FIRST NATIONAL BANCORP, INC.

A FINANCIAL HOLDING COMPANY FOR

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

May 12, 2022

NOTICE IS HEREBY GIVEN that the 2022 Annual Meeting of Shareholders of FIRST NATIONAL BANCORP, INC., a Michigan corporation and registered financial holding company, will be held ***(Virtually or Teleconference, only)*** at 10:00 a.m., on May 12, 2022, 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, David L. Holmes, Benjamin T. Ipema, Larry D. Lueth, Bill Manns, Edward B. Montgomery, Sondra K. Phillips, Virginia M. Seyferth and Joshua T. Weiner as directors of First National Bancorp, Inc. for a one year term expiring at the 2023 annual meeting of shareholders.

2. Ratification of the appointment of the independent auditors, Crowe, LLP for the year ending December 31, 2022.

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

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

April 12, 2022 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 12, 2022) (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,

Matthew J. Morgan, Secretary

April 12, 2022

Important: This notice and the accompanying proxy materials were first mailed to shareholders on or about April 12, 2022. 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 FINANCIAL HOLDING COMPANY FOR

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

May 12, 2022

FIRST NATIONAL BANCORP, INC., a Michigan corporation and registered financial 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 2022 Annual Meeting of Shareholders to be held *(**Virtually or Teleconference, only**)* at 10:00 a.m. on May 12, 2022 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, David L. Holmes, Benjamin T. Ipema, Larry D. Lueth, Bill Manns, Edward B. Montgomery, Sondra K. Phillips, Virginia M. Seyferth and Joshua T. Weiner as directors of First National Bancorp, Inc. for a one year term expiring at the 2023 annual meeting of shareholders.

2. Ratification of the appointment of the independent auditors, Crowe, LLP for the year ending December 31, 2022.

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

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

GENERAL INFORMATION

Attending via Teleconference

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

Who may vote

The Shareholders of the Company, as recorded in our stock register on April 12, 2022 (the ***"Record Date"***), may vote by returning a Proxy via U.S. Mail to be received on or before 10:00 a.m., May 12, 2022. As of both the Record Date and the date of this Proxy Statement, the Company had 2,009,833 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 12, 2022.

How proxies work

Your proxy covers all shares registered in your name. By properly executing and returning your proxy, your shares will be voted at the Annual Meeting according to your instructions unless you revoke the proxy prior to the Annual Meeting. You may vote for all, some or none of the director nominees and you may vote for, against or abstain from voting on Proposal 2.

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

To ensure your proxy is received prior to the Annual Meeting, please return it no later than May 12, 2022. 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 14 seats on the Board. Abstentions will not be included in the vote count.

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

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 23.67% 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 financial 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 14 members who serve one-year terms. The 14 director nominees listed below, all of whom are current directors of the Company, were nominated by the Board to fill the 14 Board seats for one year terms expiring at the 2023 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. In December 2015, Mr. Bitzer 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 periodically 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 more than 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 currently serving as the interim president of Albion College. In 2020, he retired from his position as the Executive Director of the Gerald R. Ford Presidential Foundation. During his tenure at the Foundation, Mr. Calvaruso's leadership roles have included the Campaign for the Legacy of Gerald R. Ford to build the DeVos Learning Center and the New Gerald R. Ford Presidential Museum, the ceremonies to unveil the Statue of President Ford in the U.S. Capitol Rotunda and tributes to First Lady Betty Ford when she passed away in 2011, centennial events in tribute to President Ford's 100th Birthday, and the USS Gerald R. Ford (CVN 78) commissioning. He 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 Bank Michigan 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. CPA/CGMA, the Managing Partner and President of Echelbarger, Himebaugh, Tamm Co., P.C. (EHTC). Dave is responsible for the vision and direction of EHTC, focusing on strategic thinking, nurturing the culture for the firm, and keeping up to date with industry trends and topics.

Dave plays a unique role at EHTC as both the Integrator and Visionary for the firm. As the Integrator, he is the leader of the firm's leadership and business development teams and plays a significant role in managing the overall operations of the firm. As the Visionary for the firm, Dave 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 Board of Michigan Association of Certified Public Accountants (MICPA), as well as a member of its Executive Committee and the Chair of its Nominations Committee. Additionally, Dave serves the GR Chamber as the Chair of its Tax & Regulatory Committee and as member of the Chamber’s Public Policy Committee. He is also a member of the American Institute of Certified Public Accountants (AICPA).

Dave, along with the EHTC team, have been recognized by Accounting Today, Accounting Technology, and Microsoft Corporation for their contributions to the industry. 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.

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 and Vice President of the Western Michigan University Foundation, serving on the Finance Committee, board member of DTI, Inc. and a Trustee at First United Methodist Church, Kalamazoo.

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 (MHA), MHA 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.

In 2021, he was named one of the nation's Top 25 Innovators by Modern Healthcare. 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. He also served on the Committee on Economic Statistics for the American Economic Association.

In 2011, he was elected a fellow of the National Academy of Public Administration. He serves on the Board of Directors of Southwest Michigan First, the Biosciences Research and Commercialization Center, and the Center for Law and Social Policy.

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 will be valuable to First National Bank of Michigan.

SONDRA K. PHILLIPS Ms. Phillips is the sole owner of SKP Design, a firm that she founded in 1996. SKP Design offers both commercial and residential interior design services throughout Michigan. Sondra is NCIDQ certified. She recently launched SKP Design Consigns to connect business owners with high quality office furnishings with clients that need furniture. 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.

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 for about 90 clients. The firm has team members servicing clients including in Detroit, Chicago, Grand Rapids, Indianapolis and a new operation in Louisville. Ginny is consistently recognized by various Michigan publications as one of the state's most influential business leaders. Her public relations counseling practice includes brand strategy, issues management, and counseling on M&A work, and consumer product launches. Current top clients include Blue Cross Blue Shield, McDonald's Restaurants, I-Car, Trinity Health and dozens of manufacturing organizations. Ginny's counseling expertise has recently expanded to support a number of Diversity, Equity and Inclusion opportunities as well as helping companies navigate talent recruitment and retention in today's hybrid work environment.

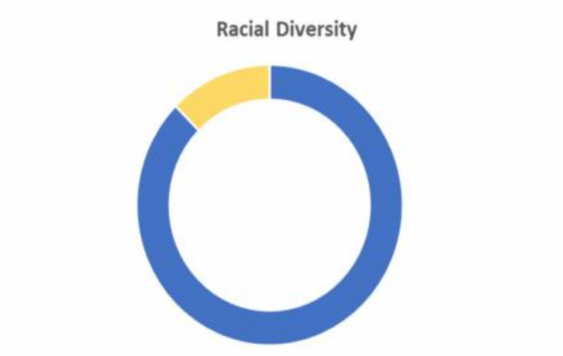
Ginny has served as adjunct faculty at Michigan State University, Hope College and Grand Valley State University. She remains actively involved in several state of Michigan economic policy issues. Ginny has helped launch a number of important initiatives in West Michigan including ArtPrize, LaughFest 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 bank boards including First of America Bank (Michigan), Irwin Union Bank (Michigan), PNC Bank (Michigan) and the Inner-city Christian Federation Mortgage Board.

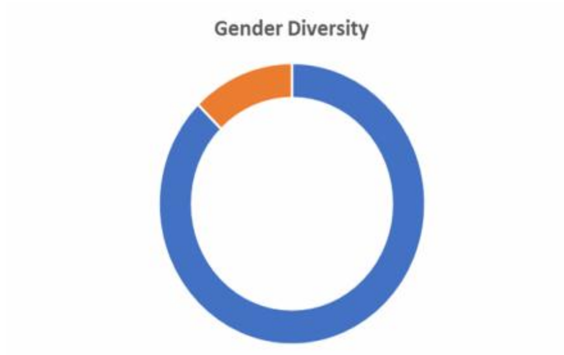
Prior to opening SeyferthPR, Ginny worked in public relations for Amway Corporation, MI; AMOCO Oil Company, IL; and St. Jude Children's Research Hospital, TN. Ginny and her husband Robert Boss have two grown children. Ms. Seyferth's extensive experience as a business leader in Michigan, and previous 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.

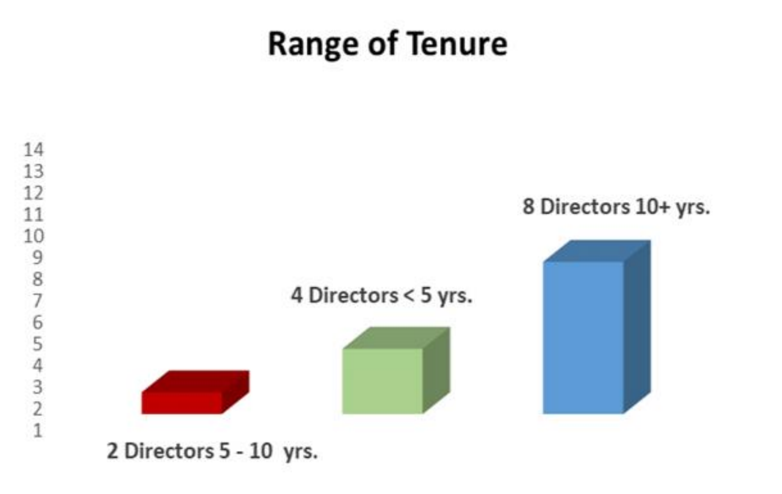
DIRECTOR COMPOSITION

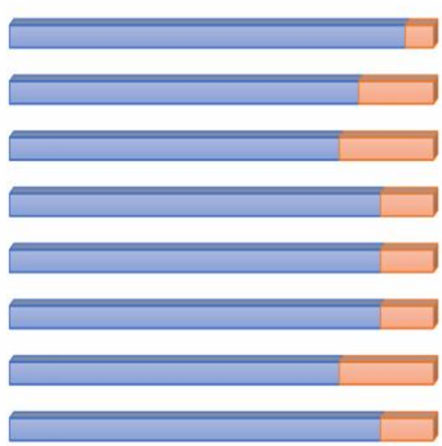


2 of 14
Are People of Color



2 of 14
Are Women





Audit Financial Reporting	**David Echelbarger**
Financial Services	**Daniel Bitzer, Joseph Calvaruso, Larry Lueth**
Consumer, Corporate, Investment Business, Business Development & Marketing	**James DeKruyter, Sondra Phillips, Virginia Seyferth, Joshua Weiner**
Cybersecurity, Technology & Information Security	**Ben Ipema, David Echelbarger**
Complex, Highly Regulated Businesses	**James DeMoss, Bill Manns**
Legal	**Eric Brown, Jr., David Holmes**
Risk Management	**Daniel Bitzer, Joseph Calvaruso, Eric Brown, Jr., James DeMoss, David Holmes, Larry Lueth**
Government, Academia, Public Policy & Regulatory Affairs	**Joseph Calvaruso, Edward Montgomery**

Average Age: 64
Veteran: 1

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, and Benjamin T. Ipema serve on the Audit Committee. All of the members of the Audit Committee are "independent" directors as determined by the Board. The Audit Committee met four times during 2021.

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, 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 2021.

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 four times during 2021.

PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2022

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, 2022, 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, 2022.

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, 2022, the Audit Committee will consider a change in independent auditors for the next year.

BENEFICIAL* STOCK OWNERSHIP

The following table sets forth information as of April 12, 2022 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 12, 2022.

Name of Beneficial Owner	Common Stock	Restricted Stock	Rights to Acquire[1]	Approximate Percent of Voting Shares[2]
Eric V. Brown, Jr.	55,600	**0**	0	2.77
Daniel E. Bitzer	3,990	**3,360**	28,900	0.37
Joseph S. Calvaruso	10,300	**0**	0	0.51
James J. DeKruyter	141,518	**0**	0	7.04
James S. DeMoss	100	**0**	0	0.00
David G. Echelbarger	4,000			0.20
Jefra A. Groendyk	3,850	**4,540**	12,400	0.42
David L. Holmes	20,000	**0**	0	1.00
Benjamin T. Ipema	40,000	**0**	0	1.99
Cynthia S. Kole	4,757	**4,430**	0	0.46
Larry D. Lueth	57,000	**0**	5,818	2.84
Bill Manns	250	**0**	0	0.01
Edward B. Montgomery	1,000	**0**	0	0.05
Matthew J. Morgan	3,330	**2,270**	4,750	0.28
Sondra K. Phillips	5.000	**0**	0	0.25
Steven K. Piper	2,140	**2,360**	0	0.22
Virginia M. Seyferth	1,000	**0**	0	0.05
Joshua T. Weiner	105,000	**0**	0	5.22

* "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 2,009,833 shares issued and outstanding as of April 12, 2022.

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 2021 and the Balance Sheet as of December 31, 2021 are attached as **Annex A**.

MISCELLANEOUS

Solicitation of Proxies

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

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Annex A

First National Bancorp, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2021

Contents

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of First National Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of First National Bancorp, Inc. and Subsidiaries as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of First National Bancorp, Inc. and Subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about First National Bancorp, Inc. and Subsidiaries ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 First National Bancorp, Inc. and Subsidiaries internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about First National Bancorp, Inc. and Subsidiaries ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Crowe LLP

Crowe LLP

Grand Rapids, Michigan
March 9, 2022

First National Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet

December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents (Note 3)	$ 86,158,400	$ 72,304,314
Interest-bearing time deposits in banks	5,205,426	6,959,139
Investment securities - Available for sale (Note 4)	209,693,125	124,740,201
Other securities (Note 4)	5,025,400	3,885,500
Loans - Net of allowance for loan losses of $10,524,000 and $8,622,000 as of December 31, 2021 and 2020, respectively (Note 5)	554,444,440	536,678,732
Premises and equipment - Net (Note 6)	6,244,809	6,755,426
Accrued interest receivable and late fees	1,901,962	2,244,684
Deferred tax asset (Note 9)	2,404,000	1,324,000
Cash surrender value of life insurance	12,069,882	8,824,401
Low income housing investments	2,005,104	1,296,138
Other assets	1,588,530	1,935,269
Total assets	$ 886,741,078	$ 766,947,804
Liabilities and Stockholders' Equity		
Liabilities		
Deposits (Note 7):		
Noninterest bearing	$ 250,769,054	$ 205,904,413
Interest bearing	490,483,797	422,194,839
Total deposits	741,252,851	628,099,252
Borrowings (Note 8)	70,539,901	69,926,836
Accrued interest payable	89,759	211,084
Accrued and other liabilities	2,690,362	1,816,395
Total liabilities	814,572,873	700,053,567
Stockholders' Equity (Notes 11, 12 and 13)		
Common stock – Voting, $10 stated value; 2,500,000 shares authorized; 1,997,066 and 2,001,036 shares issued at December 31, 2021 and 2020, respectively	19,970,660	20,010,360
Additional paid-in capital	1,416,883	1,175,130
Retained earnings	52,179,527	44,838,563
Accumulated other comprehensive income (loss)	(1,398,865)	870,184
Total stockholders' equity	72,168,205	66,894,237
Total liabilities and stockholders' equity	$ 886,741,078	$ 766,947,804

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Income

Years Ended December 31, 2021 and 2020

	2021	2020
Interest Income		
Loans - Including fees	$ 27,612,809	$ 25,624,885
Investment securities:		
Taxable	1,229,446	578,213
Tax-exempt	404,330	335,044
Dividends	169,934	142,633
Other	62,337	248,752
Total interest income	29,478,856	26,929,527
Interest Expense		
Deposits	1,866,634	3,097,114
Borrowings	1,249,361	1,280,200
Total interest expense	3,115,995	4,377,314
Net Interest Income	26,362,861	22,552,213
Provision for Loan Losses (Note 5)	1,896,000	1,959,000
Net Interest Income after Provision for Loan Losses	24,466,861	20,593,213
Noninterest Income		
Service charge - Other	1,025,087	871,107
Net loss on available-for-sale securities (Note 4)	(54,429)	-
Other	294,320	352,532
Total noninterest income	1,264,978	1,223,639
Noninterest Expense		
Salaries and employee benefits (Note 12)	9,850,052	8,567,413
Occupancy and equipment (Note 6)	1,946,323	1,604,445
Data processing	1,232,868	1,037,768
FDIC insurance	408,704	416,089
Professional fees	722,192	754,998
Other	2,010,277	1,599,419
Total noninterest expense	16,170,416	13,980,132
Income - Before income taxes	9,561,423	7,836,720
Income Tax Expense (Note 9)	1,530,000	1,835,694
Consolidated Net Income	$ 8,031,423	$ 6,001,026

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income

Years Ended December 31, 2021 and 2020

	2021	2020
Net Income	$ 8,031,423	$ 6,001,026
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on securities:		
Arising during the year	(2,804,067)	798,080
Reclassification adjustment	(54,429)	-
Tax effect	589,447	(167,000)
Total other comprehensive income (loss)	(2,269,049)	631,080
Comprehensive Income (Loss)	$ 5,762,374	$ 6,632,106

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2020	$ 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
Comprehensive income	-	-	8,031,423	(2,269,049)	5,762,374
Issuance of restricted stock – 16,630 shares	166,300	(166,300)	-	-	-
Vesting of restricted stock	-	340,730	-	-	340,730
Issuance of common stock – 677 shares	6,770	22,959	-	-	29,729
Repurchase of common stock – 21,277 shares	(212,770)	-	(690,459)	-	(903,229)
Stock option expense	-	51,214	-	-	51,214
Stock options exercised –0 shares, net of 233 options tendered at exercise	-	(6,850)	-	-	(6,850)
Balance - December 31, 2021	$ 19,970,660	$ 1,416,883	$ 52,179,527	$ (1,398,865)	$ 72,168,205

Consolidated Statement of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Consolidated net income	$ 8,031,423	$ 6,001,026
Adjustments to reconcile consolidated net income to net cash from operating activities:		
Depreciation	665,685	472,041
Provision for loan losses	1,896,000	1,959,000
Amortization of securities - Net	1,036,731	336,221
Deferred income taxes	(477,000)	(357,000)
Stock-based compensation expense	391,944	272,985
Increase in bank-owned life insurance	(245,481)	(222,155)
Loss on sale of available-for-sale securities	54,429	-
Amortization of long-term debt prepayment penalties	438,065	354,092
Net change in:		
Accrued interest receivable and other assets	(33,057)	34,527
Accrued interest payable and other liabilities	752,642	(476,700)
Net cash provided by operating activities	12,511,381	8,374,037
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Sales	9,337,951	-
Maturities, prepayments, and calls	21,610,211	23,994,825
Purchases	(119,843,604)	(110,566,636)
Purchase of bank-owned life insurance	(3,000,000)	-
Additions to premises and equipment	(155,068)	(1,090,239)
Change in loans	(19,661,708)	(53,701,088)
Change in interest-bearing time deposits in banks	1,746,574	(546,559)
Purchase of FHLBI stock	(1,125,000)	(225,000)
(Purchase) redemption of FRB stock	(14,900)	(5,200)
Net cash used in investing activities	(111,105,544)	(142,139,897)
Cash Flows from Financing Activities		
Net increase in deposit accounts	113,153,599	127,674,570
Effect of stock options exercised	(6,850)	58,564
New advances and other borrowings	-	35,000,000
Repayment of long-term debt	-	(33,527,256)
Net change in line of credit	175,000	-
Sale of stock	29,729	34,442
Repurchase of stock	(903,229)	(795,290)
Net cash provided by financing activities	112,448,249	128,445,030
Net Increase (Decrease) in Cash	13,854,086	(5,320,830)
Cash and Cash Equivalents - Beginning of year	72,304,314	77,625,144
Cash and Cash Equivalents - End of year	$ 86,158,400	$ 72,304,314
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 3,237,320	$ 4,440,335
Income taxes	1,800,000	1,350,000

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2021 and 2020

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; one branch location in Lansing, Michigan; and a loan production office in Traverse City, 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 15 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.

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 substandard 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.

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, 2021 and 2020, there were no foreclosed assets.

Note 2 - Significant Accounting Policies (Continued)

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income, although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the consolidated balance sheet. Such items, along with net income, are considered components of comprehensive income. The accumulated other comprehensive income (loss) consists solely of the net unrealized gain or loss on investment securities available for sale less the tax effect. Reclassification adjustments were ($54,429) and $0 in 2021 and 2020 and are presented in net loss on available-for-sale securities on the consolidated income statement. Income tax expense included ($11,430) and $0 in 2021 and 2020 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 9, 2022, which is the date the consolidated financial statements were available to be issued.

Note 2 - Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

In February 2016, the 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 at 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 being included as right of use assets with an offsetting lease liability on the balance sheet. 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 and 2021 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 the Bank's customers and their businesses had a significant impact on the Bank and on our operations in 2020 and 2021, 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-ends 2021 and 2020 as we expect credit losses have been incurred that have not yet been identified.

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, the Bank originated approximately $131 million of PPP loans. During 2021, the Bank originated approximately another $75 million of PPP loans. At December 31, 2021 and 2020, there were approximately $15 million and $87 million, respectively, which remained outstanding with the balance having been forgiven and repaid. These loans are included in Commercial and Industrial loans within Note 5.
- 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 was 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 2020, 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. During 2021, there were no additional loan modifications made, and all previous modifications resumed payments to the Bank during 2021.

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, 2021 and 2020, these reserve balances amounted to $200,000 each year.

Note 4 - Securities

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

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
U.S. government and federal agency	$ 68,032,777	$ 1,075	$ (942,338)	$ 67,091,514
U.S. Treasury	19,864,090	8,885	(156,910)	19,716,065
Corporate	21,485,001	51,609	(337,611)	21,198,999
Mortgage-backed securities	38,344,334	157	(410,491)	37,934,000
State and municipal	63,724,236	518,338	(490,027)	63,752,547
Total available-for-sale securities	$ 211,450,438	$ 580,064	$ (2,337,377)	$ 209,693,125

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	$ 123,639,018	$ 1,110,635	$ (9,452)	$ 124,740,201

At December 31, 2021 and 2020, securities with a carrying value of approximately $51,834,000 and $68,885,000, respectively, were pledged to secure borrowings.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2021 are as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 10,991,866	$ 11,032,800
Due in one through five years	149,156,099	147,917,932
Due after five years through ten years	12,958,139	12,808,393
Total	173,106,104	171,759,125
Mortgage-backed securities	38,344,334	37,934,000
Total	$ 211,450,438	$ 209,693,125

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

	2021	2020
Proceeds	$ 20,263,810	$ 7,245,000
Gross gains	1,236	-
Gross losses	(55,665)	-

Note 4 - Securities (Continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2021			
	Less than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and federal agency	$ (802,675)	$ 55,164,563	$ (139,663)	$ 5,910,337
U.S. Treasury	(156,910)	18,743,409	-	-
Corporate	(296,092)	16,726,200	(41,519)	2,113,905
Mortgage-backed securities	(410,491)	33,595,961	-	-
State and municipal	(490,027)	35,606,665	-	-
Total available-for-sale securities	$ (2,156,195)	$ 159,836,798	$ (181,182)	$ 8,024,242

	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	$ -	$ -
State and municipal	(5,212)	2,699,410	-	-
Total available-for-sale securities	$ (9,452)	$ 8,745,170	$ -	$ -

At December 31, 2021 and 2020, there were 176 and 8 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 $5,025,400 and $3,855,500 at December 31, 2021 and 2020, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock. These stocks are carried at cost, which approximates market value.

Note 5 - Loans

A summary of the balances of loans is as follows:

	2021	2020
Real estate - Construction	$ 28,719,014	$ 53,696,346
Real estate - Residential	73,668,301	62,628,164
Real estate - Commercial - Nonfarm - Nonresidential	357,611,933	259,190,164
Commercial and industrial	103,844,473	168,750,576
Consumer	1,124,719	1,035,482
Total loans	564,968,440	545,300,732
Less - Allowance for loan losses	10,524,000	8,622,000
Net loans	$ 554,444,440	$ 536,678,732

In the ordinary course of business, the Corporation has granted loans to directors and their affiliates amounting to $20,111,000 and $14,644,000 as of December 31, 2021 and 2020, respectively. There were outstanding balances of $26,000 and $1,000 in loans to officers of the Corporation as of December 31, 2021 or 2020.

Activity in the allowance for loan losses for 2021 and 2020 is summarized as follows:

	Year Ended December 31, 2021						
	Real Estate – Construction	Real Estate – Residential	Real Estate – Commercial	Commercial and Industrial	Consumer	Unallocated	Total
Beginning balance	$ 928,947	$ 1,279,86	$ 4,863,077	$ 1,496,512	$ 11,758	$ 41,843	$ 8,622,000
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	6,000	-	-	6,000
Provision	(416,571)	257,60	2,056,073	40,258	691	(42,059)	1,896,000
Ending balance	$ 512,376	$ 1,537,47	$ 6,919,150	$ 1,542,770	$ 12,449	$ (216)	$ 10,524,000
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	512,376	1,537,47	6,919,150	1,542,770	12,449	(216)	10,524,000
Ending allowance balance	$ 512,376	$ 1,537,47	$ 6,919,150	$ 1,542,770	$ 12,449	$ (216)	$ 10,524,000
Loans:							
Individually evaluated for impairment	$ -	$ 330,05	$ -	$ 16,325	$ -	$ -	$ 346,384
Collectively evaluated for impairment	28,719,014	73,338,24	357,611,933	103,828,148	1,124,719	-	564,622,056
Total loans	$ 28,719,014	$ 73,668,30	$ 357,611,933	$ 103,844,473	$ 1,124,719	$ -	$ 564,968,440

Note 5 - Loans (Continued)

	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

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.

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.

Note 5 - Loans (Continued)

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

	December 31, 2021				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Real estate - Construction:					
1-4 family residential	$ 2,463,638	$ -	$ -	$ -	$ 2,463,638
Other	26,255,376	-	-	-	26,255,376
Total real estate - Construction	28,719,014	-	-	-	28,719,014
Real estate - Residential:					
Revolving lines of credit	9,322,713	-	28,157	-	9,350,870
1-4 family residential	18,422,701	-	678,801	-	19,101,502
Multifamily	45,215,929	-	-	-	45,215,929
Total real estate - Residential	72,961,343	-	706,958	-	73,668,301
Real estate - Commercial - Nonfarm - Nonresidential	354,499,140	-	3,112,793	-	357,611,933
Commercial and industrial	97,505,891	27,000	6,311,582	-	103,844,473
Consumer	1,124,719	-	-	-	1,124,719
Total	$ 554,810,107	$ 27,000	$ 10,131,333	$ -	$ 564,968,440

	December 31, 2020				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
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	-	168,750,756
Consumer	1,035,482	-	-	-	1,035,482
Total	$ 526,939,045	$ 1,502,577	$ 16,859,110	$ -	$ 545,300,732

Note 5 - Loans (Continued)

Analysis of Past Due and Non-Accrual Loans

At December 31, 2021, there were two loan relationships on non-accrual for $346,384. These nonaccrual loans consisted of the following: one commercial loan for $16,325 contractually less than 30 days past due and one residential mortgage loan for $330,059 contractually over 90 days past due.

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

Except as described above, there were no delinquent loans at year-end 2021 or 2020.

Troubled Debt Restructurings

As of December 31, 2021 and 2020, 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, 2021				
	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	$ 330,059	$ 330,059	$ -	$ 333,204	$ 11,652
Commercial and industrial	16,325	16,325	-	28,975	-
With an allowance recorded:					
Real estate – residential	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Total	$ 346,384	$ 346,384	$ -	$ 362,179	$ 11,652

	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	$ -

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.

Note 6 – Premises and Equipment

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

	2021	2020
Land	$ 250,000	$ 250,000
Buildings and building improvements	3,310,791	3,310,791
Leasehold improvements	4,040,838	3,409,900
Furniture, fixtures, and equipment	1,872,284	1,964,431
Construction in progress	31,456	852,669
Total cost	9,505,369	9,787,791
Accumulated depreciation	(3,260,560)	(3,032,365)
Net premises and equipment	$ 6,244,809	$ 6,755,426

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, 2021 and 2020 amounted to $599,706 and $491,507, respectively.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2021 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
2022	$ 242,386	$ 306,004
2023	232,126	315,614
2024	119,272	318,817
2025	79,516	321,215
2026	-	328,412
Thereafter	-	2,558,335
Total	$ 673,300	$ 4,148,397

Note 7 - Deposits

The following is a summary of the distribution of deposits at December 31, 2021 and 2020:

	2021	2020
Noninterest-bearing deposits	$ 250,769,054	$ 205,904,413
Interest-bearing deposits and NOW accounts	146,463,632	91,842,929
Savings and money market accounts	221,198,768	166,185,603
Time deposits:		
Under $250,000	87,572,708	135,655,134
$250,000 and over	35,248,689	28,511,173
Total	$ 741,252,851	$ 628,099,252

Note 7 - Deposits (Continued)

At December 31, 2021, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2022	$ 79,547,182
2023	26,739,470
2024	3,219,337
2025	7,513,408
2026	-
Thereafter	5,802,000
Total	$ 122,821,397

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, 2021 and 2020. The unused portion of the facility was approximately $43,000,000 and $44,000,000 at December 31, 2021 and 2020, respectively. The collateral on the borrowing arrangement consists of commercial, commercial real estate, and consumer loans with a book balance of approximately $58,658,000 and $60,579,000 at December 31, 2021 and 2020, 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, 2021 and 2020. There was no amount outstanding at December 31, 2021 or 2020.

As of December 31, 2021 and 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. The advances mature between 2024 and 2030. Interest is payable monthly. The advances were collateralized by approximately $208,000,000 and $139,000,000 of mortgage loans as of December 31, 2021 and 2020, 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 at December 31, 2021 of $2,735,099 is included in Other Borrowings and included in the maturity schedule below. The weighted average rate of the advances at December 31, 2021, including the effect of amortizing the prepayment penalties, is 1.59% at December 31, 2021. Amortization of the prepayment penalties is included in Borrowings interest expense.

Additionally, in 2021 the Bank entered into an overdraft line of credit agreement with the FHLB. The total available credit under this agreement is $25,000,000. There was no amount outstanding at December 31, 2021.

In December 2019, the Corporation entered into a revolving line of credit agreement with a bank allowing for available credit up 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 3.50 percent), with the entire principal balance due on the maturity date of January 1, 2024. The line of credit is secured by all the outstanding stock of the Bank. As of December 31, 2021 and 2020, there was $275,000 and $100,000 outstanding, respectively.

Note 8 – Borrowings (Continued)

The balance of the above borrowings matures as follows:

Years Ending	Amount
2024	$ 5,275,000
2025	-
2026	13,000,000
Thereafter	55,000,000
Unamortized prepayment penalties	(2,735,099)
Total	$ 70,539,901

Note 9 - Income Taxes

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

	2021	2020
Current expense	$ 2,007,000	$ 2,192,694
Deferred expense (benefit)	(477,000)	(357,000)
Total income tax expense	$ 1,530,000	$ 1,835,694

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:

	2021	2020
Income before taxes	$ 9,561,423	$ 7,836,720
Income tax expense at federal statutory rate (21 percent in 2021 and 2020)	2,007,899	1,645,711
Low income housing tax benefits, net of investment amortization	(29,000)	(9,000)
Captive insurance benefit	(143,000)	(121,000)
Increases (decreases) to or from nontaxable income - Net of nondeductible expenses	(305,899)	319,983
Total income tax expense	$ 1,530,000	$ 1,835,694

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

	2021	2020
Total deferred tax liabilities	$ (948,000)	$ (1,305,000)
Total deferred tax assets	3,352,000	2,629,000
Total	$ 2,404,000	$ 1,324,000

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, unrealized losses on available for sale securities, 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 2018.

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, 2021 and 2020, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2021	2020
Commitments to grant loans	$ 48,331,000	$ 58,008,000
Unfunded commitments under lines of credit	179,225,000	160,013,000
Commercial and standby letters of credit	899,000	899,000

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.

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, 2021 and 2020, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2021, 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	
(000s omitted from dollar amounts)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Common equity tier 1 capital (to risk-weighted assets)	$ 71,250	10.79%	$ 29,704	4.50%	$ 42,906	6.50%
Total risk-based capital (to risk-weighted assets)	79,529	12.05	52,808	8.00	66,009	10.00
Tier 1 capital (to risk-weighted assets)	71,250	10.79	39,606	6.00	52,808	8.00
Tier 1 capital (to average assets)	71,250	7.97	35,772	4.00	44,715	5.00
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

Note 12 – Share-based Compensation

At December 31, 2021, 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 $392,000 and $273,000 for 2021 and 2020, respectively. There were no significant deferred income tax benefits recognized in the consolidated statement of income for share-based compensation arrangements for both 2021 and 2020.

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 500,000 shares of common stock. The Plan was initially adopted in 2006 and allowed 150,000 shares. Similar plans were adopted which granted 100,000 additional shares in each 2009 and 2012, 50,000 additional shares in 2018 and 100,000 additional shares in 2021. 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 2021, the Corporation granted 3,500 options at a strike price of $40.00. In 2020, the Corporation granted 2,500 options at a strike price of $48.00. Information used to measure the 2021 and 2020 options granted are as follows:

	2021	2020
Expected volatility	20.00%	20.00%
Expected term (in years)	10	10
Risk-free rate	1.16%	1.61%

A summary of option activity under the Plan for the year ended December 31, 2021 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, 2020	55,555	$ 29.64	6.12	$ 714,197
Granted	3,500	40.00		
Exercised	(233)	14.00		
Outstanding at December 31, 2021	58,822	30.32	5.44	1,157,471
Exercisable at December 31, 2021	44,912	28.61	4.89	1,108,871

The weighted-average grant-date fair calculated value of options granted during 2021 and 2020 was $11.73 and $14.93, respectively.

The intrinsic value of options exercised in 2021 and 2020 was $8,388 and $173,193, respectively.

As of December 31, 2021 there was approximately $46,000 of total unrecognized compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognized through December 31, 2024.

Note 12 – Share-based Compensation (Continued)

In 2021 and 2020, the Corporation also awarded 16,630 and 10,950 restricted shares, respectively. The fair value of the awards is based on the value of the stock at the grant date and will be recognized in compensation expense over the vesting period, which is five years. The weighted-average grant-date fair calculated value in 2021 and 2020 was $673,750 ($40.51 per share) and $509,100 ($47.81 per share), respectively. The unrecognized cost for restricted share awards was approximately $982,000 at December 31,2021 and is expected to be recognized through December 31, 2026. The weighted-average fair value of shares vested during the years ended December 31, 2021 and 2020 was $221,880 ($43.04 per share) and $140,510 ($45.69 per share), respectively.

A summary of changes in the Corporation's nonvested restricted shares for the year ended December 31, 2021 follows:

Nonvested Restricted Shares	Number of Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Vesting Term (in years)
Nonvested at December 31, 2020	18,275	$ 44.46	3.44
Granted	16,630	40.51	
Vested	(5,155)	40.04	
Forfeited	-	-	
Nonvested at December 31, 2021	29,750	42.68	3.31

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, 2021 and 2020 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.

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, 2021			
	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	$ -	$ 67,091,514	$ -	$ 67,091,514
Treasury	19,716,065	-	-	19,716,065
Corporate	-	21,198,999	-	21,198,999
Mortgage-backed securities	-	37,933,999	-	37,933,999
State and municipal	-	62,353,951	1,398,596	63,752,547
Total assets	$ 19,716,065	$ 188,578,463	$ 1,398,596	$ 209,693,124

	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

There were no significant assets measured at fair value on a nonrecurring basis in which gains or losses were recognized in 2021 or 2020.

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.