

FIRST NATIONAL BANCORP, INC.

A BANK HOLDING COMPANY FOR



NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF FIRST NATIONAL BANCORP, INC.

May 14, 2020

NOTICE IS HEREBY GIVEN that the 2020 Annual Meeting of Shareholders of FIRST NATIONAL BANCORP, INC., a Michigan corporation and registered bank holding company, will be held (*Via Teleconference, only*) at 10:00 a.m., on May 14, 2020, 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, David G. Echelbarger, 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 2021 annual meeting of shareholders.
2. Ratification of the appointment of the independent auditors for the year ending December 31, 2020.

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

Your Board of Directors recommends that you vote “FOR” all of the named director nominees and “FOR” Proposal 2.

April 14, 2020 is the record date for the Annual Meeting. Accordingly, the only persons entitled to notice of and to vote (by returning a ballot via U.S. Mail before May 14, 2020) (or any adjournment or postponement of the Annual Meeting) are the persons who were record holders of shares of First National Bancorp, Inc. common stock at the close of business on that date.

Your vote is important regardless of the number of shares you own. To make sure your shares will be voted at the Annual Meeting, please sign, date and return the enclosed form of proxy and return it in the enclosed envelope without delay. You also can revoke your proxy at any other time before it is exercised by giving a later-dated proxy via U.S. Mail.

By Order of the Board of Directors,

A handwritten signature in blue ink, appearing to read 'Matthew J. Morgan', followed by a horizontal line.

Matthew J. Morgan, Secretary

April 14, 2020

Important: This notice and the accompanying proxy materials were first mailed to shareholders on or about April 14, 2020. The prompt return of proxies will save the expense of further requests for proxies in order to obtain a quorum. An addressed envelope is enclosed for your convenience.

FIRST NATIONAL BANCORP, INC.

A BANK HOLDING COMPANY FOR



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

May 14, 2020

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 2020 Annual Meeting of Shareholders to be held (*Via Teleconference, only*) at 10:00 a.m. on May 14, 2020 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, David G. Echelbarger, 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 2021 annual meeting of shareholders.
2. Ratification of the appointment of the independent auditors for the year ending December 31, 2020.

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

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

GENERAL INFORMATION

Attending via Teleconference

Only the Shareholders, their proxy holders and guests of the Company may access the Annual Meeting via Teleconference.

Who may vote

The Shareholders of the Company, as recorded in our stock register on April 14, 2020 (the **“Record Date”**), may vote by returning a Proxy via U.S. Mail to be received on or before 10:00 a.m., May 14, 2020. As of both the Record Date and the date of this Proxy Statement, the Company had 2,000,786 issued and outstanding shares. Each such share is entitled to one vote on each of the matters presented for shareholder action.

How to vote

You may vote by returning a Proxy via U.S. Mail to be received on or before 10:00 a.m., May 14, 2020.

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 the Annual Meeting. You may vote for all, some or none of the director nominees and you may vote for, against or abstain from voting on Proposal 2.

If you return your proxy without voting instructions, your shares will be voted FOR the election of all of the director nominees and FOR Proposal 2. If you return a properly executed proxy, the persons named as proxy holders will have discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting.

To ensure your proxy is received prior to the Annual Meeting, please return it no later than May 14, 2020. If your proxy is not received prior to the Annual Meeting, your shares will not be voted at the Annual Meeting.

Revoking a proxy

The grant of a proxy on the enclosed form of proxy does not preclude you from revoking a proxy. You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date; or
- notifying the Company’s Secretary in writing before 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, including abstentions.

Votes needed

The director nominees who receive a plurality of the votes cast will be elected to fill the 15 seats on the Board. Abstentions will not be included in the vote count.

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

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

As of the date of this Proxy Statement, the Company's directors and executive officers were the beneficial owners of 28.04% 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 financial 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 15 members who serve one-year terms. The 15 director nominees listed below, all of whom are current directors of the Company, were nominated by the Board to fill the 15 Board seats for one year terms expiring at the 2021 annual meeting of shareholders. Biographical information on each of the director nominees is given below. All director nominees have indicated their willingness to serve on the Board if elected. If, prior to the Annual Meeting, a director nominee determines that he or she will be unable to serve on the Board for the upcoming year, your proxy authorizes the proxy holders to vote your shares for a replacement nominee if one is selected.

Daniel E. Bitzer. Mr. Bitzer was promoted to President and CEO of First National Bank of Michigan effective January 1, 2017. He joined the bank in December 2011 as the Grand Rapids Market President, after more than three decades in the commercial banking business in Michigan. 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. As Chief Executive Officer, he oversees responsibilities of all First National Bank of Michigan locations including the overall direction and administration of programs, products, and services provided by the Bank, including the Bank's financial performance, credit quality, business development, operations, regulatory compliance, and risk management. 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 Department 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. Mr. Bitzer's extensive commercial banking background and leadership experience is an asset to the Board.

ERIC V. BROWN, JR. Mr. Brown, an attorney, was a partner in the 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 as its General Counsel of Kalsec, Inc., a producer of natural colors, flavors, hops and nutritional ingredients for the food and beverage industries. He also served as 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 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 2003-2020 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 provide a great resource 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, Former Chairman of the Michigan Certified Development Corporation and current Board Member, and Vice President of the Comstock Township Library Board. He is a graduate of Albion College and Western Michigan University. Mr. Calvaruso's leadership, various trustee roles and banking experience provides great value to the Board.

JAMES J. DEKRUYSER. Mr. DeKruyer currently serves on the board of the Gull Lake Ministries and on the bank board of OSB Bank Michigan. Mr. DeKruyer has been appointed to the Zoning Board of Appeals for Ross Township in Kalamazoo County. He has served many volunteer organizations including the Kalamazoo YMCA, Sherman Lake YMCA, Open Hearts Ministries, the National Board of Youth for Christ, and the Youth for Christ Foundation in Denver, Kalamazoo Christian School and the Kalamazoo Christian School Foundation Board. Mr. DeKruyer has also served as director of Michigan National Bank – Kalamazoo. Mr. DeKruyer's involvement with various community organizations and bank director roles are a great asset to the Board.

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 50 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. Dr. DeMoss' expertise as a practicing physician and his administrative leadership is valuable to the Board.

DAVID G. ECHELBERGER. CPA/CGMA. Dave is a Shareholder and the Managing Partner at Echelbarger, Himebaugh, Tamm Co., P.C. (EHTC). Dave is responsible for the vision and direction of EHTC, focusing on strategic thinking, nurturing the culture for the firm and keeping up-to-date with industry trends and topics. As a leader of the firm's management team, Dave has a significant role in managing the operations and business development at EHTC. He specialized in the innovation and implementation of automated accounting and finance systems in the areas of distribution, manufacturing, construction, professional services and private equity groups. In

addition to his extensive tax and accounting experience, Dave has over 24 years of experience in technology consulting and implementation, developing EHTC's software division called Velosio of Grand Rapids.

Dave remains active both within the firm as well as in the community and industry. He is the Chair of the Board of Directors of the Michigan Association of Certified Public Accountants (MICPA) as well as Chair to the Executive Committee for the MICPA. Dave is also a member of the MICPA Awards Committee and Special Tax Task Force Committees. He is on the Board of Directors at First National Bank of Michigan and is a member of both the American Institute of Certified Public Accountants (AICPA) and the Michigan Association of Certified Public Accountants (MICPA).

Dave first joined EHTC in 1987 as a tax intern, where he worked in the Accounting and Auditing department. After graduating from Aquinas College with his Bachelors of Business Administration, Dave advanced his career within the company throughout the years. He earned two certifications during that time – one as a Certified Public Accountant (CPA) and the other as a Charter Global Management Accountant (CGMA). Dave, along with the EHTC team, have been recognized by Accounting Today, Accounting Technology and Microsoft Corporation for their contributions to the industry. EHTC was most recently named one of the 2019 Accounting Today's Best Accounting Firms to Work For. Mr. Echelbarger's experience in and contributions to the Accounting and Accounting Technology industries are a valuable asset for the First National Bank of Michigan Board.

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, 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 business environment are a valuable resource 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 and valuable experience with the community's real estate market and community involvement.

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. 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 and Grand Rapids, including Bronson Health Foundation, Kalamazoo Deacons Conference, Southern Heights Church, Kalamazoo Christian Schools and presently serves on the Board of Trustees for Calvin University and InnerCity Youth for Change. Mr. Ipema's experience in custom software and data integration services is valuable and brings extensive resources for our Board.

LARRY D. LUETH. Mr. Lueth currently serves as Chairman of the Board for First National Bank of Michigan. 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 of the Western Michigan University Foundation and Finance Committee member and a Trustee at First United Methodist Church, Kalamazoo. Mr. Lueth brings to the Board extensive community leadership and commercial leadership and experience, which continues to be an asset to the Board.

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 the Founding Dean and Professor of Economics at that university's McCourt School of Public Policy. 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 also 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. He also serves on the Committee on Economic Statistics for the American Economics Association.

In 2011, he was elected a fellow of the National Academy of Public Administration and in 2019 he was elected a fellow of the American Academy of Arts and Sciences. He serves on the board of directors of the Homer Stryker MD Western Michigan School of Medicine, the Center for Law and Social Policy and Southwest Michigan First. Dr. Montgomery's experience and expertise in a broad range of areas are valuable to First National Bank of Michigan's Board.

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 and Building and Grounds Committee at the Kalamazoo Institute of Arts, and the YMCA Board of Directors. She has two children. Ms. Phillips' passion for marketing, her small business perspective and community connections as a lifelong resident provide value to the 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. Mr. Schreuder's various banking experience and leadership are a valuable asset to the Board.

VIRGINIA M. SEYFERTH, APR (Ginny) Ms. Seyferth is the Founder and President of SeyferthPR, one of Michigan's largest independently-owned public relations firms. The full-service firm manages media, social media and reputation management programs for about 90 clients throughout Michigan and Indiana. Ginny is consistently recognized in various Michigan publications as one of the state's most influential business leaders. Her specific area of public relations practice includes the managing of crisis and issues, providing communications counsel on M&A work, developing new product launches and talent recruitment and retention programs.

Ginny has taught public relations classes at Michigan State University, Hope College and Grand Valley State University. She is also actively involved in enhancing the vibrancy of Michigan's image and has provided communication counsel to programs and organizations like ArtPrize, LaughFest and the Frederik Meijer Gardens & Sculpture Park. She has served on the boards of Detroit Receiving Hospital, The Grand Rapids Art Museum, The

Ronald McDonald House of Western Michigan, The Economic Club of Grand Rapids, Ferris State University, The West Michigan Policy Forum, and Goodwill Industries, among others.

Ginny has also 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.

Prior to opening SeyferthPR, Ginny worked in corporate public relations for Amway Corporation, MI; AMOCO Oil Company, IL; and St. Jude Children's Research Hospital, TN. Ginny and her husband Robert Boss have two grown children. Ms. Seyferth's extensive experience as a business leader in Michigan, and previous service on banking boards are valuable to the First National Bank of Michigan Board.

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. Mr. Weiner brings to the Board extensive and valuable community leadership and commercial real estate experience.

**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 two times during 2019.

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, 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 four times during 2019.

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 one time during 2019.

PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2020

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, 2020, 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, 2020.

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, 2020, the Audit Committee will consider a change in independent auditors for the next year.

BENEFICIAL* STOCK OWNERSHIP

The following table sets forth information as of April 14, 2020 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 14, 2020.

Name of Beneficial Owner	Common Stock	Rights to Acquire⁽¹⁾	Restricted Stock	Approximate Percent of Voting Shares⁽²⁾
Eric V. Brown, Jr.	40,600	0	0	2.03
Daniel E. Bitzer	3,250	25,400	1,100	0.22
Joseph S. Calvaruso	9,800	0	0	0.49
James J. DeKruyter	134,768	0	0	6.74
James S. DeMoss	100	0	0	0.00
David G. Echelbarger	2,500			0.12
Jefra A. Groendyk	2,050	12,540	2,600	0.23
James S. Gunderson	30,000	0	0	1.50
David L. Holmes	20,000	0	0	1.00
Benjamin T. Ipema	40,000	0	0	2.00
Cynthia S. Kole	3,230	0	2,270	0.27
Larry D. Lueth	57,000	5,818	0	2.85
Edward B. Montgomery	1,000	0	0	0.05
Matthew J. Morgan	2,650	4,750	1,150	0.19

Name of Beneficial Owner	Common Stock	Rights to Acquire ⁽¹⁾	Restricted Stock	Approximate Percent of Voting Shares ⁽²⁾
Sondra K. Phillips	5,000	0	0	0.25
Steven K. Piper	1,130	0	1,570	0.13
John M. Schreuder	93,158	2,885	0	4.66
Virginia M. Seyferth	1,000	0	0	0.05
Joshua T. Weiner	105,000	0	0	5.25

* “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, 2012 and 2018 Stock Option and Restricted Stock Plans. These numbers are not reflected in the “Approximate Percent of Voting Shares” column.

⁽²⁾ Voting Shares include Common Stock and Restricted Stock. Based on 2,000,786 shares issued and outstanding as of April 14 2020.

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 Vice President, Sr. Lender	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 2019 and the Balance Sheet as of December 31, 2019 are attached as Annex A.

MISCELLANEOUS

Solicitation of Proxies

The Company will bear the cost of the solicitation of proxies from Shareholders, including the cost of printing and mailing this Proxy Statement and the accompanying materials. In addition to solicitation by mail, proxies may be solicited, 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. and Subsidiaries

Consolidated Financial Report
December 31, 2019

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, 2019 and 2018 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 opinion.

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, 2019 and 2018 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

February 28, 2020

First National Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet

December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents (Note 3)	\$ 77,625,144	\$ 64,002,756
Interest-bearing deposits in banks	6,417,000	1,335,000
Investment securities - Available for sale (Note 4)	37,702,111	47,174,972
Other securities (Note 4)	3,655,300	2,755,800
Loans - Net of allowance for loan losses of \$6,463,271 and \$6,561,879 as of December 31, 2019 and 2018, respectively (Note 5)	484,936,644	442,914,218
Premises and equipment - Net (Note 6)	6,137,228	3,430,492
Accrued interest receivable and late fees	1,547,278	1,480,224
Deferred tax asset (Note 9)	1,134,000	1,198,000
Cash surrender value of life insurance	8,602,246	5,444,996
Other assets	3,963,269	4,721,767
Total assets	<u>\$ 631,720,220</u>	<u>\$ 574,458,225</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 7):		
Noninterest bearing	\$ 132,483,378	\$ 118,328,683
Interest bearing	367,941,304	361,103,905
Total deposits	500,424,682	479,432,588
Borrowings (Note 8)	68,100,000	38,000,000
Accrued interest payable	274,105	250,058
Accrued and other liabilities	2,230,074	2,220,069
Total liabilities	571,028,861	519,902,715
Stockholders' Equity (Notes 11, 12 and 13)		
Common stock - Voting		
Authorized - 2,500,000 shares		
Issued and outstanding - 2,001,777 and 2,029,507 shares at December 31, 2019 and 2018, respectively	19,442,142	21,052,142
Additional paid-in capital	242,575	88,018
Retained earnings	40,767,609	33,988,922
Accumulated other comprehensive income (loss)	239,033	(573,572)
Total stockholders' equity	60,691,359	54,555,510
Total liabilities and stockholders' equity	<u>\$ 631,720,220</u>	<u>\$ 574,458,225</u>

ANNEX A

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Income

Years Ended December 31, 2019 and 2018

	2019	2018
Interest Income		
Loans - Including fees	\$ 24,611,384	\$ 20,654,812
Investment securities:		
Taxable	562,389	667,838
Tax-exempt	336,596	485,903
Dividends	192,258	134,892
Other	<u>449,535</u>	<u>525,783</u>
Total interest income	26,152,162	22,469,228
Interest Expense		
Deposits	4,283,173	2,834,128
Borrowings	<u>1,212,632</u>	<u>615,416</u>
Total interest expense	<u>5,495,805</u>	<u>3,449,544</u>
Net Interest Income	20,656,357	19,019,684
Provision for Loan Losses (Note 5)	<u>692,000</u>	<u>1,005,000</u>
Net Interest Income after Provision for Loan Losses	19,964,357	18,014,684
Noninterest Income		
Service charge - Other	807,142	744,123
Net gain on available-for-sale securities (Note 4)	29,569	20,542
Other	<u>335,683</u>	<u>294,876</u>
Total noninterest income	1,172,394	1,059,541
Noninterest Expense		
Salaries and employee benefits (Note 12)	8,037,609	7,158,513
Occupancy and equipment (Note 6)	1,589,383	1,335,602
Data processing	892,056	725,568
FDIC insurance	156,700	317,387
Professional fees	581,755	603,847
Other	<u>1,731,663</u>	<u>1,596,082</u>
Total noninterest expense	<u>12,989,166</u>	<u>11,736,999</u>
Income - Before income taxes	8,147,585	7,337,226
Income Tax Expense (Note 9)	<u>1,368,898</u>	<u>1,176,570</u>
Consolidated Net Income	<u>\$ 6,778,687</u>	<u>\$ 6,160,656</u>

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	\$ 6,778,687	\$ 6,160,656
Other Comprehensive Income (Loss)		
Unrealized (loss) gain on securities:		
Arising during the year	1,000,036	(432,920)
Reclassification adjustment	29,569	20,542
Tax effect	<u>(217,000)</u>	<u>87,000</u>
Total other comprehensive income (loss)	812,605	(325,378)
Comprehensive Income	<u>\$ 7,591,292</u>	<u>\$ 5,835,278</u>

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2019 and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance - January 1, 2018	\$ 21,039,571	\$ 90,679	\$ 27,828,266	\$ (248,194)	\$ 48,710,322
Comprehensive income (loss)	-	-	6,160,656	(325,378)	5,835,278
Vesting of restricted stock	54,088	(54,088)	-	-	-
Repurchase of stock	(389,800)	-	-	-	(389,800)
Stock-based compensation	-	225,794	-	-	225,794
Stock options exercised	348,283	(174,367)	-	-	173,916
Balance - December 31, 2018	21,052,142	88,018	33,988,922	(573,572)	54,555,510
Comprehensive income	-	-	6,778,687	812,605	7,591,292
Vesting of restricted stock	94,253	(94,253)	-	-	-
Repurchase of stock	(1,662,412)	-	-	-	(1,662,412)
Stock-based compensation	-	275,955	-	-	275,955
Stock options exercised	(41,841)	(27,145)	-	-	(68,986)
Balance - December 31, 2019	\$ 19,442,142	\$ 242,575	\$ 40,767,609	\$ 239,033	\$ 60,691,359

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, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Consolidated net income	\$ 6,778,687	\$ 6,160,656
Adjustments to reconcile consolidated net income to net cash from operating activities:		
Depreciation	345,072	310,725
Provision for loan losses	692,000	1,005,000
Amortization of securities - Net	167,431	353,854
Deferred income taxes	(153,000)	12,000
Loss on sale of other real estate owned	12,622	-
Stock-based compensation expense	275,955	225,794
Increase in bank-owned life insurance	(157,250)	(140,515)
Gain on sale of available-for-sale securities	(29,569)	(20,542)
Net change in:		
Accrued interest receivable and other assets	691,373	(1,656,234)
Accrued interest payable and other liabilities	34,052	992,384
	<u>8,657,373</u>	<u>7,288,274</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Sales	3,844,525	5,465,883
Maturities, prepayments, and calls	17,760,966	13,688,616
Purchases	(11,240,816)	(1,239,478)
Purchase of bank-owned life insurance	(3,000,000)	-
Proceeds from sales of premises and equipment	-	18,000
Additions to premises and equipment	(3,051,808)	(919,682)
Change in loans	(44,075,768)	(62,734,628)
Decrease (increase) in interest-bearing deposits in banks	(5,082,000)	200,000
Purchase of FHLB stock	(900,000)	(225,000)
Redemption of FRB stock	500	10,950
	<u>(45,744,401)</u>	<u>(45,735,339)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities		
Net increase in deposit accounts	20,992,094	74,013,013
Effect of stock options exercised	(68,986)	173,916
New advances and other borrowings	30,000,000	90,000,000
Repayment of long-term debt	-	(80,000,000)
Net change in line of credit	100,000	-
Proceeds from sale of other real estate owned	1,348,720	-
Repurchase of stock	(1,662,412)	(389,800)
	<u>50,709,416</u>	<u>83,797,129</u>
Net cash provided by financing activities		
Net Increase (Decrease) in Cash	13,622,388	45,350,064
Cash and Cash Equivalents - Beginning of year	64,002,756	18,652,692
Cash and Cash Equivalents - End of year	\$ 77,625,144	\$ 64,002,756
Supplemental Cash Flow Information - Cash paid for		
Interest	\$ 5,471,758	\$ 3,418,957
Income taxes	1,000,000	1,500,000

See notes to consolidated financial statements.

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First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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; one branch location in Holland, Michigan; and a loan production office in Lansing, 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 First National Bank of Michigan (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 subsidiaries, First National Bank of Michigan and a captive risk insurance company, FNB Risk Management, Inc. (the "Captive"), which participates in a pooled captive plan with 10 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 that 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, 2019 and 2018.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 on 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 are 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, 2019 and 2018, there were no foreclosed assets.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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 shorter of lease term or estimated lives of the assets.

Bank-owned Life Insurance

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

Income Taxes

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

Transfers of Financial Assets

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

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including February 28, 2020, which is the date the consolidated financial statements were available to be issued.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In February 2016, the FASB issued 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, 2021 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. 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 FASB issued 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, 2023. Upon adoption, the ASU will be applied using a modified retrospective transition method to the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Early adoption for all institutions is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Corporation is still quantifying the impact of the new standard.

Note 3 - Restrictions on Cash and Amounts Due from Banks

The Corporation is required to maintain average balances on hand or with the Federal Reserve Bank and other financial institutions. At December 31, 2019 and 2018, these reserve balances amounted to \$10,013,000 and \$6,376,000, respectively.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 4 - Securities

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

	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-sale securities:				
U.S. government and federal agency	\$ 13,873,506	\$ 6,820	\$ (31,031)	\$ 13,849,295
U.S. Treasury	824,092	339	-	824,431
State and municipal	22,701,410	339,526	(12,551)	23,028,385
Total available-for-sale securities	<u>\$ 37,399,008</u>	<u>\$ 346,685</u>	<u>\$ (43,582)</u>	<u>\$ 37,702,111</u>
	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-sale securities:				
U.S. government and federal agency	\$ 25,938,518	\$ -	\$ (561,222)	\$ 25,377,296
U.S. Treasury	3,003,337	-	(18,962)	2,984,375
State and municipal	18,959,690	71,597	(217,986)	18,813,301
Total available-for-sale securities	<u>\$ 47,901,545</u>	<u>\$ 71,597</u>	<u>\$ (798,170)</u>	<u>\$ 47,174,972</u>

At December 31, 2019 and 2018, securities with a carrying value of approximately \$8,756,000 and \$22,367,000, respectively, were pledged to secure borrowings.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2019 are as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 11,062,593	\$ 11,073,244
Due in one through five years	19,943,688	20,064,565
Due after five years through ten years	6,392,727	6,564,302
Total	<u>\$ 37,399,008</u>	<u>\$ 37,702,111</u>

For the years ended December 31, 2019 and 2018, there were no significant gains or losses from sales of securities available for sale. Sales of available-for-sale securities were approximately \$3,800,000 and \$6,500,000 for the years ended December 31, 2019 and 2018, respectively.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 4 - Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2019 and 2018, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2019			
	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	\$ -	\$ -	\$ (31,031)	\$ 8,044,125
State and municipal	(9,998)	1,647,848	(2,553)	633,024
Total available-for-sale securities	<u>\$ (9,998)</u>	<u>\$ 1,647,848</u>	<u>\$ (33,584)</u>	<u>\$ 8,677,149</u>
	2018			
	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	\$ (17,273)	\$ 982,727	\$ (543,949)	\$ 24,394,569
U.S. Treasury	-	-	(18,962)	2,984,375
State and municipal	(13,453)	2,342,099	(204,533)	8,290,868
Total available-for-sale securities	<u>\$ (30,726)</u>	<u>\$ 3,224,826</u>	<u>\$ (767,444)</u>	<u>\$ 35,669,812</u>

At December 31, 2019 and 2018, there were 15 and 58 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 \$3,655,300 and \$2,755,800 at December 31, 2019 and 2018, 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, 2019 and 2018

Note 5 - Loans

A summary of the balances of loans is as follows:

	2019	2018
Real estate - Construction	\$ 51,733,847	\$ 63,839,584
Real estate - Residential	80,813,068	65,736,121
Real estate - Commercial - Nonfarm - Nonresidential	255,369,659	227,996,521
Commercial and industrial	101,333,408	90,271,707
Consumer	2,149,932	1,632,164
Total loans	491,399,915	449,476,097
Less - Allowance for loan losses	6,463,271	6,561,879
Net loans	<u>\$ 484,936,644</u>	<u>\$ 442,914,218</u>

In the ordinary course of business, the Corporation has granted loans to directors and their affiliates amounting to \$14,800,000 and \$14,500,000 as of December 31, 2019 and 2018, respectively. There were no outstanding balances to officers of the Corporation as of December 31, 2019 or 2018.

Activity in the allowance for loan losses for 2019 and 2018 is summarized as follows:

	Year Ended December 31, 2019						
	Real Estate – Construction	Real Estate – Residential	Real Estate – Commercial	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	\$ 749,796	\$ 1,083,280	\$ 2,990,661	\$ 1,690,435	\$ 10,819	\$ 36,888	\$ 6,561,879
Charge-offs	-	-	-	(791,424)	-	-	(791,424)
Recoveries	-	-	-	815	-	-	815
Provision	(139,337)	128,955	391,204	346,144	1,581	(36,547)	692,000
Ending balance	<u>\$ 610,459</u>	<u>\$ 1,212,235</u>	<u>\$ 3,381,865</u>	<u>\$ 1,245,970</u>	<u>\$ 12,400</u>	<u>\$ 341</u>	<u>\$ 6,463,271</u>
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	610,459	1,212,235	3,381,865	1,245,970	12,400	341	6,463,271
Ending allowance balance	<u>\$ 610,459</u>	<u>\$ 1,212,235</u>	<u>\$ 3,381,865</u>	<u>\$ 1,245,970</u>	<u>\$ 12,400</u>	<u>\$ 341</u>	<u>\$ 6,463,271</u>
Loans:							
Individually evaluated for impairment	\$ -	\$ 61,358	\$ -	\$ 110,213	\$ -	\$ -	\$ 171,571
Collectively evaluated for impairment	51,733,847	80,751,710	255,369,659	101,223,195	2,149,932	-	491,228,344
Total loans	<u>\$ 51,733,847</u>	<u>\$ 80,813,068</u>	<u>\$ 255,369,659</u>	<u>\$ 101,333,408</u>	<u>\$ 2,149,932</u>	<u>\$ -</u>	<u>\$ 491,399,915</u>

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5 - Loans (Continued)

	Year Ended December 31, 2018						
	Real Estate – Construction	Real Estate – Residential	Real Estate – Commercial	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	\$ 478,902	\$ 1,254,337	\$ 2,832,170	\$ 1,000,440	\$ 12,588	\$ -	\$ 5,578,437
Charge-offs	-	-	(32,036)	-	(493)	-	(32,529)
Recoveries	-	-	-	10,971	-	-	10,971
Provision	270,894	(171,057)	190,527	679,024	(1,276)	36,888	1,005,000
Ending balance	<u>\$ 749,796</u>	<u>\$ 1,083,280</u>	<u>\$ 2,990,661</u>	<u>\$ 1,690,435</u>	<u>\$ 10,819</u>	<u>\$ 36,888</u>	<u>\$ 6,561,879</u>
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 694,968	\$ -	\$ -	\$ 694,968
Collectively evaluated for impairment	749,796	1,083,280	2,990,661	995,467	10,819	36,888	5,866,911
Ending allowance balance	<u>\$ 749,796</u>	<u>\$ 1,083,280</u>	<u>\$ 2,990,661</u>	<u>\$ 1,690,435</u>	<u>\$ 10,819</u>	<u>\$ 36,888</u>	<u>\$ 6,561,879</u>
Loans:							
Individually evaluated for impairment	\$ -	\$ 1,361,342	\$ 2,405,312	\$ -	\$ -	\$ -	\$ 3,766,654
Collectively evaluated for impairment	63,839,584	66,326,648	226,635,179	87,275,868	1,632,164	-	445,709,443
Total loans	<u>\$ 63,839,584</u>	<u>\$ 66,326,648</u>	<u>\$ 227,996,521</u>	<u>\$ 101,333,408</u>	<u>\$ 1,632,164</u>	<u>\$ -</u>	<u>\$ 449,476,097</u>

As of December 31, 2019, there were no modifications of loans considered troubled debt restructurings.

As of December 31, 2018, there was one modification of a loan considered a troubled debt restructuring with a premodification outstanding recorded investment of \$68,988.

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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5 - Loans (Continued)

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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5 - Loans (Continued)

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

	December 31, 2019				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Real estate - Construction:					
1-4 family residential	\$ 4,996,957	\$ -	\$ -	\$ -	\$ 4,996,957
Other	46,736,890	-	-	-	46,736,890
Total real estate - Construction	51,733,847	-	-	-	51,733,847
Real estate - Residential:					
Revolving lines of credit	8,612,778	-	32,439	-	8,645,218
1-4 family residential	23,695,087	-	405,730	-	24,100,817
Multifamily	48,067,034	-	-	-	48,067,034
Total real estate - Residential	80,374,899	-	438,169	-	80,813,068
Real estate - Commercial -					
Nonfarm - Nonresidential	247,427,605	1,351,041	6,591,013	-	255,369,659
Commercial and industrial	95,605,023	261,873	5,466,512	-	101,333,408
Consumer	2,149,932	-	-	-	2,149,932
Total	\$ 477,291,306	\$ 1,612,913	\$ 12,495,695	\$ -	\$ 491,399,915
	December 31, 2018				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Real estate - Construction:					
1-4 family residential	\$ 4,294,268	\$ -	\$ -	\$ -	\$ 4,294,268
Other	59,545,316	-	-	-	59,545,316
Total real estate - Construction	63,839,584	-	-	-	63,839,584
Real estate - Residential:					
Revolving lines of credit	12,222,577	33,254	-	-	12,255,831
1-4 family residential	26,913,784	-	351,918	-	27,265,702
Multifamily	26,214,588	-	-	-	26,214,588
Total real estate - Residential	65,350,949	33,254	351,918	-	65,736,121
Real estate - Commercial -					
Nonfarm - Nonresidential	225,116,520	1,254,638	1,625,363	-	227,996,521
Commercial and industrial	83,418,493	3,995,708	2,857,506	-	90,271,707
Consumer	1,632,164	-	-	-	1,632,164
Total	\$ 439,357,710	\$ 5,283,600	\$ 4,834,787	\$ -	\$ 449,476,097

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 5 - Loans (Continued)

Age Analysis of Past-due Loans

At December 31, 2019, there were three commercial relationships that were placed on nonaccrual for \$171,571. These nonaccrual loans consisted of the following: two commercial loans totaling \$110,213 contractually less than 30 days past due and one residential mortgage loan totaling \$61,358 contractually less than 30 days past due.

At December 31, 2018, there were three commercial relationships that were placed on nonaccrual for \$3,766,654. These nonaccrual loans consisted of the following: two commercial loans totaling \$367,304 contractually between 31 and 59 days past due and five commercial loans totaling \$3,399,350 contractually greater than 90 days past due.

Impaired Loans

A loan is considered impaired when it is probable that not all principal and interest amounts will be collected according to the loan contract. Individual commercial loans are evaluated for impairment. Impaired loans are written down by the establishment of a specific allowance where necessary.

As of and for the Year Ended December 31, 2019					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Real estate - residential	\$ 61,358	\$ 61,358	\$ -	\$ 63,026	\$ (1,079)
Commercial and industrial	110,213	110,213	-	161,734	(4,453)
With an allowance recorded:					
Real estate - residential	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Total	\$ 171,571	\$ 171,571	\$ -	\$ 224,760	\$ (5,532)
As of and for the Year Ended December 31, 2018					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance recorded:					
Real estate - residential	\$ 1,361,342	\$ 1,361,342	\$ -	\$ 1,376,658	\$ 42,210
Commercial and industrial	760,957	760,957	-	778,064	21,365
With an allowance recorded:					
Real estate - residential	-	-	-	-	-
Commercial and industrial	1,644,355	1,644,355	694,968	1,692,830	-
Total	\$ 3,766,654	\$ 3,766,654	\$ 694,968	\$ 3,847,552	\$ 63,575

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cost-recovery method or cash basis until qualifying for return to accrual.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 6 - Premises and Equipment

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

	2019	2018
Land	\$ 250,000	\$ 200,000
Buildings and building improvements	3,310,791	1,604,777
Leasehold improvements	2,325,073	2,227,601
Furniture, fixtures, and equipment	1,768,323	1,581,595
Construction in progress	1,043,365	31,771
Total cost	8,697,552	5,645,744
Accumulated depreciation	(2,560,324)	(2,215,252)
Net premises and equipment	\$ 6,137,228	\$ 3,430,492

The Bank has two leases with a company in which a director is a part owner. The first lease calls for monthly payments of \$11,060 through 2023 and is renewable for two additional five-year terms. The second lease calls for minimum monthly payments of \$10,489 through 2025 and is renewable for three additional five-year terms.

Total rent expense for the years ended December 31, 2019 and 2018 amounted to \$605,407 and \$531,278, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2019 pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows:

Years Ending	Related Party Leases	Other Lease Agreements
2020	\$ 242,386	\$ 160,160
2021	242,386	160,160
2022	242,386	160,160
2023	232,127	169,770
2024	119,272	172,973
Thereafter	79,515	1,060,323
Total	\$ 1,158,072	\$ 1,883,546

Note 7 - Deposits

The following is a summary of the distribution of deposits at December 31, 2019 and 2018:

	2019	2018
Noninterest-bearing deposits	\$ 132,483,378	\$ 118,328,683
Interest-bearing deposits and NOW accounts	74,815,893	35,630,211
Savings and money market accounts	178,989,591	213,559,899
Time deposits:		
Under \$250,000	85,688,129	73,425,972
\$250,000 and over	28,447,691	38,487,823
Total	\$ 500,424,682	\$ 479,432,588

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 7 – Deposits (Continued)

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2020	\$ 71,207,468
2021	22,602,022
2022	7,979,581
2023	9,922,567
2024	2,175,182
Thereafter	<u>249,000</u>
Total	<u>\$ 114,135,820</u>

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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, 2019 and 2018. The unused portion of the facility was approximately \$57,000,000 and \$40,000,000 at December 31, 2019 and 2018, respectively. The collateral on the borrowing arrangement consists of commercial, commercial real estate, and consumer loans with a book balance of approximately \$82,000,000 and \$56,000,000 at December 31, 2019 and 2018, 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, 2019 and 2018. There was no amount outstanding at December 31, 2019 or 2018.

As of December 31, 2019, the Corporation had ten advances from the Federal Home Loan Bank (FHLB) totaling \$68,000,000 with interest rates ranging from 0.68 percent to 3.28 percent, which include \$38,000,000 of advances with an option held by the FHLB to put the advance. As of December 31, 2018, the Bank had seven advances totaling \$38,000,000 with interest rates ranging from 1.10 percent to 3.28 percent. The advances mature between 2023 and 2029. Interest is payable monthly. Included The advances were collateralized by approximately \$102,000,000 and \$131,000,000 of mortgage loans as of December 31, 2019 and 2018, 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.

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. In December 2019, the available credit was expanded to \$10,000,000. 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 December 2, 2021. The line of credit is secured by all the outstanding stock of the Bank. As of December 31, 2019 and 2018, there was \$100,000 and \$0 outstanding, respectively.

The balance of the above borrowings matures as follows:

Years Ending	Amount
2024	\$ 15,100,000
After 2024	<u>53,000,000</u>
Total	<u>\$ 68,100,000</u>

Note 9 - Income Taxes

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

	2019	2018
Current expense	\$ 1,216,898	\$ 1,164,570
Deferred income tax expense	<u>152,000</u>	<u>12,000</u>
Total income tax expense	<u>\$ 1,368,898</u>	<u>\$ 1,176,570</u>

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 9 - Income Taxes (Continued)

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:

	2019	2018
Income before taxes	\$ 8,147,585	\$ 7,337,226
Income tax expense at federal statutory rate (21 percent in 2019 and 2018)	1,710,993	1,540,817
Effect of tax credits	(224,000)	(212,000)
Decreases from nontaxable income - Net of nondeductible expenses	(118,095)	(152,247)
Total income tax expense	<u>\$ 1,368,898</u>	<u>\$ 1,176,570</u>

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

	2019	2018
Total deferred tax liabilities	\$ (751,000)	\$ (512,000)
Total deferred tax assets	<u>1,536,000</u>	<u>1,710,000</u>
Total	<u>\$ 785,000</u>	<u>\$ 1,198,000</u>

Deferred tax liabilities consist of depreciation, deferred fees on loan originations, unvested stock compensation, prepaid expenses, and unrealized gains on available for sale securities. Deferred tax assets consist of allowance for bad debts, deferred compensation, and unrealized losses on available for sale securities.

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, 2019 and 2018, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2019	2018
Commitments to grant loans	\$ 41,121,000	\$ 44,726,000
Unfunded commitments under lines of credit	152,034,000	120,303,000
Commercial and standby letters of credit	177,000	-

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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

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

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

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

Legal Contingencies

Various legal claims also arise from time to time in the normal course of business, that, 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, 2019 and 2018, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2019, 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 1 (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. These tables do not include the 2.5% capital conservation buffer requirement. A Bank with a capital conservation buffer greater than 2.5% of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5% threshold is not met, the Bank would be subject to increasing limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 11 - Minimum Regulatory Capital Requirements (Continued)

(000s omitted from dollar amounts)	Actual		Minimum For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019						
Common equity tier 1 capital (to risk-weighted assets)	\$ 57,942	10.51	\$ 24,820	4.50%	\$ 35,851	6.50%
Total risk-based capital (to risk-weighted assets)	64,405	11.68	44,124	8.00	55,155	10.00
Tier 1 capital (to risk-weighted assets)	57,942	10.51	33,093	6.00	44,124	8.00
Tier 1 capital (to average assets)	57,942	10.02	23,141	4.00	28,926	5.00
As of December 31, 2018						
Common equity tier 1 capital (to risk-weighted assets)	51,727	10.47	22,237	4.50	32,120	6.50
Total risk-based capital (to risk-weighted assets)	57,909	11.72	39,532	8.00	49,416	10.00
Tier 1 capital (to risk-weighted assets)	51,727	10.47	29,649	6.00	39,532	8.00
Tier 1 capital (to average assets)	51,727	9.37	22,073	4.00	27,591	5.00

Note 12 - Share-based Compensation

At December 31, 2019, 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 \$242,000 and \$226,000 for 2019 and 2018, respectively. There were no deferred income tax benefits recognized in the consolidated statement of income for share-based compensation arrangements for both 2019 and 2018.

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 awards to its employees for up to 400,000 shares of common stock. The Plan was initially adopted in 2006 and allowed 150,000 shares. Similar plans were adopted that granted 100,000 additional shares in each 2009 and 2012 and 50,000 additional shares in 2018. 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. Restricted stock awards generally vest over five 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. In 2019, the Corporation granted 4,400 options at a strike price of \$43.00. In 2018, the Corporation granted 9,250 options at a strike price of \$37.50. Information used to measure the 2019 and 2018 options granted are as follows:

Expected volatility	20.00%
Expected term (in years)	10
Risk-free rate	2.66%

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 12 - Share-based Compensation (Continued)

A summary of option activity under the Plan for the year ended December 31, 2019 is presented below:

Options	Number of Shares	Weighted-average	
		Average Exercise Price	Remaining Contractual Term (in years)
Outstanding at January 1, 2018	79,877	\$ 20.64	6.15
Granted	9,250	37.50	
Exercised	(29,223)	22.22	
Outstanding at December 31, 2018	59,904	24.91	6.26
Granted	4,400	43.00	
Exercised	(5,794)	11.70	
Outstanding at December 31, 2019	58,510	27.58	6.68
Vested or expected to vest at December 31, 2019	47,943	24.89	6.01
Exercisable at December 31, 2019	47,943	24.89	6.01

The weighted-average grant-date fair calculated value of options granted during 2019 and 2018 was \$15.21 and \$13.55, respectively.

As of December 31, 2019 and 2018, there was approximately \$94,000 and \$137,000, respectively, of total unrecognized compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognized through December 31, 2021.

In 2019 and 2018, the Corporation also awarded 5,725 and 4,100 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 weighted-average grant-date fair calculated value in 2019 and 2018 was \$246,550 (\$43.07 per share) and \$153,750 (\$37.50 per share), respectively. The unrecognized cost for restricted share awards was approximately \$352,000 and \$249,000 at December 31, 2019 and 2018, respectively, and is expected to be recognized through December 31, 2024.

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, 2019 and 2018 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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Fair Value Measurements (Continued)

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.

Assets Measured at Fair Value on a Recurring Basis at
December 31, 2019

	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, 2019
Assets				
Available-for-sale investment securities:				
U.S. government and federal agency	\$ -	\$ 13,849,295	\$ -	\$ 13,849,295
U.S. Treasury	824,431	-	-	824,431
State and municipal	-	20,516,889	2,511,496	23,028,385
Total assets	\$ 824,431	\$ 34,366,184	\$ 2,511,496	\$ 37,702,111

Assets Measured at Fair Value on a Recurring Basis at
December 31, 2018

	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, 2018
Assets				
Available-for-sale investment securities:				
U.S. government and federal agency	\$ -	\$ 25,377,296	\$ -	\$ 25,377,296
U.S. Treasury	2,984,375	-	-	2,984,375
State and municipal	-	15,656,868	3,156,433	18,813,301
Total assets	\$ 2,984,375	\$ 41,034,164	\$ 3,156,433	\$ 47,174,972

There were no significant assets measured at fair value on a nonrecurring basis in which gains or losses were recognized in 2019 or 2018.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Fair Value Measurements (Continued)

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.