

FIRST NATIONAL BANCORP, INC.

A BANK HOLDING COMPANY FOR



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

May 13, 2021

NOTICE IS HEREBY GIVEN that the 2021 Annual Meeting of Shareholders of FIRST NATIONAL BANCORP, INC., a Michigan corporation and registered bank holding company, will be held (*Virtually if email provided or Teleconference 1-321-430-2322, Access code: 117 457 958#, only*) at 10:00 a.m., on May 13, 2021, 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, Bill Manns, 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 2022 annual meeting of shareholders.
2. Ratification of the appointment of the independent auditors, Crowe, LLP for the year ending December 31, 2021.
3. To adopt the 2021 Stock Option and Restricted Stock Plan and authorize and reserve for issuance thereunder 100,000 shares of the Corporation's Common stock.

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

Your Board of Directors recommends that you vote "FOR" all of the named director nominees and "FOR" Proposal 2 and Proposal 3.

April 13, 2021 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 13, 2021) (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 extending to the right.

Matthew J. Morgan, Secretary

April 13, 2021

Important: This notice and the accompanying proxy materials were first mailed to shareholders on or about April 13, 2021. 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 13, 2021

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 2021 Annual Meeting of Shareholders to be held (***Virtually if email provided or Teleconference 1-321-430-2322, Access code: 117 457 958#, only***) at 10:00 a.m. on May 13, 2021 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, Bill Manns, 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 2022 annual meeting of shareholders.
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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 Virtually if email provided or Teleconference (1-321-430-2322, Access code: 117 457 958#)

Only the Shareholders, their proxy holders and guests of the Company may access the Annual Meeting via virtually if email provided or Teleconference (1-321-430-2322, Access code: 117 457 958#).

Who may vote

The Shareholders of the Company, as recorded in our stock register on April 13, 2021 (the “**Record Date**”), may vote by returning a Proxy via U.S. Mail to be received on or before 10:00 a.m., May 13, 2021. As of both the Record Date and the date of this Proxy Statement, the Company had 2,002,690 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 13, 2021.

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 and Proposal 3.

If you return your proxy without voting instructions, your shares will be voted FOR the election of all of the director nominees and FOR Proposal 2 and Proposal 3. If you return a properly executed proxy, the persons named as proxy holders will have discretion to vote your shares on any additional matters properly presented for a vote at the Annual Meeting.

To ensure your proxy is received prior to the Annual Meeting, please return it no later than May 13, 2021. 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 16 seats on the Board. Abstentions will not be included in the vote count.

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

Proposal 3 will be approved if a majority of shares voted on the proposal are voted in favor of the proposal. Abstentions will not be 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 28.68% 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, 101 S. Washington Square, Suite 100, Lansing, MI 48933 and a Loan Production Office in Traverse City, Michigan. 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 businesses and individuals 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 Board also approved 1 additional seat for this year resulting in 16 total seats requiring election. The 16 director nominees listed below, 15 of which are current directors of the Company, were nominated by the Board to fill the 16 Board seats for one year terms expiring at the 2022 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 was a member of the board of directors and was the General Counsel of Kalsec, Inc., a producer of natural colors, flavors, hops and nutritional ingredients for the food and beverage industries. He continues as an Emeritus member of the board and regularly attends its meetings. 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 retired 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 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 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. DEKRUYTER. Mr. DeKruyter currently serves on the board of the Gull Lake Ministries and on the bank board of BankMichigan of Brooklyn, Michigan. Mr. DeKruyter has been appointed to the Zoning Board of Appeals for Ross Township in Kalamazoo County. He has served many volunteer organizations including the Kalamazoo YMCA, Sherman Lake YMCA, Open Hearts Ministries, the National Board of Youth for Christ, and the Youth for Christ Foundation in Denver, Kalamazoo Christian School and the Kalamazoo Christian School Foundation Board. Mr. DeKruyter has also served as director of Michigan National Bank – Kalamazoo. Mr. DeKruyter'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 staffing to Bronson's additional three emergency department facilities 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. ECHELBARGER, CPA/CGMA. is a Shareholder and the Managing Partner at Echelbarger, Himebaugh, Tamm Co., P.C. (EHTC). He 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 known as Velosio of Grand Rapids.

Dave spearheaded the implementation of EOS (Entrepreneurial Operating System) at EHTC, which allows the firm to align and synchronize departments. As the Visionary for the firm, he inspires team members to live the EHTC core values both in and out of the office, and motivates team members and clients alike to achieve their full potential by leading training sessions on key business components. He promotes EHTC within the firm and in the West Michigan community by highlighting the attributes that make EHTC unique, which includes a team approach to proactive client services, a focus on people and culture, and a local firm presence with international resources.

Dave remains active both within the firm as well as in the community and industry. He is a member of the Michigan Association of Certified Public Accountants (MICPA), and serves as the Immediate Past Chair of the Board of Directors for the MICPA. Additionally, Dave serves on the Board of Directors for First National Bank of Michigan, and is the Chair of the Tax and Regulatory Affairs Committee as well as a member of the Public Policy Committee for the Grand Rapids Chamber of Commerce. He is also a member of the American Institute of Certified Public Accountants (AICPA).

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 Bachelor 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 2020 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, board member of DTI, Inc., 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.

BILL MANNS. Is President and Chief Executive Officer for Bronson Healthcare - the largest employer and leading healthcare system in southwest Michigan. As the senior executive, he oversees a full range of services from primary care to critical care across more than 100 locations.

Manns, who joined Bronson in 2020, has nearly 30 years of experience in healthcare leadership. He graduated from the University of Michigan with a bachelor's degree in Organizational Psychology and a master's degree in Health Services Administration. In addition to his healthcare-specific background, he is experienced in LEAN and Six Sigma. His current professional memberships include the National Association of Healthcare Executives, the American College of Healthcare Executives, and an appointment by the Governor of Michigan to the Public Health Advisory Council.

Mr. Manns serves on several Boards throughout the state of Michigan including the Michigan Health & Hospital Association Service Corporation, Affirmant Health Partners, Bronson Health Foundation, Cascade Engineering, First National Bank of Michigan, Gilmore Car Museum, Southwest Michigan First and Western Michigan University Homer Stryker M.D. School of Medicine. Mr. Manns brings to the Board extensive experience in healthcare and community leadership being a valuable asset to the Bank's Board.

EDWARD B. MONTGOMERY. Edward Montgomery, who has served as President of Western Michigan University since 2017, is a nationally known labor economist who played major roles in both the Clinton and Obama administrations. During the Obama administration, Montgomery was a member of the President's Auto Task Force and led the interagency White House Council for Auto Communities and Workers.

During the Clinton administration, Montgomery served as Chief Economist, then Counselor and Assistant Secretary for the Department of Labor, before being named Deputy Secretary of Labor. In the latter role, the department's second highest position, he oversaw operations of the \$33 billion department.

He has held faculty positions at Michigan State University, Carnegie Mellon University, and the University of Maryland, winning teaching awards some five times over the years. Prior to becoming the ninth President of Western Michigan University, Montgomery served as Dean and Professor of Economics at Georgetown University's McCourt School of Public Policy.

Montgomery was inducted into the American Academy of Arts and Sciences in 2019, alongside distinguished inductees including former First Lady Michelle Obama, and former Governors Mitch Daniels and Deval Patrick. The academy honors world leaders for achievements in the arts and sciences, business, philanthropy, and public affairs.

As a researcher, 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.

In 2011, he was elected a fellow of the National Academy of Public Administration. He serves on the Board of Directors of the Center for Law and Social Policy. He also serves on the Committee on Economic Statistics for the American Economic Association.

Montgomery earned a bachelor's degree in economics with honors from Pennsylvania State University, and his master's and doctoral degrees in economics from Harvard University.

Montgomery and his wife, Kari, a Michigan native, have three grown children— Lindsay, Elizabeth and Edward. 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 with offices in Kalamazoo and Holland MI; Sondra is NCIDQ 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 make her an asset to the Bank Board.

JOHN M. SCHREUDER. Mr. Schreuder is the founding CEO of First National Bank of Michigan where he now serves as Chairman Emeritus of the Board of Directors. Mr. Schreuder has over 40 years of banking experience in Kalamazoo, Michigan and retired from First National Bank of Michigan on January 1, 2018. Mr. Schreuder started his banking career with First National Bank and Trust Co., (predecessor to First of America Bank) where he served in a leadership capacity. Prior to Mr. Schreuder's banking career, he was a certified public accountant with a big eight firm. He graduated from Western Michigan University with a Bachelor of Business Administration degree. Mr. Schreuder served in a leadership capacity on many community organizations including The Kalamazoo Symphony Orchestra, The Gilmore Keyboard and the Kalamazoo County Chamber of Commerce. In addition, Mr. Schreuder served on the Michigan Bankers Association and the Michigan Chamber of Commerce Boards. 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, 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 experience 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, James J. DeKruyter, David G. Echelbarger, Benjamin T. Ipema and John M. Schreuder serve on the Audit Committee. All of the members of the Audit Committee are “independent” directors as determined by the Board. The Audit Committee met three times during 2020.

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, Bill Manns, 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 three times during 2020.

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, Larry D. Lueth, and Virginia M. Seyferth 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 2020.

**PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR
THE YEAR ENDING DECEMBER 31, 2021**

The Audit Committee has appointed Crowe, LLP 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, 2021, 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 Crowe, LLP as the independent auditors for the year ending December 31, 2021.

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 Crowe, LLP to act as the Company's independent auditors for the year ending December 31, 2021, the Audit Committee will consider a change in independent auditors for the next year.

PROPOSAL 3 – ADOPTION OF THE 2021 STOCK OPTION AND RESTRICTED STOCK PLAN AND RESERVATION FOR ISSUANCE THEREUNDER 100,000 SHARES OF THE CORPORATION'S COMMON STOCK

At its meeting on March 11, 2021, the Board of Directors of First National Bancorp, Inc. adopted the 2021 Stock Option and Restricted Stock Plan (the "2021 Stock Plan"), under which 100,000 shares of the Corporation's Common Stock would be authorized and reserved for issuance to participants. The Directors reviewed the 2021 Stock Plan and found the terms and conditions of the plan to be fair, reasonable and in the best interests of the Corporation and the Shareholders. A copy of the 2021 Stock Plan is attached hereto as **Annex A**.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ADOPTION OF 2021 STOCK PLAN AND AUTHORIZE THE RESERVATION OF 100,000 SHARES OF THE CORPORATION'S COMMON STOCK FOR THE PLAN

BENEFICIAL* STOCK OWNERSHIP

The following table sets forth information as of April 13, 2021 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 13, 2021.

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	3,470	28,900	2,380	0.29
Joseph S. Calvaruso	9,800	0	0	0.49
James J. DeKruyter	140,268	0	0	7.00
James S. DeMoss	100	0	0	0.00
David G. Echelbarger	3,500			0.17
Jefra A. Groendyk	2,700	12,540	3,750	0.32
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	3,857	0	3,530	0.37
Larry D. Lueth	57,000	5,818	0	2.85
Edward B. Montgomery	1,000	0	0	0.05
Matthew J. Morgan	2,900	4,750	1,800	0.23
Sondra K. Phillips	5,000	0	0	0.25
Steven K. Piper	1,420	0	2,180	0.18
John M. Schreuder	93,158	2,080	0	4.65
Virginia M. Seyferth	1,000	0	0	0.05
Joshua T. Weiner	105,000	0	0	5.24

* "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, 2018 and 2021 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 2,002,690 shares issued and outstanding as of April 13 2021.

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 of the Company and the Bank	March 8, 2018
Cynthia S. Kole	Executive Vice President of the Company and the Bank	March 8, 2018
Matthew J. Morgan	Senior Vice President, CFO and Secretary / Treasurer of the Company and the Bank	January 1, 2015
Steven K. Piper	Executive Vice President of the Company and the Bank	March 8, 2018

FINANCIAL INFORMATION

The Profit and Loss Statement of the Company for fiscal year 2020 and the Balance Sheet as of December 31, 2020 are attached as **Annex B**.

MISCELLANEOUS

Solicitation of Proxies

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

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ANNEX A

FIRST NATIONAL BANCORP, INC. 2021 STOCK OPTION AND RESTRICTED STOCK PLAN

1. **PURPOSE.** FIRST NATIONAL BANCORP, INC., a Michigan corporation (the “*Company*”) hereby adopts the FIRST NATIONAL BANCORP, INC. 2021 STOCK OPTION AND RESTRICTED STOCK PLAN (the “*Plan*”) for the purposes of attracting and retaining employees of the Company and employees of the Company’s subsidiary, First National Bank of Michigan (“*Employees*”), non-Employee members of the Company’s Board of Directors (“*Directors*”) (Employees and Directors are collectively referred to herein as “*Participants*”) of superior ability, encouraging ownership by selected Participants of shares of common stock of the Company (the “*Common Stock*”), and providing an additional incentive to Participants to promote the success of the Company.

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

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

4. **SHARES SUBJECT TO PLAN.** The Company shall reserve one hundred thousand (100,000) shares of Common Stock for future issuance under this Plan (the “*Shares*”). At no time shall the number of shares of Common Stock subject to outstanding Options and Restricted Stock Grants, when added to that number of shares of Common Stock previously issued by the Company under this Plan, exceed such number. Such number, however, shall be subject to appropriate increase or decrease in the event of any future stock dividend or other recapitalization of the Common Stock of the Company. In the event of a lapse of any Option or forfeiture of Common Stock under the terms of a Restricted Stock Grant, the shares of Common Stock not purchased under that lapsed Option or forfeited under such Restricted Stock Grant shall again be available for grant under a new Option or Restricted Stock Grant.

OPTIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. CHANGES IN CONTROL AND OTHER EXTRAORDINARY TRANSACTIONS.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. RESTRICTIONS ON TRANSFERS.

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

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

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

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

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

RESTRICTED STOCK

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

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

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

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

22. **ESCROW.** For purposes of facilitating the forfeiture rights of the Company set forth in each Restricted Stock Agreement, the grantee of any shares of Restricted Stock shall deliver to the Secretary of Company any certificate(s) for such shares that remain subject to forfeiture under such Restricted Stock Agreement, together with a stock power executed by such grantee, in blank. The Secretary of Company or his or her designee (in either such case, the

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

GENERAL

23. SECURITIES LAWS.

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

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

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

“The Common Stock represented by this Stock Certificate has been issued pursuant to the FIRST NATIONAL BANCORP, INC. 2021 STOCK OPTION AND RESTRICTED

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

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

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

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

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

25. TAXES.

25.1 Withholding for Options. Upon the disposition by an Optionee or other person of shares of Option Stock acquired pursuant to the exercise of a Qualified Option prior to

satisfaction of the holding period requirements of Code Section 422, or upon the exercise of a Non-Qualified Option, the Company shall have the right to require such Optionee or such other person to pay by cash or check payable to the Company, the amount of any taxes which the Company may be required to withhold with respect to such transactions.

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

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

26. AMENDMENT, TERMINATION AND SUSPENSION.

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

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

26.3 Approval. If an amendment of this Plan would (a) materially increase the benefits accruing to Participants, (b) increase the aggregate number of shares of Common Stock which may be issued under this Plan, or (c) modify the requirements of eligibility for participation in this Plan, the amendment shall be approved by the Board or the Committee and, to the extent then required by Code Section 422, by a majority of the shareholders of the Company.

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

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

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

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

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

31. APPROVAL OF PLAN. The Adoption Date upon which this Plan has been adopted by the Board is March 11, 2021. The shareholders of the Company approved this Plan on May 13, 2021.

EXHIBIT A
OPTION GRANT

To: _____

Date: _____

FIRST NATIONAL BANCORP, INC., a Michigan corporation (the “*Company*”) hereby grants you an option (the “*Option*”), pursuant to the FIRST NATIONAL BANCORP, INC. 2021 STOCK OPTION AND RESTRICTED STOCK PLAN (the “*Plan*”) to purchase up to _____ shares of the Common Stock of the Company (the “*Option Shares*”) at a price of \$_____ per share. The date of the grant of this Option is as indicated above. It is the determination of the Board of Directors that, on this date, the fair market value of the Common Stock of the Company is \$ _____ per share.

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

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

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

<u>Date</u>	<u>Cumulative Option Shares Vested</u>
-------------	--

If your employment or other arrangement with the Company is terminated for any reason prior to a vesting date, no further vesting will occur on or after the effective date of termination.

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

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

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

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

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

FIRST NATIONAL BANCORP, INC.

By: _____

Its: _____

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

Signature of Optionee: _____

Name of Optionee (Please print): _____

Date: _____

EXHIBIT B

NOTICE OF EXERCISE

To: FIRST NATIONAL BANCORP, INC.

Date: _____

The undersigned, pursuant to the Option Grant dated _____, 2____ (the "*Option*") made by FIRST NATIONAL BANCORP, INC., a Michigan corporation (the "*Company*") under the FIRST NATIONAL BANCORP, INC. 2021 STOCK OPTION AND RESTRICTED STOCK PLAN (the "*Plan*") hereby exercises the right to purchase _____ shares of Common Stock of the Company at the price of \$ _____ per share. Enclosed is the consideration for those shares of Common Stock.

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

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

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

[NAME OF OPTIONEE]

20,007,396.1\127871-00004

EXHIBIT C

Grantee: _____
Number of Shares: _____
Date of Award: _____

RESTRICTED STOCK AGREEMENT

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

The FIRST NATIONAL BANCORP, INC. 2021 STOCK OPTION AND RESTRICTED STOCK PLAN (the "Plan") is administered by the Company's Board of Directors (the "Board"). The Board has determined that Grantee is eligible to participate in the Plan. The Board has awarded certain restricted stock to Grantee, subject to the terms and conditions contained in this Agreement and in the Plan. Capitalized terms not defined in this Agreement shall have those meanings provided in the Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FIRST NATIONAL BANCORP, INC.

By: _____

Its: _____

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

Signature of Grantee: _____

Name of Grantee (Please print): _____

Date: _____

15807761-3

First National Bancorp, Inc. and Subsidiaries

**Consolidated Financial Report
December 31, 2020**

First National Bancorp, Inc. and Subsidiaries

Contents

Independent Auditor's Report	1
Consolidated Financial Statements	
Balance Sheet	2
Statement of Income	3
Statement of Comprehensive Income	4
Statement of Stockholders' Equity	5
Statement of Cash Flows	6
Notes to Consolidated Financial Statements	7-28



Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
First National Bancorp, Inc. and Subsidiaries
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of First National Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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, 2020, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of First National Bancorp, Inc. and Subsidiaries as of December 31, 2019, were audited by other auditors whose report dated February 28, 2020, expressed an unmodified opinion on those statements.

Crowe LLP

Grand Rapids, Michigan
March 15, 2021

First National Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet

	December 31, 2020 and 2019	
	2020	2019
Assets		
Cash and cash equivalents (Note 3)	\$ 72,304,314	\$ 77,625,144
Interest-bearing time deposits in banks	6,959,139	6,417,000
Investment securities - Available for sale (Note 4)	124,740,201	37,702,111
Other securities (Note 4)	3,885,500	3,655,300
Loans - Net of allowance for loan losses of \$8,622,000 and \$6,463,271 as of December 31, 2020 and 2019, respectively (Note 5)	536,678,732	484,936,644
Premises and equipment - Net (Note 6)	6,755,426	6,137,228
Accrued interest receivable and late fees	2,244,684	1,547,278
Deferred tax asset (Note 9)	1,324,000	1,134,000
Cash surrender value of life insurance	8,824,401	8,602,246
Low income housing investments	1,296,138	1,558,788
Other assets	1,935,269	2,404,552
Total assets	\$ 766,947,804	\$ 631,720,291
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 7):		
Noninterest bearing	\$ 205,904,413	\$ 132,483,378
Interest bearing	422,194,839	367,941,304
Total deposits	628,099,252	500,424,682
Borrowings (Note 8)	69,926,836	68,100,000
Accrued interest payable	211,084	274,105
Accrued and other liabilities	1,816,395	2,230,074
Total liabilities	700,053,567	571,028,861
Stockholders' Equity (Notes 11, 12 and 13)		
Common stock - Voting, \$10 stated value; 2,500,000 shares authorized; 2,001,036 and 2,001,777 shares issued at December 31, 2020 and 2019, respectively	20,010,360	20,017,770
Additional paid-in capital	1,175,130	966,489
Retained earnings	44,838,563	39,468,067
Accumulated other comprehensive income	870,184	239,104
Total stockholders' equity	66,894,237	60,691,430
Total liabilities and stockholders' equity	\$ 766,947,804	\$ 631,720,291

Annex B

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Income

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Interest Income		
Loans - Including fees	\$ 25,624,885	\$ 24,611,384
Investment securities:		
Taxable	578,213	562,389
Tax-exempt	335,044	336,596
Dividends	142,633	192,258
Other	<u>248,752</u>	<u>449,535</u>
Total interest income	26,929,527	26,152,162
Interest Expense		
Deposits	3,097,114	4,283,173
Borrowings	<u>1,280,200</u>	<u>1,212,632</u>
Total interest expense	<u>4,377,314</u>	<u>5,495,805</u>
Net Interest Income	22,552,213	20,656,357
Provision for Loan Losses (Note 5)	<u>1,959,000</u>	<u>692,000</u>
Net Interest Income after Provision for Loan Losses	20,593,213	19,964,357
Noninterest Income		
Service charge - Other	871,107	807,142
Net gain on available-for-sale securities (Note 4)	-	29,569
Other	<u>352,532</u>	<u>335,683</u>
Total noninterest income	1,223,639	1,172,394
Noninterest Expense		
Salaries and employee benefits (Note 12)	8,567,413	8,037,609
Occupancy and equipment (Note 6)	1,604,445	1,589,383
Data processing	1,037,768	892,056
FDIC insurance	416,089	156,700
Professional fees	754,998	581,755
Other	<u>1,599,419</u>	<u>1,731,663</u>
Total noninterest expense	<u>13,980,132</u>	<u>12,989,166</u>
Income - Before income taxes	7,836,720	8,147,585
Income Tax Expense (Note 9)	<u>1,835,694</u>	<u>1,368,898</u>
Consolidated Net Income	<u>\$ 6,001,026</u>	<u>\$ 6,778,687</u>

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net Income	\$ 6,001,026	\$ 6,778,687
Other Comprehensive Income		
Unrealized gain on securities:		
Arising during the year	798,080	1,000,107
Reclassification adjustment	-	29,569
Tax effect	<u>(167,000)</u>	<u>(217,000)</u>
Total other comprehensive income	<u>631,080</u>	<u>812,676</u>
Comprehensive Income	<u>\$ 6,632,106</u>	<u>\$ 7,591,363</u>

Annex B

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2020 and 2019

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance - January 1, 2019	\$ 20,295,070	\$ 845,090	\$ 33,988,922	\$ (573,572)	\$ 54,555,510
Comprehensive income	-	-	6,778,687	812,676	7,591,363
Issuance of restricted stock – 5,925 shares	59,250	(59,250)	-	-	-
Vesting of restricted stock	-	131,480	-	-	131,480
Restricted stock forfeiture – 590 shares	(5,900)	5,900	-	-	-
Issuance of common stock – 762 shares	7,620	26,763	-	-	34,383
Repurchase of common stock – 36,287 shares	(362,870)	-	(1,299,542)	-	(1,662,412)
Stock option expense	-	110,092	-	-	110,092
Stock options exercised – 2,460 shares, net of 3,334 options tendered at exercise	24,600	(93,586)	-	-	(68,986)
Balance - December 31, 2019	20,017,770	966,489	39,468,067	239,104	60,691,430
Comprehensive income	-	-	6,001,026	631,080	6,632,106
Issuance of restricted stock – 10,950 shares	109,500	(109,500)	-	-	-
Vesting of restricted stock	-	197,746	-	-	197,746
Restricted stock forfeiture – 670 shares	(6,700)	6,700	-	-	-
Issuance of common stock – 805 shares	8,050	26,392	-	-	34,442
Repurchase of common stock – 16,476 shares	(164,760)	-	(630,530)	-	(795,290)
Stock option expense	-	75,239	-	-	75,239
Stock options exercised – 4,650 shares, net of 805 options tendered at exercise	46,500	12,064	-	-	58,564
Balance - December 31, 2020	\$ 20,010,360	\$ 1,175,130	\$ 44,838,563	\$ 870,184	\$ 66,894,237

See notes to consolidated financial statements.

5

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Consolidated net income	\$ 6,001,026	\$ 6,778,687
Adjustments to reconcile consolidated net income to net cash from operating activities:		
Depreciation	472,041	345,072
Provision for loan losses	1,959,000	692,000
Amortization of securities - Net	336,221	167,431
Deferred income taxes	(357,000)	153,000
Loss on sale of other real estate owned	-	12,622
Stock-based compensation expense	272,985	241,572
Increase in bank-owned life insurance	(222,155)	(157,250)
Gain on sale of available-for-sale securities	-	(29,569)
Amortization of long-term debt prepayment penalties	354,092	-
Net change in:		
Accrued interest receivable and other assets	34,527	385,373
Accrued interest payable and other liabilities	(476,700)	34,052
Net cash provided by operating activities	<u>8,374,037</u>	<u>8,622,990</u>
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Sales	-	3,844,525
Maturities, prepayments, and calls	23,994,825	17,760,966
Purchases	(110,566,636)	(11,240,816)
Purchase of bank-owned life insurance	-	(3,000,000)
Proceeds from sales of premises and equipment	-	-
Additions to premises and equipment	(1,090,239)	(3,051,808)
Change in loans	(53,701,088)	(44,075,768)
Increase in interest-bearing time deposits in banks	(546,559)	(5,082,000)
Purchase of FHLBI stock	(225,000)	(900,000)
(Purchase) redemption of FRB stock	(5,200)	500
Net cash used in investing activities	<u>(142,139,897)</u>	<u>(45,744,401)</u>
Cash Flows from Financing Activities		
Net increase in deposit accounts	127,674,570	20,992,094
Effect of stock options exercised	58,564	(68,986)
New advances and other borrowings	35,000,000	30,000,000
Repayment of long-term debt	(33,527,256)	-
Net change in line of credit	-	100,000
Proceeds from sale of other real estate owned	-	1,348,720
Sale of stock	34,442	34,383
Repurchase of stock	(795,290)	(1,662,412)
Net cash provided by financing activities	<u>128,445,030</u>	<u>50,743,799</u>
Net Increase (Decrease) in Cash	<u>(5,320,830)</u>	<u>13,622,388</u>
Cash and Cash Equivalents - Beginning of year	<u>77,625,144</u>	<u>64,002,756</u>
Cash and Cash Equivalents - End of year	\$ 72,304,314	\$ 77,625,144
Supplemental Cash Flow Information - Cash paid for		
Interest	\$ 4,440,335	\$ 5,471,758
Income taxes	1,350,000	1,000,000

See notes to consolidated financial statements.

6

First National Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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 one branch location 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 (the "Bank") and a captive risk insurance company, FNB Risk Management, Inc. (the "Captive"), which participates in a pooled captive plan with 17 other unrelated financial institutions from within the United States. 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.

Cash Flows

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. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

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 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.

First National Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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.

Interest income on mortgage and commercial loans is discontinued and placed on non-accrual status at the time the loan is 90 days delinquent unless the loan is well-secured and in the process of collection. Mortgage loans and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer loans continue to accrue interest until they are charged off no later than 90 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as standard or doubtful. The general component covers non classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Non-homogeneous loan classes such as commercial and commercial real estate loans and homogeneous loan segments, such as real estate and consumer loans modified as troubled debt restructurings or loans associated with non-homogeneous relationships, are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and real estate loans are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 2 - Significant Accounting Policies (Continued)

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent two years. For all segments, the actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified:

Commercial – Loans to businesses that are sole proprietorships, partnerships, limited liability companies and corporations. These loans are for commercial, industrial, or professional purposes. The risk characteristics of these loans vary based on the borrowers' business and industry as repayment is typically dependent on cash flows generated from the underlying business. Within this loan segment, the Corporation has identified loan classes of Real Estate-Construction, Real Estate – Commercial, and Commercial and Industrial.

Real Estate – Residential – Loans to purchase or refinance single family & multifamily residences. The risks associated with this segment are generally dependent on the overall real estate value environment and individual payment obligations. Real estate is subject to changes in market valuation and can be unstable for a variety of reasons.

Consumer – Term loans or lines of credit for the purchase of consumer goods, vehicles or home improvement. The risk characteristics of the loans in this segment vary depending on the type of collateral but generally repayment is expected from a customer continuing to generate a cash flow that supports the calculated payment obligation. Secondary support could involve liquidation of collateral.

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, 2020 and 2019, there were no foreclosed assets.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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. Reclassification adjustments were \$0 and \$29,569 in 2020 and 2019 and are presented in net gain on available-for-sale securities on the consolidated income statement. Income tax expense included \$0 and \$6,209 in 2020 and 2019 related to these reclassification adjustments.

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.

The Corporation recognizes interest and/or penalties related to income tax matters in Other expense.

Transfers of Financial Assets

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

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 15, 2021, 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, 2020 and 2019

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, 2022 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.

Coronavirus Pandemic Response

During 2020, the coronavirus outbreak that surfaced in China at the end of 2019 spread around the world resulting in widespread business and social disruption. In March 2020, this outbreak was declared a National Emergency by the United States federal government. State and local governments are following the recommendations of the Centers for Disease Control and Prevention ("CDC") trying to reduce the risk of social spread. Actions during 2020 included restrictions on social gatherings, restrictions on business operations and even the closure of certain businesses.

The response to this matter and the economic disruption it had on our customers and their businesses had a significant impact on us and on our operations in 2020, in particular, on the loan portfolios and provision for loan losses, including:

- An increased provision for loan losses and an increase in our allowance for loan losses at year-end 2020 as we expect credit losses have been incurred that have not yet been identified.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 2 - Significant Accounting Policies (Continued)

- The U.S. Treasury established a Paycheck Protection Loan Program ("PPP") overseen working through the Small Business Administration ("SBA"). Through this program, SBA guaranteed loans were extended to qualifying customers which, if used in accordance with PPP program requirements, will be forgiven and repaid by the SBA. During 2020, we originated approximately \$131 million of PPP loans. At year-end 2020, approximately \$87 million remain outstanding with the balance having been forgiven and repaid. These loans are included in Commercial and Industrial loans within Note 5. Subsequent to 12/31/2020, the U.S. Treasury reopened PPP for a second round of lending available through 3/31/2021 and the Bank originated another \$65 million of loans as of March 15, 2021.
- In March 2020, banking regulatory agencies issued guidance which provided that short-term loan modifications granted to customers impacted by the Pandemic were not required to be considered Troubled Debt Restructurings (TDRs), as defined previously, nor designated as impaired. Also, in March 2020, the U.S. Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act which provided a statutory suspension of Generally Accepted Accounting Principles (GAAP) as it relates to the application of TDR accounting. This suspension was to remain available until the earlier of 60 days after the national emergency declared in March was terminated or December 31, 2020. This CARES Act relief has now been extended until January 1, 2022. Pursuant to this relief, during 2020, the Bank modified the terms of customers' loans including providing for a full deferral of payments or allowing interest only payments for periods of three or six months. These loan modifications were not considered to be TDRs or impaired following that guidance. During 2020, the Bank granted loan modifications to approximately 153 customers with principal balances, at modification, of approximately \$150 million. At year-end, outstanding balances on these loans were \$145 million. However, only \$6 million of these loans amongst 6 customers remained within their active modification periods with the balance resuming payments to the Bank.

The longer-term impact of this pandemic to our results of operations and financial position cannot be reasonably estimated at this time. Numerous government actions have been implemented to assist small businesses and more are being discussed. The extent of the full economic impact of the coronavirus will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus's spread, the effectiveness of vaccines and vaccination programs and the actions required to contain it or treat its impact.

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, 2020 and 2019, these reserve balances amounted to \$200,000 and \$9,963,000, respectively.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4 - Securities

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

	2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. government and federal agency	\$ 70,123,334	\$ 112,414	\$ (4,240)	\$ 70,231,508
Corporate	7,792,700	13,289	(5,212)	7,800,777
Mortgage-backed securities	3,085,624	8,465	-	3,094,089
State and municipal	42,637,360	976,467	-	43,613,827
Total available-for-sale securities	<u>\$ 123,639,018</u>	<u>\$ 1,110,635</u>	<u>\$ (9,452)</u>	<u>\$ 124,740,201</u>
	2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair 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>

At December 31, 2020 and 2019, securities with a carrying value of approximately \$68,885,000 and \$8,756,000, respectively, were pledged to secure borrowings.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2020 are as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 12,066,115	\$ 12,147,375
Due in one through five years	101,684,652	102,512,995
Due after five years through ten years	6,802,627	6,985,741
Total	120,553,394	121,646,111
Mortgage-backed securities	3,085,624	3,094,090
Total	<u>\$ 123,639,018</u>	<u>\$ 124,740,201</u>

The proceeds from sales and calls of securities and the associated gains and losses are listed below:

	2020	2019
Proceeds	\$ 7,245,000	\$ 9,044,525
Gross gains	-	30,755
Gross losses	-	(1,186)

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 4 - Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2020			
	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	\$ (4,240)	\$ 6,045,760	\$ -	\$ -
Corporate	(5,212)	2,699,410	-	-
Total available-for-sale securities	<u>\$ (9,452)</u>	<u>\$ 8,745,170</u>	<u>\$ -</u>	<u>\$ -</u>
	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>

At December 31, 2020 and 2019, there were 7 and 15 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 \$3,885,500 and \$3,655,300 at December 31, 2020 and 2019, 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, 2020 and 2019

Note 5 - Loans

A summary of the balances of loans is as follows:

	2020	2019
Real estate - Construction	\$ 53,696,346	\$ 51,733,848
Real estate - Residential	62,628,164	80,813,068
Real estate - Commercial - Nonfarm - Nonresidential	259,190,164	255,369,659
Commercial and industrial	168,750,576	101,333,408
Consumer	1,035,482	2,149,932
Total loans	545,300,732	491,399,915
Less - Allowance for loan losses	8,622,000	6,463,271
Net loans	\$ 536,678,732	\$ 484,936,644

In the ordinary course of business, the Corporation has granted loans to directors and their affiliates amounting to \$14,644,000 and \$14,781,000 as of December 31, 2020 and 2019, respectively. There were outstanding balances of \$1,000 and \$34,000 in loans to officers of the Corporation as of December 31, 2020 or 2019.

Activity in the allowance for loan losses for 2020 and 2019 is summarized as follows:

	Year Ended December 31, 2020						
	Real Estate – Construction	Real Estate – Residential	Real Estate – Commercial	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	\$ 610,459	\$ 1,212,235	\$ 3,381,865	\$ 1,245,971	\$ 12,400	\$ 341	\$ 6,463,271
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	199,729	-	-	199,729
Provision	318,488	67,628	1,481,212	50,812	(642)	41,502	1,959,000
Ending balance	\$ 928,947	\$ 1,279,863	\$ 4,863,077	\$ 1,496,512	\$ 11,758	\$ 41,843	\$ 8,622,000
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	928,947	1,279,863	4,863,077	1,496,512	11,758	41,843	8,622,000
Ending allowance balance	\$ 928,947	\$ 1,279,863	\$ 4,863,077	\$ 1,496,512	\$ 11,758	\$ 41,843	\$ 8,622,000
Loans:							
Individually evaluated for impairment	\$ -	\$ 57,515	\$ -	\$ 41,625	\$ -	\$ -	\$ 99,140
Collectively evaluated for impairment	53,696,346	62,570,649	259,190,164	168,708,951	1,035,482	-	545,201,592
Total loans	\$ 53,696,346	\$ 62,628,164	\$ 259,190,164	\$ 168,750,576	\$ 1,035,482	\$ -	\$ 545,300,732

15

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 5 - Loans (Continued)

	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	-	-	-	(791,423)	-	-	(791,423)
Recoveries	-	-	-	815	-	-	815
Provision	(139,337)	128,955	391,204	346,144	1,581	(36,547)	692,000
Ending balance	\$ 610,459	\$ 1,212,235	\$ 3,381,865	\$ 1,245,971	\$ 12,400	\$ 341	\$ 6,463,271
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	610,459	1,212,235	3,381,865	1,245,971	12,400	341	6,463,271
Ending allowance balance	\$ 610,459	\$ 1,212,235	\$ 3,381,865	\$ 1,245,971	\$ 12,400	\$ 341	\$ 6,463,271
Loans:							
Individually evaluated for impairment	\$ -	\$ 61,358	\$ -	\$ 110,213	\$ -	\$ -	\$ 171,571
Collectively evaluated for impairment	51,733,848	80,751,710	255,369,659	101,223,195	2,149,932	-	491,228,344
Total loans	\$ 51,733,848	\$ 80,813,068	\$ 255,369,659	\$ 101,333,408	\$ 2,149,932	\$ -	\$ 491,399,915

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.

16

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019

Note 5 - Loans (Continued)

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

	December 31, 2020				Total
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	
Real estate - Construction:					
1-4 family residential	\$ 4,918,333	\$ -	\$ -	\$ -	\$ 4,918,333
Other	48,778,013	-	-	-	48,778,013
Total real estate - Construction	53,696,346	-	-	-	53,696,346
Real estate - Residential:					
Revolving lines of credit	7,586,192	-	30,393	-	7,616,585
1-4 family residential	19,441,215	-	393,864	-	19,835,079
Multifamily	35,176,500	-	-	-	35,176,500
Total real estate - Residential	62,203,907	-	424,257	-	62,628,164
Real estate - Commercial -					
Nonfarm - Nonresidential	250,092,172	1,063,298	8,034,694	-	259,190,164
Commercial and industrial	159,911,138	439,279	8,400,159	-	168,750,576
Consumer	1,035,482	-	-	-	1,035,482
Total	\$ 526,939,045	\$ 1,502,577	\$ 16,859,110	\$ -	\$ 545,300,732
	December 31, 2019				Total
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	
Real estate - Construction:					
1-4 family residential	\$ 4,996,957	\$ -	\$ -	\$ -	\$ 4,996,957
Other	46,736,891	-	-	-	46,736,891
Total real estate - Construction	51,733,848	-	-	-	51,733,848
Real estate - Residential:					
Revolving lines of credit	8,612,778	-	32,439	-	8,645,217
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

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 5 - Loans (Continued)

Analysis of Past Due and Non-Accrual Loans

At December 31, 2020, there were two loan relationships on non-accrual for \$99,140. These nonaccrual loans consisted of the following: one commercial loan for \$41,625 contractually over 90 days past due and one residential mortgage loan totaling \$57,515 contractually less than 30 days past due.

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

Except as described above, there were no delinquent loans at year-end 2020 or 2019.

Troubled Debt Restructurings

As of December 31, 2020 and 2019, the Corporation had no loans which were modified into Troubled Debt Restructurings ("TDRs") and there were no outstanding TDRs at December 31 of each year.

Impaired Loans

	As of and for the Year Ended December 31, 2020				
	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	\$ 57,515	\$ 57,515	\$ -	\$ 59,436	\$ -
Commercial and industrial	41,625	41,625	-	70,057	-
With an allowance recorded:					
Real estate – residential	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Total	\$ 99,140	\$ 99,140	\$ -	\$ 129,493	\$ -
	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)

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, 2020 and 2019

Note 6 – Premises and Equipment

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

	2020	2019
Land	\$ 250,000	\$ 250,000
Buildings and building improvements	3,310,791	3,310,791
Leasehold improvements	3,409,900	2,325,073
Furniture, fixtures, and equipment	1,964,431	1,768,323
Construction in progress	852,669	1,043,365
Total cost	9,787,791	8,697,552
Accumulated depreciation	(3,032,365)	(2,560,324)
Net premises and equipment	\$ 6,755,426	\$ 6,137,228

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, 2020 and 2019 amounted to \$491,507 and \$605,407, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2020 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
2021	\$ 242,386	\$ 306,004
2022	242,386	306,004
2023	232,126	315,614
2024	119,272	318,817
2025	79,516	321,215
Thereafter	-	2,886,747
Total	\$ 915,686	\$ 4,454,401

Note 7 - Deposits

The following is a summary of the distribution of deposits at December 31, 2020 and 2019:

	2020	2019
Noninterest-bearing deposits	\$ 205,904,413	\$ 132,483,378
Interest-bearing deposits and NOW accounts	91,842,929	74,815,893
Savings and money market accounts	166,185,603	178,989,591
Time deposits:		
Under \$250,000	135,655,134	85,688,129
\$250,000 and over	28,511,173	28,447,691
Total	\$ 628,099,252	\$ 500,424,682

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 7 - Deposits (Continued)

At December 31, 2020, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2021	\$ 84,811,213
2022	25,161,429
2023	19,806,967
2024	7,553,698
2025	7,500,000
Thereafter	19,333,000
Total	<u>\$ 164,166,307</u>

Note 8 - Borrowings

The Bank has a formula-based credit facility with the Federal Reserve Bank to meet its short-term borrowing needs. There were no amounts outstanding at December 31, 2020 and 2019. The unused portion of the facility was approximately \$44,000,000 and \$57,000,000 at December 31, 2020 and 2019, respectively. The collateral on the borrowing arrangement consists of commercial, commercial real estate, and consumer loans with a book balance of approximately \$60,579,000 and \$82,000,000 at December 31, 2020 and 2019, 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, 2020 and 2019. There was no amount outstanding at December 31, 2020 or 2019.

As of December 31, 2020, the Corporation had nine advances from the Federal Home Loan Bank (FHLB) totaling \$73,000,000 with interest rates ranging from 0.55 percent to 1.80 percent, which include \$38,000,000 of advances with an option held by the FHLB to put the advance. As of December 31, 2019, the Bank had ten advances totaling \$68,000,000 with interest rates ranging from 0.68 percent to 3.28 percent. The advances mature between 2024 and 2030. Interest is payable monthly. The advances were collateralized by approximately \$139,000,000 and \$102,000,000 of mortgage loans as of December 31, 2020 and 2019, 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 \$125,000,000 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. During 2020, the Corporation refinanced four advances totaling \$30,000,000 and replaced them with two advances totaling \$30,000,000 at lower interest rates and longer maturities. The refinance of these four advances incurred prepayment penalties totaling \$3,527,256 which are being amortized over the remaining term of the replacement advances and the remaining unrecognized balance of \$3,173,164 is included in Other Borrowings and included in the maturity schedule below. Amortization of the prepayment penalties is included in Borrowings interest expense.

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 January 1, 2023. The line of credit is secured by all the outstanding stock of the Bank. As of December 31, 2020 and 2019, there was \$100,000 and \$100,000 outstanding, respectively.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 8 – Borrowings (Continued)

The balance of the above borrowings matures as follows:

Years Ending	
2023	\$ 100,000
2024	\$ 5,000,000
2025	-
After 2025	<u>64,826,836</u>
Total	<u>\$ 69,926,836</u>

Note 9 - Income Taxes

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

	2020	2019
Current expense	\$ 2,192,694	\$ 1,215,898
Deferred expense (benefit)	<u>(357,000)</u>	<u>153,000</u>
Total income tax expense	<u>\$ 1,835,694</u>	<u>\$ 1,368,898</u>

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

	2020	2019
Income before taxes	\$ 7,836,720	\$ 8,147,585
Income tax expense at federal statutory rate (21 percent in 2020 and 2019)	1,645,711	1,710,993
Low income housing tax benefits, net of investment amortization	(9,000)	(15,000)
Captive insurance benefit	(121,000)	(156,000)
Increases (decreases) to or from nontaxable income - Net of nondeductible expenses	319,983	(171,095)
Total income tax expense	<u>\$ 1,835,694</u>	<u>\$ 1,368,898</u>

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

	2020	2019
Total deferred tax liabilities	\$ (1,305,000)	\$ (402,000)
Total deferred tax assets	<u>2,629,000</u>	<u>1,536,000</u>
Total	<u>\$ 1,324,000</u>	<u>\$ 1,134,000</u>

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

The Corporation does not expect the total amount of unrecognized net tax benefits to significantly increase or decrease in the next twelve months.

The Corporation and its subsidiaries are subject to U.S. federal income tax. The Company is no longer subject to examination by taxing authorities for years before 2017.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2020	2019
Commitments to grant loans	\$ 58,008,000	\$ 41,121,000
Unfunded commitments under lines of credit	160,013,000	152,034,000
Commercial and standby letters of credit	899,000	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.

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.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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, 2020 and 2019, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2020, 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 which effectively increases the required minimum risk based capital ratios. 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.

	Actual		Minimum For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(000s omitted from dollar amounts)						
As of December 31, 2020						
Common equity tier 1 capital (to risk-weighted assets)	\$ 63,693	11.70%	\$ 24,497	4.50%	\$ 35,384	6.50%
Total risk-based capital (to risk-weighted assets)	70,520	12.95	43,550	8.00	54,437	10.00
Tier 1 capital (to risk-weighted assets)	63,693	11.70	32,662	6.00	43,550	8.00
Tier 1 capital (to average assets)	63,693	8.08	31,517	4.00	39,397	5.00
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

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 12 – Share-based Compensation

At December 31, 2020, 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 \$273,000 and \$242,000 for 2020 and 2019, respectively. There were no significant deferred income tax benefits recognized in the consolidated statement of income for share-based compensation arrangements for both 2020 and 2019.

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 and expects all granted options to fully vest. 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 2020, the Corporation granted 2,500 options at a strike price of \$48.00. In 2019, the Corporation granted 4,400 options at a strike price of \$43.00. Information used to measure the 2020 and 2019 options granted are as follows:

	<u>2020</u>	<u>2019</u>
Expected volatility	20.00%	20.00%
Expected term (in years)	10	10
Risk-free rate	1.61%	2.66%

A summary of option activity under the Plan for the year ended December 31, 2020 is presented below:

Options	Number of Shares	Weighted-Average Exercise Price	Weighted-average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2019	58,510	\$ 27.58	6.68	\$ 1,253,242
Granted	2,500	48.00		
Exercised	<u>(5,455)</u>	15.92		
Outstanding at December 31, 2020	<u>55,555</u>	29.64	6.12	714,197
Exercisable at December 31, 2020	44,912	28.61	4.32	713,994

The weighted-average grant-date fair calculated value of options granted during 2020 and 2019 was \$14.93 and \$15.21, respectively.

As of December 31, 2020 there was approximately \$56,000 of total unrecognized compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognized through December 31, 2023.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

Note 12 – Share-based Compensation (Continued)

In 2020 and 2019, the Corporation also awarded 10,950 and 5,925 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 2020 and 2019 was \$509,100 (\$47.80 per share) and \$246,550 (\$43.07 per share), respectively. The unrecognized cost for restricted share awards was approximately \$649,000 at December 31, 2020 and is expected to be recognized through December 31, 2025.

A summary of changes in the Corporation's nonvested restricted shares for the year ended December 31, 2020 follows:

Nonvested Restricted Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2019	11,070	\$ 38.98
Granted	10,950	47.81
Vested	(3,075)	37.00
Forfeited	<u>(670)</u>	42.98
Nonvested at December 31, 2020	<u>18,275</u>	44.46

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, 2020 and 2019 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, 2020 and 2019

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, 2020

	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, 2020
Assets				
Available-for-sale investment securities:				
U.S. government and federal agency	\$ -	\$ 70,231,508	\$ -	\$ 70,231,508
Corporate	-	7,800,777	-	7,800,777
Mortgage-backed securities	-	3,094,089	-	3,094,089
State and municipal	-	42,664,655	949,172	43,613,827
Total assets	\$ -	\$ 123,791,029	\$ 949,172	\$ 124,740,201

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	-	21,901,973	1,126,412	23,028,385
Total assets	\$ 824,431	\$ 35,751,268	\$ 1,126,412	\$ 37,702,111

There were no significant assets measured at fair value on a nonrecurring basis in which gains or losses were recognized in 2020 or 2019.

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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. Additional disclosures of quantitative information are not material to these financial statements.