

FIRST NATIONAL BANCORP, INC.

A BANK HOLDING COMPANY FOR



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

May 10, 2018

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 2018 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 10, 2018 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, James S. Gunderson, David L. Holmes, Benjamin T. Ipema, Larry D. Lueth, Edward B. Montgomery, Sondra K. Phillips, John M. Schreuder, Virginia M. Seyferth and Joshua T. Weiner as directors of First National Bancorp, Inc. for a one year term expiring at the 2019 annual meeting of shareholders.
2. Ratification of the appointment of the independent auditors for the year ending December 31, 2018.
3. To adopt the 2018 Stock Option and Restricted Stock Plan and authorize and reserve for issuance thereunder 50,000 shares of the Corporation’s Common stock.

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 Annexes A and B.

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 10, 2018 (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 2,030,308 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 and Proposal 3.

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 and Proposal 3. 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 9, 2018. 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 14 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.

Proposal 3 will be approved if a majority of shares voted on the proposal are voted in favor of the proposal. Abstentions will not be include 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 27.84% 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, 1 West 8th Street, Holland, Michigan 49423 and a loan production office located at 330 Marshall Street, Suite 200, Lansing, MI 48912. 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. Due to the retirement of Director Dr. John M. Dunn, 12 seats are reelected this year. The board also approved 1 additional seat for this year resulting in 14 total seats requiring election. The 14 director nominees listed below, 12 of which are current directors of the Company, were nominated by the Board to fill the 14 Board seats for one year terms expiring at the 2019 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.

The Board wishes to recognize Dr. Dunn for his 10 years of service since joining First National Bancorp as a Director in May 2008. As such, in honor and recognition of his valuable service to the Corporation, effective May 10, 2018, the Board appointed him a Director Emeritus of the Corporation with the right and privilege of attending regular Board of Director meetings and receiving materials regularly distributed to the Directors. Such appointment shall continue until such time as it is terminated by the Board.

Dr. Dunn is President Emeritus of Western Michigan University in Kalamazoo, Michigan. He served as President for 10 years (2007-2017). 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. He is a member of three national academies, including the National Academy of Kinesiology. Dr. Dunn is an active participant in state and community efforts that focus on quality-of-life issues and enhancing economic development. He has contributed to several regional governing boards, including Southwest Michigan First, the W.E. Upjohn Institute and the WMU Foundation. Dr. Dunn's presidency at WMU was one of vision, collaboration and achievement. His leadership strengthened Higher Education, the Community and the State in countless ways. Among the principal initiatives of his presidency included a heightened commitment to globalization and sustainability, educational opportunities for former foster care youth, and the establishment of collaborative efforts that led to the development of the WMU Homer Stryker M.D. School of Medicine and an affiliation with Thomas M. Cooley Law School that has now added WMU to its name. 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.

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. Mr. 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. He oversees the activities of all locations, including operations in the downtown Kalamazoo headquarters and branches in Portage, West Kalamazoo, Grand Rapids, Holland and the Lansing 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, Mr. Bitzer serves on the Gilmore International Keyboard Festival Board of Trustees, Commissioning Committee for the USS Gerald R. Ford CVN 78, Community Bankers of Michigan Board of Directors, the WMU Economic Advisory Board, and St. Augustine's Finance Committee. He is also an active member of the Economic Club of Grand Rapids and the Elks Lodge.

ERIC V. BROWN, JR. Mr. Brown was a partner in the law firm of Miller Canfield & Stone and 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 was 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 was active in the Business Law Section of the American Bar Association for the last 26 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 2003-2018 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, centennial events in tribute to President Ford's 100th Birthday, and the USS Gerald R. Ford (CVN 78) commissioning. 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. DEKRUYSER. Mr. DeKruyter currently serves on the board of the Kalamazoo Christian Schools Foundation and Gull Lake Ministries. Mr. DeKruyter has been appointed to the Zoning Board of Appeals for Ross

Township in Kalamazoo County. He also serves on the bank board of OSB in Brooklyn, Michigan. 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.

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.

BENJAMIN T. 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 Non-Executive and 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 currently a board member and Past President of The Park Club, board member of the Western Michigan University Foundation and Finance Committee member, board member of Downtown Tomorrow, Inc. and Chair of the Trustees at First United Methodist Church, Kalamazoo.

EDWARD B. MONTGOMERY. Dr. Montgomery, became the ninth President of Western Michigan University on August 1, 2017. He came to WMU from Georgetown University, where he served as Dean and Professor of Economics at that university's McCourt School of Public Policy since 2010. Dr. Montgomery earned a bachelor's degree in economics, with honors, from Pennsylvania State University and both master's and doctoral degrees in economics from Harvard University. During a more than 35-year academic career, Dr. Montgomery has held faculty positions at Carnegie Mellon and Michigan State universities as well as the University of Maryland. During his tenure at Maryland, he served for six years – as Dean of the College of Behavioral and Social Sciences.

During President Clinton's administration, Dr. Montgomery served as chief economist, then counselor and assistant secretary for the Department of Labor, before being named deputy secretary of labor. During President Barack Obama's administration, Montgomery was a member of the president's auto task force and led the inter-agency White House Council for Auto Communities and Workers.

As a researcher, Dr. Montgomery has focused on state and local economic growth, wage and pension determination, savings behavior, productivity and economic dynamics, social insurance programs, and unions. For more than two decades, he has been a research associate at the National Bureau of Economic Research, and since 2006, he has been a fellow of Stanford University's Center for the Study of Poverty and Inequality.

Since 2011, he has served on the Comptroller General's Educators Advisory Committee in Washington's General Accountability Office. In 2011, he was elected a fellow of the National Academy of Public Administration. He serves on the board of directors of the Center for Law and Social Policy and Southwest Michigan First. He also serves on the Committee on Economic Statistics for the American Economic Association. Dr. Montgomery's experience and expertise will be valuable to First National Bank of Michigan.

SONDRA K. PHILLIPS. Ms. Phillips is the sole owner of SKP Design, a firm that she founded in 1996. SKP Design offers both commercial and residential interior design services throughout Michigan; 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 Communications Committee at the Kalamazoo Country Club. 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 founding CEO of First National Bank of Michigan where he now serves as Chairman Emeritus of the Board of Directors. Mr. Schreuder has over 40 years of banking experience in Kalamazoo, Michigan and retired from First National Bank of Michigan on January 1, 2018. Mr. Schreuder started his banking career with First National Bank and Trust Co., (predecessor to First of America Bank) where he served in a leadership capacity. Prior to Mr. Schreuder's banking career, he was a certified public accountant with a big eight firm. He graduated from Western Michigan University with a Bachelor of Business Administration degree. Mr. Schreuder served in a leadership capacity on many community organizations including The Kalamazoo Symphony Orchestra, The Gilmore Keyboard and the Kalamazoo County Chamber of Commerce. In addition, Mr. Schreuder served on the Michigan Bankers Association and the Michigan Chamber of Commerce Boards.

VIRGINIA M. SEYFERTH. Ms. Seyferth, APR is the Founder and President of SeyferthPR, one of Michigan's largest independently-owned public relations firms. She has been recognized in several Michigan business publications as one of the state's most influential business leaders, and provides counsel to some of America's leading executives and companies on M&A communications, reputation management, counsel in media and social media and strategic communications. Ginny also has extensive experience in talent acquisition communication.

As a Michigan business leader, Ginny is dedicated to playing a role in building and sustaining the vibrancy of the state. Her work in support of the launch of programs like ArtPrize; LaughFest; Beer City USA; The West Michigan Policy Forum; TALENT 2025 are all recognized as important factors in building brand reputation for the state.

Ginny has served on many bank boards; including First of America Bank (Michigan), Irwin Union Bank (Michigan), PNC Bank (Michigan) and Inner city Christian Federation Mortgage Board. Select past boards Ginny served are the Detroit Receiving Hospital Board, Ferris State University Board of Control, Grand Rapids Art Museum Board, Hospice of SE Michigan Committee, W. Michigan Environmental Action Board, Alliance for Health Board, and the Grand Rapids Millennium Park Commission. Ginny was a Founding Member of Liz's House Shelter, Leadership Grand Rapids, and TEDx-Grand Rapids.

Her past professional experience includes Amway Corporation, MI, AMOCO Oil Company, IL and St. Jude Children's Research Hospital, TN.

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, Eric V. Brown, Jr., James J. DeKruyter, Benjamin T. Ipema and John M. Schreuder 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 2017.

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, James S. Gunderson, Larry D. Lueth, John M. Schreuder 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, Joseph S. Calvaruso, Benjamin T. Ipema, and Larry D. Lueth, 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 five times during 2017.

**PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR
THE YEAR ENDING DECEMBER 31, 2018**

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, 2018, 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, 2018.

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, 2018, the Audit Committee will consider a change in independent auditors for the next year.

PROPOSAL 3 – ADOPTION OF THE 2018 STOCK OPTION AND RESTRICTED STOCK PLAN AND RESERVATION FOR ISSUANCE THEREUNDER 50,000 SHARES OF THE CORPORATION'S COMMON STOCK

At its meeting on March 8, 2018, the Board of Directors of First National Bancorp, Inc. adopted the 2018 Stock Option and Restricted Stock Plan (the "2018 Stock Plan"), under which 50,000 shares of the Corporation's Common Stock would be authorized and reserved for issuance to participants. The Directors reviewed the 2018 Stock Plan and found the terms and conditions of the plan to be fair, reasonable and in the best interests of the Corporation and the Shareholders. A copy of the 2018 Stock Plan is attached hereto as Annex A.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ADOPTION OF 2018 STOCK PLAN AND AUTHORIZE THE RESERVATION OF 50,000 SHARES OF THE CORPORATION'S COMMON STOCK FOR THE PLAN

BENEFICIAL * STOCK OWNERSHIP

The following table sets forth information as of April 10, 2018 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 10, 2018.

Name of Beneficial Owner	Common Stock	Rights to Acquire⁽¹⁾	Restricted Stock	Approximate Percent of Common Stock⁽²⁾
Eric V. Brown, Jr.	38,400	0	0	1.89
Daniel E. Bitzer	4,000	26,750	0	0.20
Joseph S. Calvaruso	9,000	0	0	0.44
James J. DeKruyter	127,358	0	0	6.27
James S. DeMoss	100	0	0	0.00
Jefra A. Groendyk	1,150	15,400	600	0.09
James S. Gunderson	37,500	0	0	1.85
David L. Holmes	20,000	0	0	0.99
Benjamin T. Ipema	40,000	0	0	1.97
Cynthia S. Kole	50	0	650	0.03
Larry D. Lueth	63,182	7,818	0	3.11
Edward J. Montgomery	0	0	0	0.00
Matthew J. Morgan	2,430	4,750	120	0.13
Sondra K. Phillips	4,000	0	0	0.20
Steven K. Piper	200	0	1,250	0.07
John M. Schreuder	109,213	11,553	0	5.38
Virginia M. Seyferth	1,000	0	0	0.05
Joshua T. Weiner	105,000	0	0	5.17

* “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 2,030,308 shares issued and outstanding as of April 10, 2018.

(3)

EXECUTIVE OFFICERS

Current executive officers are as follows:

Name	Position	Officer Since
Daniel E. Bitzer	CEO and President of the Company and the Bank	January 1, 2017
Jefra A. Groendyk	Executive Officer	March 8, 2018
Cynthia S. Kole	Executive Officer	March 8, 2018
Matthew J. Morgan	CFO and Secretary / Treasurer of the Company and the Bank	January 1, 2015
Steven K. Piper	Executive Officer	March 8, 2018

FINANCIAL INFORMATION

The Profit and Loss Statement of the Company for fiscal year 2017 and the Balance Sheet as of December 31, 2017 are attached as Annex **B**.

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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**FIRST NATIONAL BANCORP, INC.
2018 STOCK OPTION AND RESTRICTED STOCK PLAN**

1. PURPOSE. FIRST NATIONAL BANCORP, INC., a Michigan corporation (the “*Company*”) hereby adopts the FIRST NATIONAL BANCORP, INC. 2018 STOCK OPTION AND RESTRICTED STOCK PLAN (the “*Plan*”) for the purposes of attracting and retaining employees of the Company and employees of the Company’s subsidiary, First National Bank of Michigan (“*Employees*”), non-Employee members of the Company’s Board of Directors (“*Directors*”) (Employees and Directors are collectively referred to herein as “*Participants*”) of superior ability, encouraging ownership by selected Participants of shares of common stock of the Company (the “*Common Stock*”), and providing an additional incentive to Participants to promote the success of the Company.

2. PLAN COMMITTEE. This Plan shall be administered by the Board of Directors of the Company (the “*Board*”) or by such committee of the Board as the Board may hereafter designate from time to time for such purpose. The Board or any such committee of the Board delegated the authority to administer this Plan shall be hereinafter referred to as the “*Committee*.” The Committee shall satisfy such criteria as are then necessary in order to facilitate exemption of compensation paid pursuant to this Plan from the tax deduction limits imposed by Section 162 of the Internal Revenue Code of 1986, as amended (the “*Code*”). In addition, in the event the Committee is not the entire Board, at least two of the members of the Committee shall be “Non-Employee Directors”, as such term is defined in Rule 16b-3, as promulgated under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”).

3. PLAN ELIGIBILITY. The Committee may grant options (each an “*Option*”) or restricted stock (each a “*Restricted Stock Grant*”) pursuant to this Plan only (a) to Employees of the Company whose services are provided to the Company or a Subsidiary (as such term is defined in the Code) at least thirty (30) hours per week, and (b) Directors who are not Employees (each of the foregoing, without distinction among them, an “*Optionee*”); provided, however, that no Director proposed to receive an Option or Restricted Stock Grant shall participate in any vote of the Committee with respect to the grant thereof.

4. SHARES SUBJECT TO PLAN. The Company shall reserve fifty thousand (50,000) shares of Common Stock for future issuance under this Plan (the “*Shares*”). At no time shall the number of shares of Common Stock subject to outstanding Options and Restricted Stock Grants, when added to that number of shares of Common Stock previously issued by the Company under this Plan, exceed such number. Such number, however, shall be subject to appropriate increase or decrease in the event of any future stock dividend or other recapitalization of the Common Stock of the Company. In the event of a lapse of any Option or forfeiture of Common Stock under the terms of a Restricted Stock Grant, the shares of Common Stock not purchased under that lapsed Option or forfeited under such Restricted Stock Grant shall again be available for grant under a new Option or Restricted Stock Grant.

OPTIONS

5. GRANT OF OPTIONS. The Committee may, from time to time, grant Options to Optionees by means of the form of Option Grant which is attached as Exhibit A to this Plan or pursuant to any other instrument that references and incorporates this Plan and modifies, as

permitted hereby, default provision of this Plan (each an “*Option Grant*”). An Option Grant shall not be valid unless signed by an authorized officer of the Company and acknowledged by the Optionee.

6. NATURE OF OPTIONS. Options shall either (a) meet the requirements of Code Section 422 (“*Qualified Options*”) or (b) not meet such requirements (“*Non-Qualified Options*”). The Committee may only grant Qualified Options to Employees who meet the requirements of Code Section 3401(c). At the time of the grant of an Option, the Committee shall specify whether the Option is a Qualified Option or a Non-Qualified Option and shall designate it as such in the Option Grant relating thereto. If for any reason an Option or any portion thereof intended to be a Qualified Option does not qualify as such under Code Section 422, either at the time of grant or at any time thereafter, such failure to qualify shall not invalidate the Option (or such portion), and instead such Option (or portion thereof) shall be deemed to have been granted as an Non-Qualified Option, notwithstanding the fact that the same had been designated as a Qualified Option in the Option Grant.

7. TIME OF OPTION. Each Option Grant and exercise of Options under this Plan shall be subject to the following:

7.1 Time of Grant. The Committee may grant Options under this Plan from the date of adoption of this Plan by the Board (the “*Adoption Date*”), to and including (but not after) ten (10) years after such date.

7.2 Vesting. Each Option granted under this Plan shall be exercisable, in whole or in part, from and after the date specified in the Option Grant. The Committee shall determine and specify in each Option Grant the vesting requirements relating thereto, with vesting to occur only upon either satisfaction of specific performance criteria or the completion of specified periods of continued employment with, or service to, the Company; provided, however, that in the event an Option Grant shall fail to specify a vesting schedule, the related Option shall be deemed vested as to one third (1/3) of the number of shares of Common Stock subject thereto on the first anniversary of the date of the Option Grant, with the remainder vesting in equal amounts on each of the second and third anniversaries of the date of the Option Grant. The minimum vesting schedule for Options granted under this Plan shall be over three (3) years (the “*Minimum Vesting Schedule*”).

7.3 Expiration. Unless otherwise stated in an Option Grant, each Option granted under this Plan shall automatically expire ten (10) years after the date of grant; provided, however, that any Qualified Option granted to any Employee who, at the time of the grant of the Option, owns (individually or through members of his/her family) more than ten percent (10%) of the Common Stock of the Company (each an “*Insider*”) shall expire no more than five (5) years after the date of grant. No Option shall exceed ten (10) years in duration.

7.4 Limitation on Exercise. No exercise of rights under an Option shall be permitted prior to the vesting date of those rights. No exercise of rights under an Option shall be permitted following the expiration of that Option or, if applicable, the forfeiture of the rights under that Option pursuant to Section 11 hereof.

8. SHARES SUBJECT TO OPTION. Options granted may be for any number of shares of Common Stock, as determined by the Committee, subject to the limitation that the number of Shares for which an exercise of a Qualified Option for the first time in any calendar year shall not have an aggregate Fair Market Value (as hereinafter defined), determined at the time of the issuance of the Option Grant, in excess of One Hundred Thousand Dollars (\$100,000).

9. OPTION PRICE/PAYMENT TERMS. The price and payment terms applicable to any purchase of Common Stock under an Option shall be as follows:

9.1 Price. The price for each share of Common Stock purchased upon exercise of any Option (the “**Exercise Price**”) shall be determined as follows:

9.1.1 The Exercise Price under a Qualified Option shall be not less than one hundred percent (100%) of the Fair Market Value of the Common Stock at the time of issuance of the Option; provided, however, that if an Option is granted to an Employee who, at the time of the grant of the Option is also an Insider, then the Exercise Price shall be not less than one hundred ten percent (110%) of the Fair Market Value of the Common Stock at the time of issuance of the Option.

9.1.2 For purposes of this Plan, the per share “**Fair Market Value**” of the Common Stock shall be (a) the closing sale price for a share of the Common Stock reported (i) on any national exchange on which the Company is listed, or (ii) the National Association of Securities Dealers, Inc. Automated Quotation System (“**NASDAQ**”) as of the date upon which the Company grants an Option, provided the Common Stock is authorized for quotation as a NASDAQ National Market System Security for such date (or, if no sale is so reported for such date, for the latest preceding date on which such a sale was so reported), or (b) if the Common Stock is not so listed or authorized for quotation, the price determined by the Board, in good faith, from time to time at or prior to the time of the grant of each Option. In the event of any stock dividend or other recapitalization of the Common Stock following the date of the grant of an Option, the purchase price shall be correspondingly adjusted.

9.1.3 The Exercise Price for each share of Common Stock to be purchased under a Non-Qualified Option shall be determined by the Committee at the time of grant and set forth in the Option Grant.

9.2 Payment Terms. In general, an Optionee shall pay the Company the Exercise Price in full at the time of delivery of the Notice of Exercise.

10. EXERCISE OF OPTIONS. Optionees may exercise Options at any time prior to the expiration date specified in the related Option Grant by delivering a notice in the form attached hereto as Exhibit B (the “**Notice of Exercise**”), together with tender of the payment of the aggregate Exercise Price for the Common Stock subject to that Notice of Exercise. If financing is provided by the Company for such purchase, then such tender shall include an executed promissory note for the financed portion of the Exercise Price. An Optionee may exercise an Option in whole or in part.

11. FORFEITURE OF OPTIONS. Options shall be subject to forfeiture under the following circumstances:

11.1 Forfeiture of Employee Options. If an Employee ceases to be employed by the Company while any Option remains outstanding, the unvested rights under that Option shall automatically expire as of the effective date of termination of employment and the vested rights under that Option shall expire as follows:

11.1.1 If the termination of employment was due to the death or disability of the Employee, then the vested rights under the Option shall expire at the earlier of the expiration date stated in the Option Grant or one (1) year after the effective date of termination of employment.

11.1.2 If the termination of employment was due to the resignation of the Employee, then the vested rights under the Option shall expire at midnight on the ninetieth (90th) day after the effective date of termination of employment.

11.1.3 If the termination of employment was due to the termination of the Employee by the Company for reasons other than the “gross misconduct” of the Employee, then the vested rights under the Option will expire at midnight on the ninetieth (90th) day after the effective date of termination.

11.1.4 If the termination of employment was due to the termination of the Employee by the Company as a result of the “gross misconduct” of the Employee, then the vested rights under the Option will expire immediately upon the effective date of termination of employment.

For purposes of this Plan, “**gross misconduct**” of an Employee shall include and be limited to (a) fraud, embezzlement, theft or similar dishonest conduct on the part of the Employee in the course of employment with the Company, (b) conviction of the Employee of a crime which, in the reasonable determination of the Board, materially and adversely affects the business, prospects and/or reputation of the Company, (c) violation by an Employee of any agreement with, or any policy or procedure of, the Company, or (d) willful misuse or improper disclosure by the Employee of proprietary information of the Company. The determination of the Board as to “gross misconduct” for purposes of this Plan shall be final and shall not be subject to challenge or appeal.

11.1.5 If the termination of employment was due to the retirement of the Employee on or after the age of sixty-two (62) with five (5) or more years of service, then the vested rights under the Option will continue and expire on the date that is ten (10) years after the date of grant of the Option.

11.2 Forfeiture of Non-Employee Director and Outsider Options. If a non-Employee Director with the Company terminates by reason of death or disability, then the vested rights under any Non-Qualified Option issued to such Director shall expire at the earlier of the expiration date stated in the Option Grant or one (1) year after the effective date of such termination. If a non-Employee Director’s relationship with the Company terminates by reason of the breach by the non-Employee Director of any of such Director’s obligations to the Company or its shareholders, then all outstanding Non-Qualified Options held by such Director shall automatically be canceled. Termination of a non-Employee Director’s relationship with the

Company for any other reason shall cause the vested rights on any Non-Qualified Options issued to such Director to expire on midnight on the ninetieth (90th) day after the effective date of termination.

12. CHANGES IN CONTROL AND OTHER EXTRAORDINARY TRANSACTIONS.

12.1 Certain Definitions. As used in this Section, the following terms shall have the meanings set forth below:

12.1.1 **“Affiliate”** means, with respect to any person or entity, any other person or entity that controls, is controlled by or is under common control with, such first person or entity.

12.1.2 **“Cash-Out Amount”** means, with respect to any Cash Transaction and any Option, an amount in cash equal to the difference between (A) the amount of cash to be paid to holders of the Company’s Common Stock for each share exchanged or surrendered in the transaction, multiplied by the number of shares of Common Stock for which such Option is exercisable or as accelerated by the Board, and (B) the exercise price for such shares under such Option.

12.1.3 **“Cash Transaction”** means a merger or other transaction in which holders of the Common Stock receive a cash payment for each share exchanged or surrendered in such merger or other transaction.

12.1.4 **“Change in Control”** means (A) any merger or consolidation of the Company with or into another entity, other than a merger or consolidation in which the shareholders of the Company immediately before the transaction will own immediately thereafter, directly or indirectly, securities having a majority in ordinary voting power of the outstanding securities of the surviving or resulting entity, and (B) any sale by the Company of all or substantially all of its assets, other than a sale of assets in which the shareholders of the Company immediately before the transaction will own immediately thereafter, directly or indirectly, securities having a majority in ordinary voting power of the outstanding securities of the acquirer of the Company’s assets.

12.1.5 **“Extraordinary Transaction”** means (A) any merger or consolidation of the Company with or into another entity, (B) any sale by the Company of all or substantially all of its assets, or (C) any sale or other transfer of shares of stock by one or more shareholders of the Company as a result of which any one transferee, together with the transferee’s Affiliates, will become the owner of a majority in ordinary voting power of the Company’s outstanding stock.

12.1.6 **“Publicly Traded”** means, with respect to any securities of a kind acquirable upon exercise of an Option, that there are shares of such class of securities that are traded on or through a national securities exchange or the National Association of Securities Dealers Automated Quotation System or any similar public securities market.

12.1.7 **“Service”** means, with respect to any Optionee, such Optionee’s service as an employee, officer or director of, or consultant or advisor to, the Company or any acquiring or succeeding corporation or entity, as the case may be.

12.1.8 **“Unvested Shares”** means, with respect to any Option at any time, any shares that are not then acquirable upon exercise of such Option but that will become acquirable at a future date if the Optionee continues to provide Service to the Company through that date. Unvested Shares do not include any shares that will become exercisable only if specified performance targets are met.

12.2 Extraordinary Transactions in General. In the event of an Extraordinary Transaction in which all or substantially all of the outstanding shares of Common Stock are exchanged for securities, cash or other property of any other corporation or entity, the Board, or any corporation or entity assuming the obligations of the Company, shall take any one or a combination of the following actions as to all outstanding Options (and need not take the same action as to each such Option): (i) provide that such Options shall be assumed, or equivalent Options shall be substituted, by the acquiring or succeeding corporation or business entity (or an affiliate thereof), provided that any such substituted Options shall have terms not materially less favorable to the Optionee than the terms of the Options being replaced; (ii) in the event of a Cash Transaction, make or provide for a cash payment of the Cash-Out Amount upon exercise of such Option, in lieu of the shares of Common Stock (or other securities) which the Optionee otherwise would be entitled to receive upon exercise of such Option; or (iii) upon written notice to the Optionee, provide that all unexercised Options that are then exercisable or would become exercisable by virtue of such Extraordinary Transaction will terminate prior to or upon the consummation of the transaction and may only be exercised by the Optionee within a specified period following the date of such notice. In the event of an Extraordinary Transaction in which some but less than substantially all of the outstanding shares of Common Stock are exchanged for securities, cash or other property of any other corporation or entity, the Board, or the corporation or entity assuming the obligations of the Company, may in its discretion, take any one or a combination of the actions set forth in clauses (i), (ii) and (iii) of the preceding sentence. Notwithstanding the foregoing, in no event shall the Board or the Committee be permitted to accelerate the vesting on the Unvested Shares in connection with a Cash Transaction, a Change in Control or an Extraordinary Transaction to duration shorter than the Minimum Vesting Schedule.

12.3 Election to Cash-Out Options upon Certain Changes in Control. If a Change of Control occurs that is a Cash Transaction in which the holders of all or substantially all of the outstanding Common Stock are entitled to receive a cash payment for each share exchanged or surrendered in the transaction, and if the Company or any corporation or entity assuming the obligations of the Company has not made or provided for payment of the Cash-Out Amount with respect to all outstanding Options, and if any Options (including any replacement Options substituted pursuant to Section 12.2 above) outstanding thereafter are exercisable for Common Stock or other securities that are not Publicly Traded at the time of exercise, then the Optionee may elect, upon such exercise, to receive the Cash-Out Amount, in lieu of the Common Stock or other securities which the Optionee otherwise would be entitled to receive upon such exercise.

12.4 Certain Exceptions. Notwithstanding anything herein to the contrary, the Board by majority vote may provide in any Option Grant that any or all of the preceding provisions of this Section 12 shall not apply to the Options granted under such Option Grant, and may, in its discretion, substitute other provisions addressing Changes in Control and other Extraordinary Transactions.

12.5 Substitute Options. The Company may grant Options in substitution for Options held by employees of another corporation who become employees of the Company, or a subsidiary of the Company, as the result of a merger or consolidation of the employing corporation with the Company or a subsidiary of the Company, or as a result of the acquisition by the Company, or one of its subsidiaries, of property or stock of the employing corporation. The Company may direct that substitute Options be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

13. OPTION IS DISCRETIONARY. The grant by the Committee of any Option is entirely discretionary and nothing in this Plan shall be deemed to give any employee of the Company or any other person any right to participate in this Plan or to receive Options. Except as provided in Sections 11 and 12 hereof, the exercise of any Option granted under this Plan is entirely discretionary with the Optionee and nothing in this Plan shall be deemed to require any Optionee to exercise any Option.

14. RESTRICTIONS ON TRANSFERS.

14.1 Restriction on Transfer of Options. The rights of an Optionee under an Option shall not be transferable or assignable by that Optionee other than by will or by laws of descent upon death. During the lifetime of the Optionee, the Option shall be exercisable only by that Optionee.

14.2 Restrictions on Transfer of Option Stock. Optionees shall not dispose of any Common Stock acquired by exercise of Options ("***Option Stock***") within two (2) years of the date of the Option Grant under which that Option Stock was acquired, or within one (1) year from the date that Option Stock was issued, whichever is longer. For purposes of this Section, a disposition shall include any transfer or purported transfer of Option Stock, whether voluntary or involuntary, whether with or without valuable consideration and whether by sale, pledge, gift, foreclosure or otherwise.

15. REDEMPTION OF OPTION STOCK. Until the occurrence of an initial public offering of the Company's capital stock pursuant to an effective registration statement under the Securities Act of 1933, as amended, all Option Stock shall be subject to redemption by the Company as follows: If the Board at any time adopts a resolution recommending that all shareholders of the Company sell their Common Stock to a third party under an offer approved by the Board (each an "***Approved Offer***"), and if an Optionee holding Option Stock does not within ten (10) days after receipt of such notice commit to proceed as recommended by the Company, then the Company shall have the option, exercisable by written notice delivered within twenty (20) days after the expiration of such ten (10) day period, to redeem such Option Stock at the price and upon the terms contained in the Approved Offer, with the closing of such redemption to occur on the thirtieth (30th) day following the date of delivery of such notice.

16. LIMITATION OF RIGHTS. An Optionee shall not have any rights as a shareholder with respect to any Common Stock which is the subject of an Option unless and until the date that a stock certificate is issued for such Common Stock pursuant to an exercise of the Option. No adjustment shall be made for dividends or otherwise if the record date for dividends is prior to the date of the issuance of such stock certificates.

17. NO RIGHT TO CONTINUED EMPLOYMENT. The grant of an Option by the Company to an Employee under this Plan shall not in any way establish any continuing right of that Employee to employment with the Company and all employees of the Company shall remain "at will" employees, unless the Company shall otherwise agree in a separate instrument.

RESTRICTED STOCK

18. GRANTS OF RESTRICTED STOCK. The Committee may, in its discretion, make grants of Common Stock to Participants in such number of shares of Common Stock ("***Restricted Stock***"), subject to risk of forfeiture and subject to such other terms and restrictions (including, without limitation, restrictions on transfer) as may be set forth in a written agreement between the Company and the grantee of such Common Stock (each a "***Restricted Stock Agreement***") which is attached as Exhibit C to this Plan. Each Restricted Stock Agreement shall contain a representation of the grantee that he or she has received and reviewed a copy of this Plan. Grantees of Restricted Stock shall not be obligated to pay any consideration therefor.

19.

20. TIME OF RESTRICTED STOCK GRANTS. The Committee may make Restricted Stock Grants under this Plan from the Adoption Date to and including (but not after) ten (10) years after such date.

21. RISK OF FORFEITURE. The Committee shall determine and specify in each Restricted Stock Agreement the circumstances under which the Restricted Stock granted thereunder shall be subject to forfeiture, which may include satisfaction of specific performance criteria and/or the completion of specified periods of continued employment with, or service to, the Company.

22. VOTING PROXY. In the applicable Restricted Stock Agreement, each grantee of Restricted Stock shall grant to the Secretary of Company an irrevocable proxy, coupled with an interest, to vote all of the Shares of Restricted Stock that remain subject to risk of forfeiture under such Restricted Stock Agreement, provided that the Secretary of Company votes such shares on any matter put to a vote of the shareholders of Company in the same proportion (rounded to the nearest whole share) as (a) the shares of Common Stock are voted on such matter by all of the other holders of Company's Common Stock, when voting as a separate class, or (b) the shares of Common Stock and all other series and classes of the Company's capital stock are voted on such matter by all of the other holders of Company's capital stock, without regard to series or class.

23. ESCROW. For purposes of facilitating the forfeiture rights of the Company set forth in each Restricted Stock Agreement, the grantee of any shares of Restricted Stock shall deliver to the Secretary of Company any certificate(s) for such shares that remain subject to

forfeiture under such Restricted Stock Agreement, together with a stock power executed by such grantee, in blank. The Secretary of Company or his or her designee (in either such case, the “*Escrow Agent*”) may hold such certificate(s) and stock power(s) in escrow and take all such actions and to effectuate all forfeitures contemplated by such Restricted Stock Agreement. Such escrow shall remain in effect so long as any shares of Restricted Stock remain subject to forfeiture under such Restricted Stock Agreement. As soon as any such shares of Restricted Stock cease to be subject to forfeiture, the Company shall give notice thereof to the Escrow Agent and the Escrow Agent shall release the same (together with any stock power relating thereto) to such grantee as and when requested by such grantee in writing to Company; provided, however, that Company shall be obligated to do so not more often than at the end of each calendar quarter thereafter and at such time as such shares are no longer subject to forfeiture; provided further, however, that Company shall release any of such shares upon the occurrence of any event resulting in an acceleration of the lapse of forfeiture restrictions as provided in such Restricted Stock Agreement. By acknowledgement of this Plan in a Restricted Stock Agreement, each grantee of Restricted Stock acknowledges that the Escrow Agent is so appointed as a material inducement to the grant of such Restricted Stock, that such appointment is coupled with an interest, and is irrevocable. The Escrow Agent shall not be liable to such grantee or the Company (or to any other party) for any actions or omissions other than those constituting willful misconduct or gross negligence. The Escrow Agent may rely upon any letter, notice or other document executed by any signature purported to be genuine.

GENERAL

24. SECURITIES LAWS.

24.1 Conditioned upon Availability of Exemption. Any grant of Options or Restricted Stock under this Plan shall be conditioned on the availability of exemptions from the registration requirements of the Securities Act of 1933, as amended, and applicable state securities laws (collectively, the “*Securities Laws*”). In addition, the Committee may condition any such grant on the receipt by the Company of such agreements, representations and warranties from the Optionee or grantee of Restricted Stock as the Company may request for the purpose of establishing the availability of such exemptions. Any such grant that is not so exempt shall be null, void and of no effect.

24.2 Securities Laws. No person shall dispose of any Option Stock or Restricted Stock (together, without distinction, the “*Stock*”) unless in compliance with the Securities Laws. The Stock will not be registered under the Securities Laws and will be issued pursuant to exemptions therefrom. In the Notice of Exercise and the Restricted Stock Agreement, each Optionee and grantee of Restricted Stock shall acknowledge to the Company that the Stock will be, or has been, acquired pursuant to an exemption from the Securities Laws and that the Optionee or such grantee is acquiring the Stock for investment purposes and not with a view to subsequent sale or redistribution. The Stock may not be transferred unless a registration statement for such Stock is then in effect or the transfer is otherwise exempt from registration.

24.3 Restrictive Legend. Each certificate representing shares of Stock shall be imprinted with legends in substantially the following form:

“The Common Stock represented by this Stock Certificate has been issued pursuant to the FIRST NATIONAL BANCORP, INC. 2018 STOCK OPTION AND RESTRICTED STOCK PLAN (the “*Plan*”). [FOR OPTIONS: Pursuant to the Plan, any disposition of the Common Stock is subject to substantial restrictions and FIRST NATIONAL BANCORP, INC., has the right to redeem the Common Stock under specified circumstances. A copy of the Plan is maintained in the offices of FIRST NATIONAL BANCORP, INC., and may be reviewed upon request.] [FOR RESTRICTED STOCK: Such Common Stock has been issued pursuant to a Restricted Stock Agreement that sets for the restrictions applicable thereto, including the circumstances under which such Common Stock is forfeit. A copy of such Agreement is maintained in the offices of FIRST NATIONAL BANCORP, INC., and may be reviewed upon request.]”

“The Common Stock represented by this certificate has not been registered under the Securities Act of 1933, as amended, (the “*Act*”) or the securities laws of any state. Accordingly, such Common Stock may not be sold or otherwise disposed of, or transferred, unless a registration statement relating to the Common Stock is then in effect under the Act and applicable state securities laws, or unless an exemption from registration is established under those laws. Any transfer pursuant to exception from applicable federal and state securities laws is subject to the written consent of FIRST NATIONAL BANCORP, INC. which may condition such consent upon receipt of the opinion of counsel, in form and substance satisfactory to FIRST NATIONAL BANCORP, INC., to the effect that such registration is not required.”

24.4 Underwriting Lock-Up. In connection with a firm commitment underwritten public offering of securities of the Company, if requested by the issuer or its principal underwriter, each holder of Stock will: (a) not sell or otherwise transfer any such shares of Stock not included in such underwriting during the one hundred eighty (180) day period (or such shorter or longer period as the underwriter may require of the principal security holders of the issuer) following the effective date of the registration statement filed with the Securities and Exchange Commission in connection with such offering; and (b) execute such instruments as the underwriter may reasonably require to evidence compliance with this subsection.

24.5 Stop Transfer Orders. The Company may place a “stop transfer” order against shares of Stock issued upon exercise of any Option or pursuant to a Restricted Stock Agreement until full compliance with all restrictions and conditions set forth in this Section.

25. RECLASSIFICATIONS. If there shall be any reclassification, capital reorganization, subdivision, combination or stock dividend or any other similar change affecting the Common Stock, then number of shares of Common Stock subject to any Option and the exercise price thereof shall be appropriately and automatically adjusted in a manner consistent with any such change; provided, however, if the nature of such change is such that any resultant adjustment is not readily apparent it shall otherwise be made in such manner as the Committee shall determine in the exercise of its sole discretion. Any such change shall be final and binding upon each Optionee. The instrument or action of the Board or committee thereof effecting any such change may provide for the elimination of any fractional share subject to an Option resulting therefrom.

26. TAXES.

26.1 Withholding for Options. Upon the disposition by an Optionee or other person of shares of Option Stock acquired pursuant to the exercise of a Qualified Option prior to satisfaction of the holding period requirements of Code Section 422, or upon the exercise of a Non-Qualified Option, the Company shall have the right to require such Optionee or such other person to pay by cash or check payable to the Company, the amount of any taxes which the Company may be required to withhold with respect to such transactions.

26.2 Withholding for Restricted Stock. Upon the grant of Restricted Stock, the Company shall have the right to require the grantee to pay by cash or check payable to the Company, the amount of any taxes which the Company may be required to withhold as a consequence of such grant.

26.3 Elections under Code Section 83(b). Any grantee of Restricted Stock shall be entitled to make an election with respect thereto under Code Section 83(b) and to pay taxes in respect of such Restricted Stock Grant upon the basis of such election. The Company shall have no obligation or liability with respect to any such filing, the value of the Restricted Stock declared therein or the timing of any such election.

27. AMENDMENT, TERMINATION AND SUSPENSION.

27.1 Options. The Committee may, at any time, terminate or, from time to time, amend, modify or suspend this Plan (or any part hereof). In addition, the Committee may, from time to time, amend or modify any provision of this Plan other than Section 12 hereof and, with the consent of the affected Optionee, make such modifications of the terms and conditions of such Optionee's Option as it shall deem advisable. The Committee, with the consent of the affected Optionee, may also amend the terms of any Option to provide that the Exercise Price for any shares of Common Stock remaining subject to the original Option shall be reestablished at a price not less than one hundred percent (100%) of the then Fair Market Value of the Common Stock on the effective date of the amendment as determined in accord with Section 9.1.2 hereof; provided, however, that the Committee shall have no obligation to do so. No modification of any other term or provision of any Option which is amended in accordance with the foregoing shall be required, although the Committee may, in its discretion, make such further modifications of any such Option as are not inconsistent with or prohibited by this Plan. No Options may be granted during any suspension of this Plan or after its termination. Notwithstanding the foregoing, the Committee may not amend this Plan in any manner that would have the effect of preventing any Options which were intended to be Qualified Options from being treated as "qualified" incentive stock options under Code Section 422 and the Treasury Regulations promulgated thereunder.

27.2 Restricted Stock. The terms applicable to a Restricted Stock Grant may only be amended or otherwise modified in accordance with a written amendment of the related Restricted Stock Agreement, executed by the Company and the grantee.

27.3 Approval. If an amendment of this Plan would (a) materially increase the benefits accruing to Participants, (b) increase the aggregate number of shares of Common Stock which may be issued under this Plan, or (c) modify the requirements of eligibility for

participation in this Plan, the amendment shall be approved by the Board or the Committee and, to the extent then required by Code Section 422, by a majority of the shareholders of the Company.

27.4 No Modification of Existing Options. In the case of Options issued before the effective date of any amendment, suspension or termination of this Plan, such amendment, suspension or termination shall not, without specific action of the Board or the Committee and the consent of the affected Optionee, in any way modify, amend, alter or impair any rights or obligations under any Option previously granted under this Plan.

28. ADMINISTRATION. This Plan shall be administered by the Committee, which by majority vote of a duly constituted quorum, shall have the power to grant Options and Restricted Stock, to establish rules for administration and interpretation of this Plan, to exercise all rights of the Company under and with respect to this Plan and otherwise to generally administer this Plan. The Committee, in interpreting this Plan, reserves the right to correct any defect in this Plan, to supply any omission from this Plan or to reconcile any inconsistency in this Plan in a manner which is consistent with the objectives stated in the preamble to this Plan. Any decision made by the Committee in the administration of this Plan shall be conclusive and binding upon the Company and the affected Optionee(s) and grantees of Restricted Stock and shall not be subject to challenge or appeal.

29. LIABILITY/INDEMNIFICATION. No member of the Committee shall be liable for any act or omission relating to the administration of this Plan excepting acts or omissions of that member which constitute gross negligence or willful misconduct. The Company shall indemnify and hold each present and future member of the Committee harmless from and against all claims, liabilities, damages or expenses (including, without limitation, attorneys fees and disbursements) incurred by such member in connection with or arising out of any claim, suit or proceeding relating any way to the administration or interpretation of this Plan; provided, however, that if, as a result of such claim, suit or proceeding, it is determined that the conduct of such member with respect to this Plan constituted gross negligence or willful misconduct, then such member shall be obligated to reimburse the Company for any amounts paid pursuant to this indemnification.

30. NO DEFERRED COMPENSATION. The Company intends that the granting of any award under this Plan shall not constitute a deferral of compensation as defined in Code Section 409A and the interpretive authorities promulgated thereunder, and the provisions of this Plan shall be construed in a manner to carry out that intention.

31. UNDERCAPITALIZATION. In the event the Company's capital falls below minimum regulatory requirements, as determined by the Company's primary state or federal regulator, or the existence of outstanding options impairs the Company to raise capital, the Company's primary federal regulator may direct the Company to require any holder granted Options under this Plan to exercise or forfeit their rights granted under the Option Grant.

32. APPROVAL OF PLAN. The Adoption Date upon which this Plan has been adopted by the Board is March 8, 2018. The shareholders of the Company approved this Plan on May 10, 2018.

EXHIBIT A**OPTION GRANT**

To: _____

Date: _____

FIRST NATIONAL BANCORP, INC., a Michigan corporation (the “*Company*”) hereby grants you an option (the “*Option*”), pursuant to the FIRST NATIONAL BANCORP, INC. 2018 STOCK OPTION AND RESTRICTED STOCK PLAN (the “*Plan*”) to purchase up to _____ shares of the Common Stock of the Company (the “*Option Shares*”) at a price of \$_____ per share. The date of the grant of this Option is as indicated above. It is the determination of the Board of Directors that, on this date, the fair market value of the Common Stock of the Company is \$ _____ per share.

The Option [is intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended][IS NOT intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended].

Attached is a copy of the Plan. Your rights under this Option are, in all respects, limited and conditioned as provided in the Plan.

In your review of the Plan, your attention is specifically directed to the time within which you may and must exercise the Option. Your rights under the Option will vest if you continue to be employed by the Company on the following schedule:

<u>Date</u>	<u>Cumulative Option Shares Vested</u>
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If your employment or other arrangement with the Company is terminated for any reason prior to a vesting date, no further vesting will occur on or after the effective date of termination.

Please note that the Plan does not require that you exercise any vested rights under the Option as to any particular number of Option Shares at any particular time, but that your right to exercise this Option will in all events expire _____ years from the date of this Option Grant and will be subject to an earlier termination if your employment or other applicable engagement with the Company is for any reason terminated prior to the expiration of that time period.

The purchase price for shares of Common Stock acquired by you pursuant to the Option shall be payable as provided in Section 9 of the Plan.

Your exercise of the Option shall only be by means of the Notice of Exercise which is attached to the Plan.

The Option Shares have not been registered, nor does the Company have any obligation to register the Option Shares, under the Securities Act of 1933, as amended, or the securities laws of any state. Accordingly, upon any exercise of this Option, Option Shares will not be freely transferable and may not be sold or otherwise disposed of, or transferred, unless a registration statement relating to the Option Shares is then in effect under such Act and applicable state securities laws, or unless an exemption from registration is established under those laws. Any transfer pursuant to exception from applicable federal and state securities laws is subject to the written consent of the Company, which may condition such consent upon receipt of the opinion of counsel, in form and substance satisfactory to the Company to the effect that such registration is not required.

If you have any questions or comments regarding this Option or this Plan, please do not hesitate to discuss them with the undersigned.

FIRST NATIONAL BANCORP, INC.

By: _____

Its: _____

I have received and reviewed a copy of the Plan and acknowledge and agree that the grant evidenced by this instrument is in all respects governed by the Plan.

Signature of Optionee: _____

Name of Optionee (Please print): _____

Date: _____

EXHIBIT B**NOTICE OF EXERCISE**

To: FIRST NATIONAL BANCORP, INC.

Date: _____

The undersigned, pursuant to the Option Grant dated _____, 2____ (the “*Option*”) made by FIRST NATIONAL BANCORP, INC., a Michigan corporation (the “*Company*”) under the FIRST NATIONAL BANCORP, INC. 2018 STOCK OPTION AND RESTRICTED STOCK PLAN (the “*Plan*”) hereby exercises the right to purchase _____ shares of Common Stock of the Company at the price of \$_____ per share. Enclosed is the consideration for those shares of Common Stock.

I acknowledge that the Common Stock issued to me will be subject to all restrictions contained in this Plan, including, without limitation, restrictions on transfer of the Common Stock and the right of the Company under specified conditions to redeem the Common Stock.

I acknowledge that the Common Stock has not been registered under any federal or state securities law and that I may not transfer the Common Stock unless a registration is then in effect or the transfer is exempted from registration. I acknowledge that any proposed transfer in reliance upon exemption from registration is subject to the written consent of the Company, which consent may be conditioned upon receipt of a satisfactory opinion of counsel with respect to such exemption.

I represent that the Common Stock is being acquired by me as an investment and not with the view to sale or distribution.

[NAME OF OPTIONEE]

20,007,396.1\127871-00004

EXHIBIT C

Grantee: _____

Number of Shares: _____

Date of Award: _____

RESTRICTED STOCK AGREEMENT

This Restricted Stock Agreement ("Agreement") is made as of the Date of Award set forth above, between FIRST NATIONAL BANCORP, INC., a Michigan corporation (the "Company"), and the grantee named above ("Grantee").

The FIRST NATIONAL BANCORP, INC. 2012 STOCK OPTION AND RESTRICTED STOCK PLAN (the "Plan") is administered by the Company's Board of Directors (the "Board"). The Board has determined that Grantee is eligible to participate in the Plan. The Board has awarded certain restricted stock to Grantee, subject to the terms and conditions contained in this Agreement and in the Plan. Capitalized terms not defined in this Agreement shall have those meanings provided in the Plan.

Grantee acknowledges receipt of a copy of the Plan and accepts the Restricted Stock subject to all of the terms and conditions in this Agreement and the Plan.

1. **Award.** The Company hereby awards to Grantee the number of shares of the Company's common stock set forth next to "Number of Shares" above (the "Restricted Stock"), and subject to restrictions imposed under this Agreement and the Plan.

2. **Transferability.** Until the restrictions lapse as set forth in Section 3 below, that Restricted Stock is not transferable by Grantee except by will or according to the laws of descent and distribution. All rights with respect to the Restricted Stock are exercisable during Grantee's lifetime only by Grantee, or by Grantee's guardian or legal representative. The Company may place an appropriate legend upon any certificate representing shares of Restricted Stock awarded under this Agreement and issue appropriate stop transfer instructions to its transfer agent with respect to such shares.

3. **Lapsing of Restrictions.** The period during which Restricted Stock is subject to restrictions imposed by the Plan and under this Agreement shall be known as the "Restricted Period." Except as otherwise provided in this Agreement, the Restricted Stock shall vest, and the

restrictions imposed on the Restricted Stock awarded pursuant to this Agreement shall lapse, in five (5) equal annual installments beginning on the first anniversary of the Date of Award and occurring on each subsequent anniversary date thereafter.

4. **Termination of Employment of Director Status.** If Grantee's employment or director status with the Company or any of its subsidiaries is terminated during any Restricted Period, all unvested Restricted Stock shall either, at the sole discretion of the Company, vest or automatically be forfeited in accordance with Section 5 below, except as otherwise set forth in this Section.

Notwithstanding any provisions of the Plan or this Agreement, 100% of the Restricted Stock shall fully vest upon the following events resulting in termination of employment or director status: (a) death; (b) disability; (c) Change in Control; or (d) retirement (i.e., Grantee's voluntary termination of employment or director status with the Company and its subsidiaries on or after Grantee has attained the age of sixty-two (62) with five (5) or more years of service).

5. **Escrow.** The Restricted Stock shall be held in escrow by the Secretary of the Company until 100% of the Restricted Stock has fully vested, whether at the expiration of the Restricted Period or upon the occurrence of the events set forth in Section 4 above, at which time the Company shall cause to be delivered to Grantee one or more certificates representing the fully-vested Restricted Stock. Notwithstanding the foregoing, in the event that Grantee's employment or director status with the Company or any of its subsidiaries is terminated during the Restricted Period, the Company (a) shall cause to be delivered to Grantee one or more certificates representing that portion of the Restricted Stock that had vested at the date of such termination and (b) shall cancel, and have no further obligation to Grantee with respect to, any unvested Restricted Stock at the date of such termination.

6. **Employment by or Service to the Company.** Neither the award of Restricted Stock nor this Agreement shall impose upon the Company or any of its subsidiaries any obligation to retain Grantee as an employee or director of the Company or any of its subsidiaries for any period or upon any specific terms of employment or service. The Company or any of its subsidiaries may at any time terminate Grantee's employment or Grantee's service as a director, free from any liability or claim under the Plan or this Agreement.

7. **Stockholder Rights.** During the Restricted Period, Grantee shall have all voting, dividend, liquidation, and other rights with respect to the Restricted Stock held of record by Grantee as if Grantee held unrestricted common stock; *provided, however*, that any unvested Restricted Stock shall be subject to any restrictions on transferability or risks of forfeiture imposed pursuant to this Agreement or the Plan. Any noncash dividends or distributions paid with respect to shares of unvested Restricted Stock shall be subject to the same restrictions as those relating to the Restricted Stock awarded under this Agreement. Once the Restricted Stock has vested, Grantee shall have all stockholder rights, including the right to transfer the shares except as otherwise provided in this Agreement, subject to such conditions as the Company may reasonably specify to ensure compliance with federal and state securities laws.

8. **Withholding.** The Company or any of its subsidiaries shall be entitled to (a) withhold and deduct from Grantee's future wages (or from other amounts that may be due and

owing to Grantee from the Company or a subsidiary), or make other arrangements for the collection of, all amounts necessary to satisfy any and all federal, state, and local withholding and employment-related taxes imposed on or attributable to the Restricted Stock, including, without limitation, taxes related to the award or vesting of, or payments of dividends with respect to, the Restricted Stock (collectively, "Withholding Taxes"); or (b) provide that the Restricted Stock will not vest and will not be released from escrow until Grantee remits the amount of such Withholding Taxes to the Company or one of its subsidiaries. Unless the Board provides otherwise, Withholding Taxes may be satisfied by the Company withholding common stock to be received by Grantee or by Grantee's delivery of common stock of the Company to the Company or one of its subsidiaries, in which case the shares withheld or delivered shall be valued at the Fair Market Value as of the date of the taxable event.

9. **Severability and Savings Clause.** The Company may unilaterally amend or terminate this Agreement if the Board determines amendment or termination is appropriate to avoid any risk of a violation of or penalties under any law or regulation or to avoid any other adverse consequence to the Company. If a court of competent jurisdiction determines that any provision of the Plan or this Agreement, or any portion thereof, is void or unenforceable, such provision or portion will be rendered void or unenforceable and the remainder of this Agreement will continue in full force and effect.

10. **Effective Date.** This Agreement shall be effective as of the date first set forth above.

11. **Miscellaneous.** This Agreement shall be governed by the laws of the State of Michigan, without regard to conflicts of laws principles. This Agreement shall not be modified except in a writing executed by the parties hereto. Either party's failure to enforce any provision or provisions of this Agreement will not in any way be construed as a waiver of any such provision or provisions, nor prevent that party from thereafter enforcing each and every other provision of this Agreement. The rights granted both parties herein are cumulative and will not constitute a waiver of either party's right to assert all other legal remedies available to it under the circumstances. Any dispute regarding the interpretation of this Agreement will be submitted by Grantee or the Company to the administrator of the Plan. Grantee agrees to accept as binding, conclusive and final all decisions or interpretations of the administrator of the Plan upon any questions arising under the Plan or this Agreement.

12. **Entire Agreement.** The Plan is incorporated in this Agreement by reference. In the event of any conflict between the terms of this Agreement and the terms of the Plan, the provisions of the Agreement shall control. This Agreement and the Plan constitute the entire agreement of the parties with respect to the subject matter hereof, and supersede in their entirety all prior understanding and agreements of the Company and Grantee with respect thereto.

The Restricted Stock has not been registered, nor does the Company have any obligation to register the Restricted Stock, under the Securities Act of 1933, as amended (the "Act"), or the securities laws of any state. Accordingly, the Restricted Stock will not be freely transferable and may not be sold or otherwise disposed of, or transferred, unless a registration statement relating to the shares is then in effect under the Act and applicable state securities laws, or unless an exception from registration is established under those

Annex A

laws. Any transfer pursuant to exception from applicable federal and state securities laws is subject to the written consent of the Company, which may condition such consent upon receipt of the opinion of counsel, in form and substance satisfactory to the Company to the effect that such registration is not required.

If you have any questions or comments regarding this Agreement or the Plan, please do not hesitate to discuss them with the undersigned.

FIRST NATIONAL BANCORP, INC.

By: _____

Its: _____

By signing below, Grantee represents that Grantee has reviewed and fully understands all provisions of the Plan and this Agreement, and acknowledges and agrees that the Restricted Stock is granted to Grantee subject to the Plan and this Agreement.

Signature of Grantee: _____

Name of Grantee (Please print): _____

Date: _____

First National Bancorp, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2017

First National Bancorp, Inc. and Subsidiaries

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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, 2017 and 2016 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, 2017 and 2016 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 9, 2018



First National Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet

	December 31, 2017 and 2016	
	2017	2016
Assets		
Cash and cash equivalents (Note 3)	\$ 18,608,597	\$ 15,611,030
Interest-bearing deposits in banks	1,535,000	800,000
Investment securities - Available for sale (Note 4)	65,835,683	73,241,342
Other securities (Note 4)	2,541,750	2,189,450
Loans - Net of allowance for loan losses of \$5,578,437 and \$5,241,252 as of December 31, 2017 and 2016, respectively (Note 5)	381,229,742	351,118,580
Premises and equipment - Net (Note 6)	2,839,535	2,770,805
Accrued interest receivable and late fees	1,360,912	1,249,732
Deferred tax asset (Note 9)	1,123,000	1,941,000
Cash surrender value of life insurance	5,304,481	5,154,649
Other assets	3,184,845	2,725,408
Total assets	\$ 483,563,545	\$ 456,801,996
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 7):		
Noninterest bearing	\$ 126,646,658	\$ 100,240,462
Interest bearing	278,728,822	265,978,594
Total deposits	405,375,480	366,219,056
Borrowings (Note 8)	28,000,000	45,850,000
Accrued interest payable	219,478	92,283
Accrued and other liabilities	1,258,265	718,960
Total liabilities	434,853,223	412,880,299
Stockholders' Equity (Notes 11, 12 and 13)		
Common stock - Voting		
Authorized - 2,500,000 shares		
Issued and outstanding - 2,027,055 and 1,920,230 shares at December 31, 2017 and 2016, respectively	21,039,571	19,876,307
Additional paid-in capital	90,679	809,094
Retained earnings	27,828,266	23,115,686
Accumulated other comprehensive (loss) income	(248,194)	120,610
Total stockholders' equity	48,710,322	43,921,697
Total liabilities and stockholders' equity	\$ 483,563,545	\$ 456,801,996

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries**Consolidated Statement of Income****Years Ended December 31, 2017 and 2016**

	2017	2016
Interest Income		
Loans - Including fees	\$ 16,667,893	\$ 14,558,475
Investment securities:		
Taxable	809,000	728,716
Tax-exempt	593,315	746,138
Dividends	110,111	103,530
Other	245,592	67,504
Total interest income	18,425,911	16,204,363
Interest Expense		
Deposits	1,363,173	1,002,149
Borrowings	313,361	193,684
Total interest expense	1,676,534	1,195,833
Net Interest Income	16,749,377	15,008,530
Provision for Loan Losses (Note 5)	327,231	472,000
Net Interest Income After Provision for Loan Losses	16,422,146	14,536,530
Noninterest Income		
Service charge - Other	696,506	667,588
Net gain on trading activities (Note 4)	138,518	130,379
Net gain on sale of loans held for sale	133,069	171,080
Other	242,531	226,295
Total noninterest income	1,210,624	1,195,342
Noninterest Expense		
Salaries and employee benefits (Note 12)	6,319,533	5,342,009
Occupancy and equipment (Note 6)	1,150,253	956,132
Data processing	567,863	443,631
FDIC insurance	254,153	222,212
Professional fees	562,172	460,712
Other	1,384,899	1,253,332
Total noninterest expense	10,238,873	8,678,028
Income - Before income taxes	7,393,897	7,053,844
Income Tax Expense (Note 9)	2,681,317	1,741,152
Consolidated Net Income	\$ 4,712,580	\$ 5,312,692

See notes to consolidated financial statements.

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First National Bancorp, Inc. and Subsidiaries**Consolidated Statement of Comprehensive Income****Years Ended December 31, 2017 and 2016**

	2017	2016
Net Income	\$ 4,712,580	\$ 5,312,692
Other Comprehensive (Loss) Income		
Unrealized gain (loss) on securities:		
Arising during the year	(635,322)	(586,466)
Reclassification adjustment	138,518	130,379
Tax effect	128,000	155,000
Total other comprehensive loss	(368,804)	(301,087)
Comprehensive Income	\$ 4,343,776	\$ 5,011,605

See notes to consolidated financial statements.

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First National Bancorp, Inc. and Subsidiaries**Consolidated Statement of Stockholders' Equity****Years Ended December 31, 2017 and 2016**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2016	\$ 18,605,621	\$ 1,040,956	\$ 17,802,994	\$ 421,697	\$ 37,871,268
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 options exercised	1,242,136	(370,887)	-	-	871,249
Stock-based compensation	-	155,075	-	-	155,075
Balance - December 31, 2016	19,876,307	809,094	23,115,686	120,610	43,921,697
Comprehensive income (loss)	-	-	4,712,580	(368,804)	4,343,776
Issuance - Common voting	16,250	-	-	-	16,250
Vesting of restricted stock	36,378	(36,378)	-	-	-
Repurchase of stock	(540,000)	-	-	-	(540,000)
Stock-based compensation	-	172,932	-	-	172,932
Stock options exercised	1,650,636	(576,969)	-	-	1,073,667
Adjust deferred taxes associated with stock options	-	(278,000)	-	-	(278,000)
Balance - December 31, 2017	\$ 21,039,571	\$ 90,679	\$ 27,828,266	\$ (248,194)	\$ 48,710,322

See notes to consolidated financial statements.

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First National Bancorp, Inc. and Subsidiaries**Consolidated Statement of Cash Flows****Years Ended December 31, 2017 and 2016**

	2017	2016
Cash Flows from Operating Activities		
Consolidated net income	\$ 4,712,580	\$ 5,312,692
Adjustments to reconcile consolidated net income to net cash and cash equivalents from operating activities:		
Depreciation	322,306	226,037
Provision for loan losses	327,231	472,000
Amortization of securities - Net	360,184	409,435
Deferred income taxes	667,966	(155,000)
Stock-based compensation expense	172,932	155,075
Gain on sale of mortgages	(133,069)	(171,080)
Loans originated for sale	(8,084,246)	(7,826,325)
Proceeds from loan sales	8,217,315	7,997,405
Increase in bank-owned life insurance	(149,832)	(154,649)
Gain on sale of available-for-sale securities	(138,518)	(130,379)
Net change in:		
Accrued interest receivable and other assets	(1,126,298)	(891,461)
Accrued interest payable and other liabilities	1,222,215	(206,392)
Net cash and cash equivalents provided by operating activities	6,370,766	5,037,358
Cash Flows from Investing Activities		
Purchase of other securities	-	(6,850)
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	5,626,162	13,151,298
Purchases	(15,482,894)	(14,392,275)
Sales of available-for-sale securities	16,543,921	17,501,517
Additions to premises and equipment	(391,036)	(607,638)
Change in loans	(30,438,393)	(54,462,120)
Increase in interest-bearing deposits in banks	(735,000)	(800,000)
Purchase of FHLB stock	(360,000)	-
Redemption of FRB stock	7,700	-
Net cash and cash equivalents used in investing activities	(25,229,540)	(39,616,068)
Cash Flows from Financing Activities		
Net increase in deposit accounts	39,156,424	5,917,766
Effect of stock options exercised	1,073,667	871,249
New advances and other borrowings	25,000,000	231,250,000
Repayment of long-term debt	(42,850,000)	(202,500,000)
Issuance of common stock	16,250	12,500
Repurchase of stock	(540,000)	-
Net cash and cash equivalents provided by financing activities	21,856,341	35,551,515
Net Increase in Cash and Cash Equivalents	2,997,567	972,805
Cash and Cash Equivalents - Beginning of year	15,611,030	14,638,225
Cash and Cash Equivalents - End of year	\$ 18,608,597	\$ 15,611,030
Supplemental Cash Flow Information - Cash paid for		
Interest	\$ 1,364,795	\$ 1,199,860
Income taxes	1,900,000	2,150,000

See notes to consolidated financial statements.

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First National Bancorp, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****December 31, 2017 and 2016****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 loan production offices in Lansing, Michigan and 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 11 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. There were no loans held for sale at December 31, 2017 and 2016.

First National Bancorp, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****December 31, 2017 and 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, 2017 and 2016, there were no foreclosed assets.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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.

Stock Options

In 2017, the Corporation early adopted 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 ASU was adopted.

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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 2 - Significant Accounting Policies (Continued)

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 9, 2018, which is the date the consolidated financial statements were available to be issued.

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 an 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 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.

The FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which modifies certain aspects of the accounting for share-based payment transactions, including accounting for the related income tax effects, classification of awards, and reporting in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017; however, early adoption is permitted. The Corporation early adopted the provisions of the ASU, with no significant changes to recorded balances as a result of the adoption. The Corporation expects there will be greater fluctuation in its effective tax rate as excess tax benefits or tax deficiencies will be recorded through income tax expense upon adoption rather than through equity for windfall tax deductions on nonqualified stock options and restricted stock.

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, 2017 and 2016, these reserve balances amounted to \$5,121,000 and \$4,093,000, respectively.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 4 - Securities

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

	2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-sale securities:				
U.S. government and federal agency	\$ 32,040,086	\$ 5	\$ (365,091)	\$ 31,675,000
U.S. Treasury	7,015,923	-	(35,377)	6,980,546
Collateralized mortgage obligations	161,102	2,732	-	163,834
State and municipal	26,932,767	248,678	(165,142)	27,016,303
Total available-for-sale securities	<u>\$ 66,149,878</u>	<u>\$ 251,415</u>	<u>\$ (565,610)</u>	<u>\$ 65,835,683</u>
	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	<u>\$ 73,058,733</u>	<u>\$ 529,483</u>	<u>\$ (346,874)</u>	<u>\$ 73,241,342</u>

At December 31, 2017 and 2016, securities with a carrying value of approximately \$2,165,000 and \$4,788,000, respectively, were pledged to secure borrowings.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2017 are as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 19,009,575	\$ 18,846,957
Due in one through five years	35,865,771	35,707,622
Due after five years through ten years	11,113,430	11,117,270
Total	65,988,776	65,671,849
Collateralized mortgage obligations	161,102	163,834
Total	<u>\$ 66,149,878</u>	<u>\$ 65,835,683</u>

For the years ended December 31, 2017 and 2016, there were no significant gains or losses from sales of securities available for sale. Sales of available-for-sale securities were approximately \$16,500,000 and \$17,500,000 for the years ended December 31, 2017 and 2016, respectively.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 4 - Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2017 and 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2017			
	Less than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. governmental and federal agency	\$ (125,129)	\$ 16,728,362	\$ (239,962)	\$ 13,946,633
U.S. Treasury	(35,377)	6,980,546	-	-
State and municipal	(121,272)	8,345,741	(43,870)	4,221,981
Total available-for-sale securities	<u>\$ (281,778)</u>	<u>\$ 32,054,649</u>	<u>\$ (283,832)</u>	<u>\$ 18,168,614</u>
	2016			
	Less than 12 Months		12 Months or Greater	
	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	<u>\$ (315,822)</u>	<u>\$ 14,724,386</u>	<u>\$ (31,052)</u>	<u>\$ 7,688,176</u>

At December 31, 2017 and 2016, there were 62 and 35 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, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

Other securities totaling \$2,541,750 and \$2,189,450 at December 31, 2017 and 2016, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 5 - Loans

A summary of the balances of loans follows:

	2017	2016
Real estate - Construction	\$ 37,414,313	\$ 33,038,855
Real estate - Residential	65,509,140	72,622,167
Real estate - Commercial - Nonfarm - Nonresidential	198,925,318	176,018,705
Commercial and industrial	83,006,869	71,499,514
Consumer	1,952,539	3,180,591
Total loans	386,808,179	356,359,832
Less - Allowance for loan losses	5,578,437	5,241,252
Net loans	<u>\$ 381,229,742</u>	<u>\$ 351,118,580</u>

As of the December 31, 2017 and 2016, 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 \$11,500,000 and \$6,700,000 as of December 31, 2017 and 2016, respectively. There were no outstanding balances to officers of the Corporation as of December 31, 2017 or 2016.

Activity in the allowance for loan losses for 2017 and 2016 is summarized as follows:

	Year Ended December 31, 2017						Total
	Real Estate - Construction	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Unallocated	
Beginning balance	\$ 455,935	\$ 1,456,986	\$ 2,484,271	\$ 825,640	\$ 16,826	\$ 1,594	\$ 5,241,252
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	9,954	-	-	9,954
Provision	22,967	(202,649)	347,899	164,846	(4,238)	(1,594)	327,231
Ending balance	<u>\$ 478,902</u>	<u>\$ 1,254,337</u>	<u>\$ 2,832,170</u>	<u>\$ 1,000,440</u>	<u>\$ 12,588</u>	<u>\$ -</u>	<u>\$ 5,578,437</u>
	Year Ended December 31, 2016						Total
	Real Estate - Construction	Real Estate - Residential	Real Estate - Commercial	Commercial and Industrial	Consumer	Unallocated	
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	<u>\$ 455,935</u>	<u>\$ 1,456,986</u>	<u>\$ 2,484,271</u>	<u>\$ 825,640</u>	<u>\$ 16,826</u>	<u>\$ 1,594</u>	<u>\$ 5,241,252</u>

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

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, 2017				Total
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	
Real estate - Construction:					
1-4 family residential	\$ 4,718,851	\$ -	\$ -	\$ -	\$ 4,718,851
Other	32,695,462	-	-	-	32,695,462
Total real estate - Construction	37,414,313	-	-	-	37,414,313
Real estate - Residential:					
Revolving lines of credit	12,089,715	33,228	-	-	12,122,943
1-4 family residential	29,357,540	-	-	-	29,357,540
Multifamily	24,028,657	-	-	-	24,028,657
Total real estate - Residential	65,475,912	33,228	-	-	65,509,140
Real estate - Commercial - Nonfarm - Nonresidential	195,593,571	1,751,528	1,580,219	-	198,925,318
Commercial and industrial	78,265,511	1,057,324	3,684,034	-	83,006,869
Consumer	1,952,539	-	-	-	1,952,539
Total	<u>\$ 378,701,846</u>	<u>\$ 2,842,080</u>	<u>\$ 5,264,253</u>	<u>\$ -</u>	<u>\$ 386,808,179</u>

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 5 - Loans (Continued)

	December 31, 2016				Total
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	
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	173,993,006	583,506	1,442,193	-	176,018,705
Commercial and industrial	66,685,637	2,166,750	2,647,127	-	71,499,514
Consumer	3,180,591	-	-	-	3,180,591
Total	<u>\$ 349,240,286</u>	<u>\$ 2,783,463</u>	<u>\$ 4,336,083</u>	<u>\$ -</u>	<u>\$ 356,359,832</u>

Age Analysis of Past Due Loans

At December 31, 2017, there was one commercial relationship that was not contractually delinquent, but placed on nonaccrual for \$2,136,654. There was one residential loan totaling \$107,356 contractually between 31 and 59 days past due. There were no other loans past due at December 31, 2017.

At December 31, 2016, there was \$341,159 of commercial loans 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.

Note 6 - Premises and Equipment

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

	2017	2016
Land	\$ 100,000	\$ 100,000
Buildings and building improvements	1,250,000	1,250,000
Leasehold improvements	1,868,341	1,476,310
Furniture, fixtures, and equipment	1,480,851	1,483,989
Construction in progress	96,536	446,593
Total cost	4,795,728	4,756,892
Accumulated depreciation	(1,956,193)	(1,986,087)
Net premises and equipment	<u>\$ 2,839,535</u>	<u>\$ 2,770,805</u>

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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 6 - Premises and Equipment (Continued)

Total rent expense for the years ended December 31, 2017 and 2016 amounted to \$380,782 and \$362,839, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2017 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
2018	\$ 242,386	\$ 284,807
2019	242,386	322,476
2020	242,386	306,076
2021	242,386	305,621
2022	242,386	309,985
Thereafter	430,914	1,636,079
Total	<u>\$ 1,642,844</u>	<u>\$ 3,165,044</u>

Note 7 - Deposits

The following is a summary of the distribution of deposits at December 31, 2017 and 2016:

	2017	2016
Noninterest-bearing deposits	\$ 126,646,658	\$ 100,240,462
NOW accounts	36,500,708	36,801,231
Savings and money market accounts	138,055,139	164,582,625
Time deposits:		
Under \$250,000	83,923,630	46,003,571
\$250,000 and over	20,249,345	18,591,167
Total	<u>\$ 405,375,480</u>	<u>\$ 366,219,056</u>

At December 31, 2017, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2018	\$ 79,693,492
2019	17,386,759
2020	5,755,844
2021	918,420
2022	418,460
Total	<u>\$ 104,172,975</u>

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, 2017 and 2016. The unused portion of the facility was approximately \$48,000,000 and \$42,000,000 at December 31, 2017 and 2016, respectively. The collateral on the borrowing arrangement consists of commercial, commercial real estate, and consumer loans with a book balance of approximately \$62,000,000 and \$55,100,000 at December 31, 2017 and 2016, respectively.

The Bank had an unsecured fed-funds line of credit with correspondent banks to meet its short-term borrowing needs. Total available borrowings were \$10,000,000 at December 31, 2016 and 2017. There was no amount outstanding at December 31, 2016 or 2017.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 8 - Borrowings (Continued)

As of December 31, 2017, the Corporation had five advances from the Federal Home Loan Bank (FHLB) totaling \$28,000,000 with interest rates ranging from 1.10 percent to 1.80 percent. As of December 31, 2016, the Bank had three advances totaling \$45,000,000 with interest rates ranging from 0.50 percent to 1.10 percent. Interest is payable monthly. The advances were collateralized by approximately \$57,000,000 and \$94,000,000 of mortgage loans as of December 31, 2017 and 2016, respectively, under a specific mortgage 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, the Corporation selected option 2 and the interest rate was 2.99 percent. The line of credit was closed in December 2017 and previously secured by all the common stock of the Bank. As of December 31, 2016, there was \$850,000 outstanding.

In December 2017, the Corporation entered into a revolving line of credit agreement with a bank allowing for available credit up to \$7,000,000. Interest is payable on the outstanding balance quarterly based on an interest rate of 0.25 percent below the prime rate (with a floor of 4.00 percent), with the entire principal balance due on the maturity date of January 1, 2020. The line of credit is secured by all of the outstanding stock of the Bank. As of December 31, 2017, there was no balance outstanding.

The balance of the above borrowings matures as follows:

Years Ending	Amount
2018	\$ 10,000,000
After 2024	18,000,000
Total	<u>\$ 28,000,000</u>

Note 9 - Income Taxes

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

	2017	2016
Current expense	\$ 2,013,351	\$ 1,896,152
Deferred income tax expense (benefit)	667,966	(155,000)
Total income tax expense	<u>\$ 2,681,317</u>	<u>\$ 1,741,152</u>

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:

	2017	2016
Income before taxes	\$ 7,398,897	\$ 7,058,844
Income tax expense at federal statutory rate of 34 percent	2,515,625	2,400,000
Effect of tax credits	(225,000)	(200,000)
Impact of changes in statutory rate on deferred taxes	853,787	-
Decreases from nontaxable income - Net of nondeductible expenses	(463,095)	(458,848)
Total income tax expense	<u>\$ 2,681,317</u>	<u>\$ 1,741,152</u>

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 9 - Income Taxes (Continued)

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

	2017	2016
Total deferred tax liabilities	\$ (395,000)	\$ (163,000)
Total deferred tax assets	<u>1,518,003</u>	<u>2,104,000</u>
Total	<u>\$ 1,123,003</u>	<u>\$ 1,941,000</u>

In December 2017, the Tax Cuts and Job Act was signed into law, lowering the corporate tax rate to 21 percent and eliminating the Alternative Minimum Tax, effective in 2018. The enactment of the new tax laws require the Bank to remeasure the deferred tax assets and liabilities as of December 31, 2017 to the realizable rate of 21 percent.

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 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.

Contract Amounts

As of December 31, 2017 and 2016, the following financial instruments whose contract amounts represent credit risk were outstanding:

	Contract Amount	
	2017	2016
Commitments to grant loans	\$ 25,915,000	\$ 15,422,000
Unfunded commitments under lines of credit	97,284,000	70,143,000
Commercial and standby letters of credit	666,000	666,000

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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 10 - Off-balance-sheet Activities (Continued)

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, 2017 and 2016, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2017, 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.

(000s omitted from dollar amounts)	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2017						
Common equity tier 1 capital (to risk-weighted assets)	\$ 46,908	11.54 %	\$ 18,297	4.50 %	\$ 26,429	6.50 %
Total risk-based capital (to risk-weighted assets)	51,997	12.79	32,528	8.00	40,660	10.00
Tier 1 capital (to risk-weighted assets)	46,908	11.54	24,396	6.00	32,528	8.00
Tier 1 capital (to average assets)	46,908	9.89	18,969	4.00	23,711	5.00
As of December 31, 2016						
Common equity tier 1 capital (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

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 12 - Stock Options

At December 31, 2017, 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 \$173,000 and \$155,000 for 2017 and 2016, respectively. There were no deferred income tax benefits recognized in the consolidated statement of income for share-based compensation arrangements for both 2017 and 2016.

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. There were no options granted in 2017. Information used to measure the 2016 options granted is as follows:

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

A summary of option activity under the Plan for the year ended December 31, 2017 is presented below:

Options	Number of Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term (in years)
Outstanding at January 1, 2016	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
Exercised	(118,340)	12.71	
Outstanding at December 31, 2017	82,410	20.64	6.15
Vested or expected to vest at December 31, 2017	64,419	18.65	5.5
Exercisable at December 31, 2017	64,419	18.65	5.5

The weighted-average grant-date fair calculated value of options granted during 2016 was \$11.15.

As of December 31, 2017, there was approximately \$126,000 of total unrecognized compensation cost related to nonvested options granted under the Plan. That cost is expected to be recognized through December 31, 2019.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 12 - Stock Options (Continued)

In 2017 and 2016, the Corporation also awarded 2,000 and 7,200 restricted shares, respectively. The fair value of the awards at the grant date will be recognized in compensation expense over the vesting period, which is five years. The fair value at the grant date in 2017 and 2016 was \$75,000 (\$37.50 per share) and \$143,000 (\$32.50 per share), respectively. The unrecognized cost for restricted share awards was approximately \$231,000 at December 31, 2017 and is expected to be recognized through December 31, 2022.

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 and liabilities 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, 2017 and 2016 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 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 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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 14 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at
December 31, 2017

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, 2017
Assets			
Available-for-sale investment securities:			
U.S. government and federal agency	\$ -	\$ 31,675,000	\$ -
U.S. Treasury	6,980,546	-	-
Collateralized mortgage obligation	-	163,834	-
State and municipal	-	23,321,731	3,694,572
			27,016,303
Total assets	\$ 6,980,546	\$ 55,160,565	\$ 3,694,572
			\$ 65,835,683

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	\$ -
U.S. Treasury	10,560,575	-	-
Collateralized mortgage obligation	-	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

There were no significant assets measured at fair value on a nonrecurring basis in which gains or losses were recognized in 2017 or 2016.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Balance at January 1	\$ 4,355,166	\$ 5,067,092
Purchases, issuances, sales, and settlements:		
Net maturities	(559,336)	(710,363)
Total unrealized losses	(101,258)	(1,563)
Balance at December 31	\$ 3,694,572	\$ 4,355,166

First National Bancorp, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****December 31, 2017 and 2016****Note 14 - Fair Value Measurements (Continued)**

Unrealized losses above for the years ended December 31, 2017 and 2016 are reported in the consolidated statement of 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.