committee will consider a change in independent auditors for the next year.

BENEFICIAL* STOCK OWNERSHIP

The following table sets forth information as of April 11, 2017 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 or dispose of shares) owner of more than 5% of the Company's common stock as of that date. The table also sets forth the number of shares of common stock beneficially owned by each of our directors (including director nominees) and executive officers as of April 11, 2017.

Name of Beneficial Owner	Common Stock	Rights to Acquire[1]	Restricted Stock	Approximate Percent of Common Stock[2]
Eric V. Brown, Jr.	31,100	0	0	1.62
Daniel E. Bitzer	4,000	21,750		0.21
Joseph S. Calvaruso	8,000	0	0	0.42
James J. DeKruyter	123,358	0	0	6.42
James S. DeMoss	100	0	0	0.01
John M. Dunn	10,100	0	0	0.53
James S. Gunderson	37,500	0	0	1.95
David L. Holmes	20,000	0	0	1.04
Ben Ipema	40,000	0	0	2.08
Larry D. Lueth	25,000	71,000	0	1.30
Sondra K. Phillips	4,000	0	0	0.21
John M. Schreuder	76,600	77,500	0	3.99
Joshua T. Weiner	105,000	0	0	5.47
Matthew J. Morgan	2,370	3,000	180	0.13

* "Beneficial" for the purposes of this table means the right to vote or dispose of shares held directly and shares held by the beneficial owner's corporation or partnership ownership share, trust, estate, spouse, ancestors, children, grandchildren, great grand-children, and spouses of children, grandchildren, and great grandchildren.

[1] The numbers in the "Rights to Acquire" column represent the shares that may be acquired by exercise of stock options granted under the Company's 2006, 2009 and 2012 Stock Option and Restricted Stock Plans. These numbers are not reflected in the "Approximate Percent of Common Stock" column.

[2] Based on 1,920,504 shares issued and outstanding as of April 11, 2017.

EXECUTIVE OFFICERS

Current executive officers are as follows:

Name	Position	Officer Since
John M. Schreuder	Senior Executive and Co-Chairman of the Company and the Bank	March 23, 2006
Larry D. Lueth	Senior Executive and Co-Chairman of the Company and the Bank	March 23, 2006
Daniel E. Bitzer	CEO and President of the Company and the Bank	December 1, 2011
Matthew J. Morgan	CFO and Secretary / Treasurer of the Company and the Bank	January 1, 2015

FINANCIAL INFORMATION

The Profit and Loss Statement of the Company for fiscal year 2016 and the Balance Sheet as of December 31, 2016 are attached as Annex A.

MISCELLANEOUS

Solicitation of Proxies

The Company 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 the Company or the Bank (none of whom will be paid any additional compensation for such services).

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ANNEX A

First National Bancorp, Inc. and Subsidiaries

Consolidated Financial Report

December 31, 2016

Contents

Plante & Moran, PLLC
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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of First National Bancorp, Inc. and Subsidiaries (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First National Bancorp, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 13, 2017

First National Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet

December 31, 2016 and 2015

	2016	2015
Assets		
Cash and cash equivalents (Note 3)	$ 15,611,030	$ 14,638,225
Interest-bearing deposits in banks	800,000	-
Investment securities - Available for sale (Note 4)	73,241,342	90,237,025
Other securities (Note 4)	2,189,450	2,182,600
Loans - Net of allowance for loan losses of $5,241,252 and $4,870,778 as of December 31, 2016 and 2015, respectively (Note 5)	351,118,580	297,128,460
Premises and equipment - Net (Note 6)	2,770,805	2,389,204
Accrued interest receivable	1,249,732	1,258,115
Deferred tax asset (Note 9)	1,941,000	1,636,000
Bank-owned life insurance	5,154,649	5,000,000
Other assets	2,865,677	1,960,833
Total assets	**$ 456,942,265**	**$ 416,430,462**
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 7):		
Noninterest-bearing	$ 100,240,462	$ 86,459,359
Interest-bearing	265,978,594	273,841,931
Total deposits	366,219,056	360,301,290
Borrowings (Note 8)	45,850,000	17,100,000
Accrued interest payable	92,283	96,307
Accrued and other liabilities	718,960	921,328
Total liabilities	412,880,299	378,418,925
Stockholders' Equity (Notes 11, 12, and 13)		
Common stock - No par value:		
Authorized - 2,500,000 shares		
Issued and outstanding - 1,920,230 and 1,830,866 shares at December 31, 2016 and 2015, respectively	19,876,307	18,605,621
Additional paid-in capital	809,094	1,040,956
Retained earnings	23,255,955	17,943,263
Accumulated other comprehensive income	120,610	421,697
Total stockholders' equity	44,061,966	38,011,537
Total liabilities and stockholders' equity	**$ 456,942,265**	**$ 416,430,462**

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Income

Years Ended December 31, 2016 and 2015

	2016	2015
Interest Income		
Loans - Including fees	$ 14,558,475	$ 13,126,878
Debt securities:		
Taxable	728,716	801,028
Tax-exempt	746,138	775,331
Dividends	103,530	63,083
Other	67,504	47,315
Total interest income	16,204,363	14,813,635
Interest Expense		
Deposits	1,002,149	1,031,924
Borrowings	193,684	137,503
Total interest expense	1,195,833	1,169,427
Net Interest Income	15,008,530	13,644,208
Provision for Loan Losses (Note 5)	472,000	154,000
Net Interest Income After Provision for Loan Losses	14,536,530	13,490,208
Noninterest Income		
Service charges and fees	667,588	554,005
Net gain on sales of available-for-sale securities	130,379	60,600
Net gain on sale of loans	171,080	241,762
Other	226,295	283,530
Total noninterest income	1,195,342	1,139,897
Noninterest Expense		
Salaries and employee benefits (Note 12)	5,342,009	4,486,104
Occupancy and equipment (Note 6)	956,132	920,595
Data processing	443,631	395,386
FDIC insurance	222,212	200,438
Professional fees	460,712	441,704
Other	1,248,332	1,168,984
Total noninterest expense	8,673,028	7,613,211
Income - Before income taxes	7,058,844	7,016,894
Income Tax Expense (Note 9)	1,746,152	2,213,883
Consolidated Net Income	**$ 5,312,692**	**$ 4,803,011**

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2016 and 2015

	2016	2015
Net Income	$ 5,312,692	$ 4,803,011
Other Comprehensive (Loss) Income - Unrealized (loss) gain on securities		
Income tax impact:		
Arising during the year	(586,466)	(114,943)
Reclassification adjustment for realized gains on sale of available-for-sale securities	130,379	60,600
Tax effect	155,000	19,000
Total other comprehensive loss	(301,087)	(35,343)
Comprehensive Income	**$ 5,011,605**	**$ 4,767,668**

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2016 and 2015

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2015	$ 18,052,225	$ 1,137,883	$ 13,140,252	$ 457,040	$ 32,787,400
Comprehensive income (loss)	-	-	4,803,011	(35,343)	4,767,668
Vesting of restricted stock	6,300	(6,300)	-	-	-
Stock options exercised	547,096	(231,693)	-	-	315,403
Stock-based compensation	-	141,066	-	-	141,066
Balance - December 31, 2015	18,605,621	1,040,956	17,943,263	421,697	38,011,537
Comprehensive income (loss)	-	-	5,312,692	(301,087)	5,011,605
Issuance - Common voting	12,500	-	-	-	12,500
Vesting of restricted stock	16,050	(16,050)	-	-	-
Stock-based compensation	-	155,075	-	-	155,075
Stock options exercised	1,242,136	(370,887)	-	-	871,249
Balance - December 31, 2016	**$ 19,876,307**	**$ 809,094**	**$ 23,255,955**	**$ 120,610**	**$ 44,061,966**

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows from Operating Activities		
Consolidated net income	$ 5,312,692	$ 4,803,011
Adjustments to reconcile consolidated net income to net cash and cash equivalents from operating activities:		
Depreciation	226,037	267,806
Provision for loan losses	472,000	154,000
Amortization of securities - Net	409,435	820,950
Deferred income taxes	(155,000)	-
Stock-based compensation expense	155,075	141,066
Gain on sale of mortgages	(130,379)	(241,762)
Loans originated for sale	(7,826,325)	(15,495,830)
Proceeds from loan sales	7,956,704	15,737,592
Purchase of bank-owned life insurance	-	(5,000,000)
Increase in bank-owned life insurance	(154,649)	-
Gain on sale of available-for-sale securities	(130,379)	(60,600)
Net change in:		
Accrued interest receivable and other assets	(891,461)	31,704
Accrued interest payable and other liabilities	(206,392)	254,491
Net cash and cash equivalents provided by operating activities	5,037,358	1,412,428
Cash Flows from Investing Activities		
Purchase of other securities	(6,850)	(1,115,250)
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	13,151,298	12,989,383
Purchases	(14,392,275)	(44,873,932)
Sales of available-for-sale securities	17,501,517	17,350,974
Additions to premises and equipment	(607,638)	(128,470)
Change in loans	(54,462,120)	(37,098,700)
Increase in interest-bearing deposits in banks	(800,000)	-
Net cash and cash equivalents used in investing activities	(39,616,068)	(52,875,995)
Cash Flows from Financing Activities		
Net increase in deposit accounts	5,917,766	49,324,590
Effect of stock options exercised	871,249	315,403
New advances and other borrowings	231,250,000	48,000,000
Repayment of long-term debt	(202,500,000)	(40,600,000)
Net change in line of credit	-	(1,000,000)
Issuance of common stock	12,500	-
Net cash and cash equivalents provided by financing activities	35,551,515	56,039,993
Net Increase in Cash and Cash Equivalents	972,805	4,576,426
Cash and Cash Equivalents - Beginning of year	14,638,225	10,061,799
Cash and Cash Equivalents - End of year	**$ 15,611,030**	**$ 14,638,225**
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 1,199,860	$ 1,172,173
Income taxes	2,150,000	2,050,000

Note 1 - Nature of Business

First National Bancorp, Inc. and Subsidiaries (the "Corporation") provides a variety of financial services to individuals and businesses through its subsidiary bank which has two branch locations and a main office in Kalamazoo, Michigan, one branch location in Grand Rapids, Michigan, and one loan production office in Holland, Michigan. Its primary deposit products are checking, savings, and term certificate accounts and its primary lending products are commercial loans. The Corporation also owns a Nevada captive insurance company which provides various insurance for the Bank and the Corporation by participating in a bank reinsurance pool.

Note 2 - Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of First National Bancorp, Inc. and its wholly owned subsidiary, First National Bank of Michigan (the "Bank"). In 2015, the Corporation formed a wholly owned captive insurance company, FNB Risk Management, Inc. (the "Captive"), which participates in a pooled captive plan with 12 other unrelated financial institutions from the Midwest. 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 consolidated balance sheet and reported amounts of revenue 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 valuation of investment securities.

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 reported 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 reported 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. At December 31, 2016, there was $208,778 in loans held for sale. There were no loans held for sale at December 31, 2016.

Note 2 - 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 western 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's yield using the effective interest method.

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 impaired and 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 nonimpaired 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 have been modified as troubled debt restructurings are also considered impaired.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and 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. At December 31, 2016 and 2015, there were no foreclosed assets.

Note 2 - Significant Accounting Policies (Continued)

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 considered components of comprehensive income. The accumulated other comprehensive income (loss) consists solely of the net unrealized gain or loss on investment securities available for sale less the tax effect.

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 owned and leased facilities. Leasehold improvements and equipment are carried at cost, less accumulated depreciation, computed on the straight-line method over the estimated lives of the assets.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

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.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 13, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Corporation's year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Corporation's consolidated financial statements as a result of the leases for premise and equipment (see Note 6) classified as operating leases. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting*. The update simplified several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The updated guidance is effective on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period in which the pending content that links to this paragraph is effective for all tax benefits that were not previously recognized because the related tax deduction had not reduced taxes payable and will become effective for fiscal years beginning after December 15, 2017. The Corporation is assessing the impact on the deferred taxes that this new standard will have on its consolidated financial statements in the year of adoption

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The ASU includes increased disclosures and various changes to the accounting and measurement of financial assets including the Corporation's loans and available-for-sale and held-to-maturity debt securities. Each financial asset presented on the balance sheet would have a unique allowance for credit losses valuation account that is deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected on the financial asset. The amendments in this ASU also eliminate the probable initial recognition threshold in current GAAP and instead, reflect an entity's current estimate of all expected credit losses using reasonable and supportable forecasts. The new credit loss guidance will be effective for the Corporation's year ending December 31, 2021. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation is still quantifying the impact of the new standard.

Note 3 - Restrictions on Cash and Amounts Due from Banks

The Corporation is required to maintain average balances on hand or with the Federal Reserve Bank and other financial institutions. At December 31, 2016 and 2015, these reserve balances amounted to $5,888,000 and $3,526,000, respectively.

Note 4 - Securities

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

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-sale securities:				
U.S. government and federal agency	$ 32,091,772	$ 65,590	$ (237,828)	$ 31,919,534
U.S. Treasury	10,522,673	37,902	-	10,560,575
Collateralized mortgage obligations	204,035	4,384	-	208,419
State and municipal	30,240,253	421,607	(109,046)	30,552,814
Total available-for-sale securities	$ 73,058,733	$ 529,483	$ (346,874)	$ 73,241,342

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-sale securities:				
U.S. government and federal agency	$ 38,307,414	$ 25,534	$ (120,742)	$ 38,212,206
U.S. Treasury	19,727,688	57,884	(18,012)	19,767,560
Collateralized mortgage obligations	270,307	5,495	-	275,802
State and municipal	31,292,919	718,077	(29,539)	31,981,457
Total available-for-sale securities	$ 89,598,328	$ 806,990	$ (168,293)	$ 90,237,025

At December 31, 2016 and 2015, securities with a carrying value of approximately $4,788,000 and $4,862,000, respectively, were pledged to secure borrowings.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2016 are as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 10,792,295	$ 10,756,175
Due in one through five years	52,633,299	52,801,247
Due after five years through ten years	9,429,104	9,475,501
Total	72,854,698	73,032,923
Collateralized mortgage obligations	204,035	208,419
Total	$ 73,058,733	$ 73,241,342

For the years ended December 31, 2016 and 2015, there were no significant gains or losses from sales of securities available for sale. Sales of available-for-sale securities were approximately $17,500,000 and $17,351,000 for the years ended December 31, 2016 and 2015, respectively.

Note 4 - Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2016 and 2015, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2016			
	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. governmental and federal agency	$ (231,376)	$ 8,955,200	$ (6,452)	$ 5,048,526
State and municipal	(84,446)	5,769,186	(24,600)	2,639,650
Total available-for-sale securities	$ (315,822)	$ 14,724,386	$ (31,052)	$ 7,688,176

	2015			
	Less than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. governmental and federal agency	$ (85,005)	$ 24,277,278	$ (35,737)	$ 5,958,773
U.S. Treasury	(18,012)	5,021,520	-	-
State and municipal	(16,273)	2,542,966	(13,266)	2,355,239
Total available-for-sale securities	$ (119,290)	$ 31,841,764	$ (49,003)	$ 8,314,012

At December 31, 2016 and 2015, there were 35 and 40 securities, respectively, in an unrealized loss position. Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, we have 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 $2,189,450 and $2,182,600 at December 31, 2016 and 2015, 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 5 - Loans

A summary of the balances of loans follows:

	2016	2015
Residential real estate	$ 72,622,167	$ 61,255,254
Commercial real estate	176,409,342	155,655,377
Construction - Real estate	33,038,855	26,100,257
Commercial loans	71,572,168	55,780,132
Consumer installment loans	3,180,591	3,742,827
Total loans	356,823,123	302,533,847
Less:		
Allowance for loan losses	5,241,252	4,870,778
Deferred fees	463,291	534,609
Net loans	$ 351,118,580	$ 297,128,460

As of the years ended December 31, 2016 and 2015, there were no significant loans considered to be impaired and there no modifications of loans considered troubled debt restructurings.

In the ordinary course of business, the Corporation has granted loans to directors and their affiliates amounting to $6,700,000 and $9,500,000 as of the years ended December 31, 2016 and 2015, respectively. There were no outstanding balances to officers of the Corporation as of December 31, 2016 or 2015.

Activity in the allowance for loan losses for 2016 and 2015 is summarized as follows:

	Year Ended December 31, 2016						
	Real Estate - Construction	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	$ 386,283	$ 1,245,779	$ 2,332,122	$ 665,287	$ 24,028	$ 217,279	$ 4,870,778
Charge-offs	-	-	-	(104,757)	-	-	(104,757)
Recoveries	-	-	-	3,231	-	-	3,231
Provision	69,652	211,207	152,149	261,879	(7,202)	(215,685)	472,000
Ending balance	$ 455,935	$ 1,456,986	$ 2,484,271	$ 825,640	$ 16,826	$ 1,594	$ 5,241,252

	Year Ended December 31, 2015						
	Real Estate - Construction	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	$ 551,672	$ 1,079,582	$ 2,195,902	$ 504,134	$ 26,581	$ 358,866	$ 4,716,737
Recoveries	-	-	-	41	-	-	41
Provision	(165,389)	166,197	136,220	161,112	(2,553)	(141,587)	154,000
Ending balance	$ 386,283	$ 1,245,779	$ 2,332,122	$ 665,287	$ 24,028	$ 217,279	$ 4,870,778

Note 5 - Loans (Continued)

Credit Risk Grading

The Corporation categorized each loan into credit risk categories based on current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The Corporation uses the following definitions for credit risk ratings:

Pass

Credits not covered by the definitions below are pass credits, which are not considered to be adversely rated.

Special Mention

Loans classified as special mention, or watch credits, have a potential weakness or weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution may sustain some loss if the deficiencies are not corrected.

Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table is a summary of loans stratified by credit risk grading:

	December 31, 2016				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Real estate - Construction:					
1-4 family residential	$ 10,241,832	$ -	$ -	$ -	$ 10,241,832
Other	22,797,023	-	-	-	22,797,023
Total real estate - Construction	33,038,855	-	-	-	33,038,855
Real estate - Residential:					
Revolving lines of credit	14,234,395	33,207	21,180	-	14,288,782
1-4 family residential	29,607,618	-	225,583	-	29,833,201
Multifamily	28,500,184	-	-	-	28,500,184
Total real estate - Residential	72,342,197	33,207	246,763	-	72,622,167
Real estate - Commercial - Nonfarm - Nonresidential	174,383,643	583,506	1,442,193	-	176,409,342
Commercial and industrial	66,758,291	2,166,750	2,647,127	-	71,572,168
Consumer	3,180,591	-	-	-	3,180,591
Total	$ 349,703,577	$ 2,783,463	$ 4,336,083	$ -	$ 356,823,123

Note 5 - Loans (Continued)

	December 31, 2015				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Real estate - Construction:					
1-4 family residential	$ 8,130,785	$ -	$ -	$ -	$ 8,130,785
Other	17,969,472	-	-	-	17,969,472
Total real estate - Construction	26,100,257	-	-	-	26,100,257
Real estate - Residential:					
Revolving lines of credit	13,016,568	21,038	-	-	13,037,606
1-4 family residential	26,471,084	233,422	-	-	26,704,506
Multifamily	21,513,142	-	-	-	21,513,142
Total real estate - Residential	61,000,794	254,460	-	-	61,255,254
Real estate - Commercial - Nonfarm - Nonresidential	154,165,586	-	1,489,791	-	155,655,377
Commercial and industrial	53,186,949	476,436	2,116,747	-	55,780,132
Consumer	3,742,827	-	-	-	3,742,827
Total	$ 298,196,413	$ 730,896	$ 3,606,538	$ -	$ 302,533,847

Age Analysis of Past Due Loans

At December 31, 2016, there was $341,159 of commercial loans which were on nonaccrual, but contractually between 31 and 59 days past due. There was $246,762 of residential mortgage loans on nonaccrual and over 90 days past due at December 31, 2016. Additionally, there was one commercial relationship that was not contractually delinquent, but placed on nonaccrual for $2,305,968 at December 31, 2016. At December 31, 2015, there were no loans over 30 days past due or on nonaccrual.

Note 6 - Premises and Equipment

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

	2016	2015
Land	$ 100,000	$ 100,000
Buildings and building improvements	1,250,000	1,250,000
Leasehold improvements	1,476,310	1,442,987
Furniture, fixtures, and equipment	1,483,989	1,354,992
Construction in progress	446,593	1,275
Total cost	4,756,892	4,149,254
Accumulated depreciation	(1,986,087)	(1,760,050)
Net premises and equipment	$ 2,770,805	$ 2,389,204

The Bank has two leases with a company in which a director is a part owner. The first lease calls for monthly payments of $10,259 through 2023 and is renewable for two additional five-year terms. The second lease calls for minimum monthly payments of $9,939 through 2025 and is renewable for three additional five-year terms.

Total rent expense for the years ended December 31, 2016 and 2015 amounted to $362,839 and $342,686, respectively.

Note 6 - Premises and Equipment (Continued)

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2016 pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

Years Ending	Related Party Leases	Other Lease Agreement
2017	$ 242,386	$ 157,232
2018	242,386	154,499
2019	242,386	158,489
2020	242,386	144,321
2021	242,386	145,461
Thereafter	673,300	881,000
Total	$ 1,885,230	$ 1,641,002

Note 7 - Deposits

The following is a summary of the distribution of deposits at December 31, 2016 and 2015:

	2016	2015
Noninterest-bearing deposits	$ 100,240,462	$ 86,459,359
NOW accounts	36,801,231	41,484,243
Savings and money market accounts	164,582,625	157,275,593
Time deposits:		
Under $250,000	46,003,571	56,641,541
$250,000 and over	18,591,167	18,440,554
Total	$ 366,219,056	$ 360,301,290

At December 31, 2016, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2017	$ 44,923,436
2018	13,133,382
2019	4,868,451
2020	1,539,386
2021	130,083
Total	$ 64,594,738

Note 8 - 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, 2016 and 2015. The unused portion of the facility was approximately $42,000,000 and $37,200,000 at December 31, 2016 and 2015, respectively. The collateral on the borrowing arrangement consists of commercial, commercial real estate, and consumer loans with a book balance of approximately $55,100,000 and $47,800,000 at December 31, 2016 and 2015, respectively.

The Bank has an unsecured fed-funds line of credit with correspondent banks to meet its short-term borrowing needs. Total available borrowings were $10,000,000 and $12,000,000 at December 31, 2016 and 2015, respectively. There was no amount outstanding at December 31, 2016 or 2015.

Note 8 - Borrowings (Continued)

As of December 31, 2016, the Corporation had three advances from the Federal Home Loan Bank (FHLB) totaling $45,000,000 with interest rates ranging from 0.50 percent to 1.10 percent. As of December 31, 2015, the Bank had five advances totaling $16,000,000 with interest rates ranging from 0.58 percent to 2.17 percent. Interest is payable monthly. The advances were collateralized by approximately $94,000,000 and $92,000,000 of mortgage loans as of December 31, 2016 and 2015, respectively, under a blanket collateral agreement. The advances are also secured by investment securities as described in Note 4. Total advances outstanding cannot exceed $100,000,000 based on the Bank's board of directors' resolution. The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank.

The Corporation entered into a line of credit agreement with a bank allowing for available credit up to $5,000,000. Each quarter, the Corporation may elect the interest rate as either (1) *The Wall Street Journal* prime rate or (2) the one-month LIBOR plus 2.75 percent. At December 31, 2016 and 2015, the Corporation selected option 2 and the interest rate was 2.99 and 2.90 percent, respectively. Interest is payable monthly with the entire principal balance due on the maturity date of May 10, 2018. The line of credit is secured by all the common stock of the Bank. As of December 31, 2016 and 2015, the total amount outstanding was $850,000 and $1,100,000, respectively.

The balance of the above borrowings matures as follows:

Years Ending	Amount
2017	$ 42,000,000
2018	850,000
2021	3,000,000
Total	$ 45,850,000

Note 9 - Income Taxes

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

	2016	2015
Current expense	$ 1,901,152	$ 2,213,883
Deferred income tax benefit	(155,000)	-
Total income tax expense	$ 1,746,152	$ 2,213,883

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

	2016	2015
Income before taxes	$ 7,058,844	$ 7,016,894
Income tax expense at federal statutory rate of 34 percent	2,400,000	2,385,744
Decreases from nontaxable income - Net of nondeductible expenses	(653,848)	(171,861)
Total income tax expense	$ 1,746,152	$ 2,213,883

Note 9 - Income Taxes (Continued)

The details of the net deferred tax asset (liability) are as follows:

	2016	2015
Total deferred tax liabilities	$ (163,000)	$ (303,000)
Total deferred tax assets	2,104,000	1,939,000
Total	$ 1,941,000	$ 1,636,000

Note 10 - 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 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.

Contract Amounts

As of December 31, 2016 and 2015, the following financial instruments whose contract amounts represent credit risk were outstanding:

	Contract Amount	
	2016	2015
Commitments to grant loans	$ 32,066,000	$ 26,752,000
Unfunded commitments under lines of credit	85,300,000	121,923,000
Commercial and standby letters of credit	666,000	1,923,000

Commitments to grant loans 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.

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.

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 total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained for commitments, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

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 11 - Minimum Regulatory Capital Requirements

The Bank is 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its 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 Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common, 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, 2016 and 2015, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2016, 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, Common Equity Tier I (CET 1), Tier 1 risk based, and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted from dollar amounts)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
CET1 (to risk-weighted assets)	$ 42,935	10.98 %	$ 17,604	4.50 %	$ 25,428	6.50 %
Total risk-based capital (to risk-weighted assets)	47,829	12.23	31,296	8.00	39,120	10.00
Tier 1 capital (to risk-weighted assets)	42,935	10.98	23,472	6.00	31,296	8.00
Tier 1 capital (to average assets)	42,935	9.61	17,864	4.00	22,330	5.00
As of December 31, 2015						
CET1 (to risk-weighted assets)	38,284	11.01	15,648	4.50	22,603	6.50
Total risk-based capital (to risk-weighted assets)	42,637	12.26	27,819	8.00	34,774	10.00
Tier 1 capital (to risk-weighted assets)	38,284	11.01	20,864	6.00	27,819	8.00
Tier 1 capital (to average assets)	38,284	9.26	16,537	4.00	20,671	5.00

Note 12 - Stock Options

At December 31, 2016, the Corporation has a share-based compensation plan, which is described below. The compensation cost that has been charged against income for the plan was approximately $155,000 and $141,000 for 2016 and 2015, respectively. There were no deferred income tax benefits recognized in the consolidated statement of income for share-based compensation arrangements for both 2016 and 2015.

Note 12 - Stock Options (Continued)

The Corporation's 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 350,000 shares of common stock. The Plan was initially adopted in 2006 and allowed 150,000 option shares. A similar plan was adopted that granted 100,000 additional option shares in both 2009 and 2012. 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.

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 volatilities of comparable banks. The Corporation uses comparable 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.

	2016	2015
Expected volatility	20.00 %	20.00 %
Expected dividends	0	0
Expected term (in years)	10	10
Risk-free rate	2.40 %	2.24 %

A summary of option activity under the Plan for the year ended December 31, 2016 is presented below:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2015	285,000	$ 12.56	5
Granted	15,800	25.00	10
Exercised	(29,333)	11.29	
Forfeited	(2,667)	17.86	
Outstanding at December 31, 2015	268,800	12.42	4.4
Granted	14,000	32.50	10
Exercised	(81,800)	10.68	
Forfeited	(250)	10.00	
Outstanding at December 31, 2016	200,750	15.81	4.9
Vested or expected to vest at December 31, 2015	169,983	13.68	

The weighted-average grant-date fair calculated value of options granted during the years 2016 and 2015 was $11.15 and $8.41, respectively.

As of December 31, 2016, there was approximately $250,000 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, 2019.

Additionally, in 2016 and 2015, the Corporation awarded restricted shares. In 2016 and 2015, there were 7,200 and 1,950 restricted shares, respectively, which will be recognized in compensation expense over the vesting period, which is five years. The fair value at the grant date in 2016 and 2015 was $143,000 ($32.50 per share) and $48,750 ($25.00 per share), respectively. The unrecognized cost for restricted share awards was approximately $201,000 and $70,000 at December 31, 2016 and 2015, respectively.

Note 13 - 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.

Note 14 - Fair Value Measurements

Accounting standards require certain assets be reported at fair value in 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, 2016 and 2015 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. The Corporation's Level 2 investment securities consisted primarily of U.S. government agency notes, corporate bonds, municipal 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. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby 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.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2016			
	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, 2016
Assets				
Available-for-sale investment securities:				
U.S. government and federal agency	$ -	$ 31,919,534	$ -	$ 31,919,534
U.S. Treasury	10,560,575	-	-	10,560,575
Collateralized mortgage obligation	-	208,419	-	208,419
State and municipal	-	26,197,648	4,355,166	30,552,814
Total assets	$ 10,560,575	$ 58,325,601	$ 4,355,166	$ 73,241,342

Note 14 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2015			
	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, 2015
Assets				
Available-for-sale investment securities:				
U.S. government and federal agency	$ -	$ 38,212,206	$ -	$ 38,212,206
U.S. Treasury	19,767,560	-	-	19,767,560
Collateralized mortgage obligation	-	275,802	-	275,802
State and municipal	-	26,914,365	5,067,092	31,981,457
Total assets	$ 19,767,560	$ 65,402,373	$ 5,067,092	$ 90,237,025

There were no significant assets measured at fair value on a nonrecurring basis in which gains or losses were recognized in 2016 or 2015.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
Balance at January 1	$ 5,067,092	$ 4,258,545
Purchases, issuances, sales, and settlements:		
Net purchases and (maturities)	(710,363)	918,806
Total unrealized losses	(1,563)	(110,259)
Balance at December 31	$ 4,355,166	$ 5,067,092

Unrealized gains and losses above for the years ended December 31, 2016 and 2015, respectively, are reported in the statement of other comprehensive income.

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.

The Corporation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include reviewing other similar municipal investments, the yield curve, and ratings of the issuer.