FIRST NATIONAL BANCORP, INC.

A FINANCIAL HOLDING COMPANY FOR

FIRST NATIONAL BANK
of Michigan

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

May 11, 2023

NOTICE IS HEREBY GIVEN that the 2023 Annual Meeting of Shareholders of FIRST NATIONAL BANCORP, INC., a Michigan corporation and registered financial holding company, will be held will be held at the Park Club at 219 West South Street, Kalamazoo, Michigan 49007, at 5:00 p.m., on May 11, 2023, to consider and vote upon the following proposals:

1. Election of Daniel E. Bitzer, 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 2024 annual meeting of shareholders.

2. Ratification of the appointment of the independent auditors, Crowe, LLP for the year ending December 31, 2023.

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 11, 2023 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 11, 2023) (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 11, 2023

Important: This notice and the accompanying proxy materials were first mailed to shareholders on or about April 11, 2023. 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

FIRST NATIONAL BANK of Michigan

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

May 11, 2023

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 2023 Annual Meeting of Shareholders to be held at the Park Club at 219 West South Street, Kalamazoo, Michigan 49007, at 5:00 p.m., on May 11, 2023 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, 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 2024 annual meeting of shareholders.

2. Ratification of the appointment of the independent auditors, Crowe, LLP for the year ending December 31, 2023.

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

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

GENERAL INFORMATION

Attending in person

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

Who may vote

The Shareholders of the Company, as recorded in our stock register on April 11, 2023 (the ***"Record Date"***), may vote by returning a Proxy via U.S. Mail to be received on or before 5:00 p.m., May 11, 2023. As of both the Record Date and the date of this Proxy Statement, the Company had 1,987,358 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 5:00 p.m., May 11, 2023.

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 11, 2023. 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 13 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 21.59% 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 13 members who serve one-year terms. The 13 director nominees listed below, all of whom are current directors of the Company, were nominated by the Board to fill the 13 Board seats for one year terms expiring at the 2024 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 First National Bank of Michigan, N.A. Board of Directors, FNB Risk Management, Inc., Gilmore International Keyboard Festival Board of Trustees, Air Zoo Foundation, Commissioning Committee for the USS Gerald R. Ford CVN 78, Community Bankers of Michigan Board of Directors, CBM Bankers Retirement Services, 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.

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

JAMES S. DEMOSS. Dr. DeMoss is 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 Past Chair of the Executive Committee for the Michigan Association of Certified Public Accountants (MICPA). 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 experience with the community's real estate market.

BENJAMIN T. IPEMA. Mr. Ipema is Chief Operating Officer at Level Data, Inc. a "software as a service" (SaaS) company which provides custom software and data integration services for K-12 Public School Districts throughout the United States. Ben was previously President for The Exhibit House, providing trade show exhibit design, build and management services; and, a Director at Airpower America. 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 over the past 40 years including Board member and Chairman of Borgess Heath, Board member and Chairman of The Park Club, Board member and Chairman of the Greater Kalamazoo United Way. Mr. Lueth is currently a board member and Vice President of the Western Michigan University Foundation, serving on the Finance Committee.

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. He received an honorary Doctor of Humane Letters degree from Kalamazoo College in 2022. 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, Bronson Health Foundation, Cascade Engineering, First National Bank of Michigan, Gilmore Car Museum, Kalamazoo Public Schools Foundation, 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. In his current role as president of WMU, he has had the distinction of presiding over the university during a landmark time: In June 2021, President Montgomery made the groundbreaking announcement that Western had received a gift of $550 million — the largest gift ever made for a public university — called the Empowering Futures gift. This gift will allow Western, already a leader in social mobility, to become an engine of social mobility for generations to come.

Montgomery 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. Before becoming the ninth president of Western Michigan University ,he served as founding dean and professor of economics at Georgetown University's McCourt School of Public Policy. In 2022 he was named one of the top 10 most influential Black economists from the last 30 years by Academic Influence.

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

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

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

Montgomery earned a bachelor's degree in economics with honors from Pennsylvania State University, and a 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 she founded in 1996. SKP Design offers both commercial and residential interior design services throughout Michigan. In 2022 she purchased, remodeled and opened a new showroom and studio in Otsego, MI. This new location is centrally located to her Michigan client base. Prior to starting SKP Design, Sondra worked at various firms in Chicago, IL and Kalamazoo as well as in the facilities department for First of America Bank in Kalamazoo. She serves on several committees for the Kalamazoo Institute of Arts and is a director on the YMCA Board. She has two children. Ms. Phillips' passion for marketing, her small business perspective, community engagement and 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, Louisville and a new operation in Columbus, Ohio. 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.

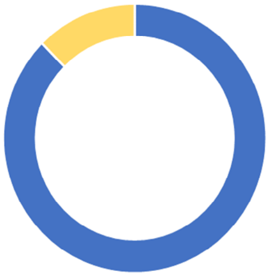
Ginny has also served on bank boards including First of America Bank (Michigan), Irwin Union Bank (Michigan), PNC Bank (Michigan) and the Inner-city Christian Federation Mortgage Board.

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.

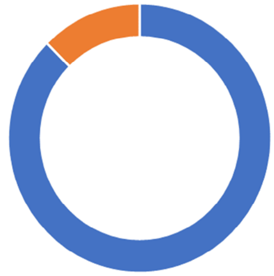
DIRECTOR COMPOSITION

Racial Diversity



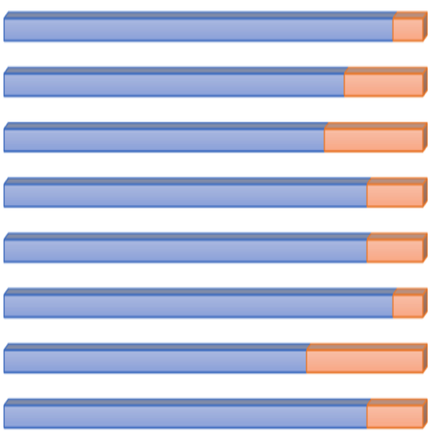
2 of 13
Are People of Color

Gender Diversity



2 of 13
Are Women

Range of Tenure



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	David Holmes
Risk Management	Daniel Bitzer, Joseph Calvaruso, 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 2022.

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, David G. Echelbarger, 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 2022.

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, Joseph S. Calvaruso, Benjamin T. Ipema, Larry D. Lueth, Edward B. Montgomery 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 two times during 2022.

PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2023

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, 2023, 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, 2023.

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, 2023, the Audit Committee will consider a change in independent auditors for the next year.

BENEFICIAL* STOCK OWNERSHIP

The following table sets forth information as of April 11, 2023 regarding each person (including any group as that term is defined in Section 13(d)(3) of the Securities Exchange Act of 1934) who was known to be the beneficial (the right to vote or dispose of shares) owner of more than 5% of the Company's common stock as of that date. The table also sets forth the number of shares of common stock beneficially owned by each of our directors (including director nominees) and executive officers as of April 11, 2023.

Name of Beneficial Owner	Common Stock	Restricted Stock	Rights to Acquire[(1)]	Approximate Percent of Voting Shares[(2)]
Daniel E. Bitzer	3,185	6,540	34,900	0.49
Joseph S. Calvaruso	10,300	0	0	0.52
James J. DeKruyter	130,238	0	0	6.52
James S. DeMoss	100	0	0	0.01
David G. Echelbarger	4,500			0.23
Jefra A. Groendyk	6,820	6,920	9,900	0.69
David L. Holmes	20,000	0	0	1.00
Benjamin T. Ipema	44,665	0	0	2.24
Cynthia S. Kole	5,967	6,820	0	0.64
Larry D. Lueth	57,000	0	5,818	2.85
Bill Manns	250	0	0	0.01
Edward B. Montgomery	1,000	0	0	0.05
Matthew J. Morgan	3,940	3,460	4,750	0.37
Sondra K. Phillips	5.000	0	0	0.25
Steven K. Piper	2,840	3,460	0	0.32
Virginia M. Seyferth	1,000	0	0	0.05
Joshua T. Weiner	105,000	0	0	5.26

* "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 1,987,358 shares issued and outstanding as of April 11, 2023.

EXECUTIVE OFFICERS

Current executive officers are as follows:

Name	Position	Position 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 2022 and the Balance Sheet as of December 31, 2022 are attached as **Annex A**.

MISCELLANEOUS

Solicitation of Proxies

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

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First National Bancorp, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2022

First National Bancorp, Inc. and Subsidiaries

Contents

Crowe

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, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes to consolidated 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, 2022 and 2021, 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, 2023

First National Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet

December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 16,247,454	$ 86,158,400
Interest-bearing time deposits in other financial institutions	3,475,000	3,727,000
Investment securities - Available for sale	258,437,033	211,171,551
Other restricted stock, at cost	5,573,650	5,025,400
Loans - Net of allowance for loan losses of $12,603,100 and $10,524,000 as of December 31, 2022 and 2021, respectively	615,315,211	554,444,440
Premises and equipment - Net	6,319,463	6,244,809
Accrued interest receivable	2,783,272	1,901,962
Deferred tax assets – net	6,830,893	2,404,000
Bank owned life insurance	12,347,133	12,069,882
Low income housing investments	2,713,222	2,005,104
Right-of-use assets	3,764,623	-
Other assets	2,723,334	1,588,530
Total assets	$ 936,530,288	$ 886,741,078
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 240,429,952	$ 250,769,054
Interest bearing	545,865,733	490,483,797
Total deposits	786,295,685	741,252,851
Borrowings	79,551,718	70,539,901
Accrued interest payable	183,491	89,759
Lease liabilities	3,764,623	-
Other liabilities	4,119,501	2,690,362
Total liabilities	873,915,018	814,572,873
Stockholders' Equity		
Common stock – Voting, $10 stated value; 2,500,000 shares authorized; 1,986,699 and 1,997,066 shares issued at December 31, 2022 and 2021, respectively	19,866,990	19,970,660
Additional paid-in capital	1,627,202	1,416,883
Retained earnings	57,780,769	52,179,527
Accumulated other comprehensive loss	(16,659,691)	(1,398,865)
Total stockholders' equity	62,615,270	72,168,205
Total liabilities and stockholders' equity	$ 936,530,288	$ 886,741,078

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Income

Years Ended December 31, 2022 and 2021

	2022	2021
Interest Income		
Loans - Including fees	$ 27,540,078	$ 27,612,809
Investment securities:		
Taxable	2,646,477	1,229,446
Tax-exempt	695,906	404,330
Dividend income on restricted stock	201,275	169,934
Other	447,030	62,337
Total interest income	31,530,766	29,478,856
Interest Expense		
Deposits	2,429,883	1,866,634
Borrowings	1,368,120	1,249,361
Total interest expense	3,798,003	3,115,995
Net Interest Income	27,732,763	26,362,861
Provision for Loan Losses	2,078,000	1,896,000
Net Interest Income after Provision for Loan Losses	25,654,763	24,466,861
Noninterest Income		
Service charge - Other	828,601	779,606
Increase in cash surrender value of bank owned life insurance	277,251	245,481
Loss on sales of available-for-sale securities	(39,017)	(54,429)
Other	158,279	294,320
Total noninterest income	1,225,114	1,264,978
Noninterest Expense		
Salaries and employee benefits	11,250,752	9,850,052
Occupancy and equipment	1,737,266	1,946,323
Data processing	1,184,154	1,232,868
FDIC insurance	552,036	408,704
Professional fees	725,221	722,192
Other	2,748,387	2,010,277
Total noninterest expense	18,197,816	16,170,416
Income before income taxes	8,682,061	9,561,423
Income Tax Expense	1,346,885	1,530,000
Net Income	$ 7,335,176	$ 8,031,423

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income (Loss)

Years Ended December 31, 2022 and 2021

	2022	2021
Net Income	$ 7,335,176	$ 8,031,423
Other Comprehensive Loss		
Unrealized gain (loss) on securities:		
Arising during the year	(19,277,679)	(2,817,642)
Reclassification adjustment[1]	(39,017)	(54,429)
Tax effect	4,055,870	603,022
Total other comprehensive loss	(15,260,826)	(2,269,049)
Comprehensive Income (Loss)	**$ (7,925,650)**	**$ 5,762,374**

(1) See Note 2 for further details on reclassification adjustments

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2021	$ 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
Comprehensive loss	-	-	7,335,176	(15,260,826)	(7,925,650)
Issuance of restricted stock – 28,210 shares	282,100	(282,100)	-	-	-
Vesting of restricted stock	-	488,911	-	-	488,911
Restricted stock forfeiture – 1,180 shares	(11,800)	11,800	-	-	-
Issuance of common stock – 539 shares	5,390	22,486	-	-	27,876
Repurchase of common stock – 40,576 shares	(405,760)	-	(1,733,934)	-	(2,139,694)
Stock option expense	-	45,798	-	-	45,798
Stock options exercised – 2,640 shares, net of 3,391 options tendered at exercise	26,400	(76,576)	-	-	(50,176)
Balance - December 31, 2022	**$ 19,866,990**	**$ 1,627,202**	**$ 57,780,769**	**$ (16,659,691)**	**$ 62,615,270**

Consolidated Statement of Cash Flows

Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Net income	$ 7,335,176	$ 8,031,423
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	600,636	665,685
Provision for loan losses	2,078,000	1,896,000
Amortization of securities - Net	1,210,623	1,036,731
Deferred income taxes	(371,000)	(477,000)
Stock-based compensation expense	534,709	391,944
Increase in cash surrender value of bank owned life insurance	(277,251)	(245,481)
Loss on sale of available-for-sale securities	39,017	54,429
Amortization of long-term debt prepayment penalties	436,817	438,065
Net change in:		
Accrued interest receivable and other assets	(2,179,838)	(33,057)
Accrued interest payable and other liabilities	978,454	752,642
Net cash provided by operating activities	10,385,343	12,511,381
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Sales	2,274,147	9,337,951
Maturities, prepayments, and calls	66,065,640	21,610,211
Purchases	(136,171,605)	(119,843,604)
Purchase of bank owned life insurance	-	(3,000,000)
Additions to premises and equipment	(675,290)	(155,068)
Change in loans	(62,948,771)	(19,661,708)
Change in interest-bearing time deposits in other financial institutions	252,000	1,746,574
Purchase of FHLB stock	(540,000)	(1,125,000)
Purchase of FRB stock	(8,250)	(14,900)
Net cash used in investing activities	(131,752,129)	(111,105,544)
Cash Flows from Financing Activities		
Net increase in deposit accounts	45,042,834	113,153,599
Effect of stock options exercised	(50,176)	(6,850)
Proceeds from new borrowings	50,000,000	-
Repayment of borrowings	(43,000,000)	-
Proceeds from line of credit	1,575,000	175,000
Sale of stock	27,876	29,729
Repurchase of stock	(2,139,694)	(903,229)
Net cash provided by financing activities	51,455,840	112,448,249
Net Increase (Decrease) in Cash	(69,910,946)	13,854,086
Cash and Cash Equivalents - Beginning of year	86,158,400	72,304,314
Cash and Cash Equivalents - End of year	$ 16,247,454	$ 86,158,400
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 3,704,271	$ 3,237,320
Income taxes	1,400,000	1,800,000
Supplemental noncash disclosures		
Right-of-use assets recorded in exchange for operating lease liabilities	$ 4,309,040	$ -

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

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 16 other unrelated financial institutions from within the United States. All 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.

Revenue Recognition from Contracts with Customers

Revenue from Contracts with Customers (ASC 606) establishes guidance for revenue recognition unless transactions are within the scope of other guidance. All the Corporation’s revenue from contracts with customers within the scope of ASC 606 is recognized in noninterest income. A description of the Corporation’s revenue streams accounted for under ASC 606 follows:

Service Charges – Other: The Corporation earns fees from its deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees are recognized at the time the transaction is executed as this is the point in time the Corporation fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs. Service charges are withdrawn from customer account balances.

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

Interest-Bearing Time Deposits in Other Financial Institutions

Interest-bearing time deposits in other financial institutions are recorded at cost and are federally insured. Reported balances at December 31, 2022 are scheduled to mature in 2023 ($1,984,000), 2024 ($1,241,000), and 2025 ($250,000).

Note 2 – Significant Accounting Policies (continued)

Investment Securities

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 reported in other comprehensive loss, net of tax. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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.

Loans

The Bank grants real estate – residential, 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 real estate – residential 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. Real estate – residential 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-impaired loans and is based on historical loss experience adjusted for current factors.

Note 2 – Significant Accounting Policies (continued)

A loan is impaired when full payment under the loan terms is not expected. Non-homogeneous loan portfolio segments such as commercial and commercial real estate loans and homogeneous loan segments, such as real estate – residential 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 – residential 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.

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:

Note 2 – Significant Accounting Policies (continued)

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 Multifamily, 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 less estimated costs to sell 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 estimated costs to sell. At December 31, 2022 and 2021, there were no foreclosed assets.

Comprehensive Income (Loss)

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 stockholders' equity in the consolidated balance sheet. Such items, along with net income, are considered components of comprehensive loss. The accumulated other comprehensive loss consists solely of the net unrealized gain or loss on investment securities available for sale less the tax effect. Reclassification adjustments were ($39,017) and $(54,429) in 2022 and 2021 and are presented in net loss on sales of available-for-sale securities on the consolidated statement of income. Income tax benefit included $8,194 and $11,430 in 2022 and 2021 related to these reclassification adjustments.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to pay. Such financial instruments are recorded when they are funded.

Premises and Equipment

The Bank operates out of owned and leased facilities. Land is carried at cost. 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.

Note 2 – Significant Accounting Policies (continued)

Leases

Leases are classified as operating or finance leases at the lease commencement date. The Bank leases certain locations. The Bank records leases on the consolidated balance sheet in the form of a lease liability for the present value of future minimum lease payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment on the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Bank could obtain for similar loans as of the date of commencement or renewal. The Bank does not record leases on the consolidated balance sheet that are classified as short term (less than one year).

At lease inception, the Bank determines the lease term by considering the minimum lease term and all optional renewal periods that the Bank is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Bank's leases do not contain residual value guarantees or material variable lease payments that will impact the Corporation's ability to pay dividends or cause the Corporation to incur additional expenses.

Operating lease expense consists of single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in occupancy and equipment expense in the Corporation's consolidated statement of income. The Corporation's variable lease expense include rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance, and other costs associated with the lease.

Federal Home Loan Bank (FHLB) Stock:

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as other restricted stock, at cost in the consolidated balance sheet, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as interest income – dividends on restricted stock in the consolidated statements of income.

Federal Reserve Bank (FRB) Stock:

The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as other restricted stock, at cost in the consolidated balance sheet, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as interest income – dividends on restricted stock in the consolidated statements of income.

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.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issue to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Corporation's accounting policy is to recognize forfeitures as they occur.

Note 2 – Significant Accounting Policies (continued)

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 consolidated 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 that 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 noninterest expense – other in the consolidated statements of income.

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, 2023, which is the date the consolidated financial statements were available to be issued.

Reclassifications

Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or total stockholders' equity.

Adoption of New Accounting Standards

On January 1, 2022, the Corporation adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Corporation to recognize most leases on the consolidated balance sheet. The standard was adopted under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical indirect cost balances for existing leases
- Accounting for lease and non-lease components in contracts in which the Corporation is a lessee as a single lease component

Adoption of the leasing standard resulted in recognition of operating right-of-use assets of $4,309,000 and operating lease liabilities of $4,309,000 as of January 1, 2022. These amounts were determined based on the present value of remaining lease payments, discounted using the Corporations FHLB incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense recognition in the Corporation's consolidated statement of income. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Corporation's leasing activities are presented in Note 7 – Leases.

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, 2022 and 2021, 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:

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
U.S. government and federal agency	$ 90,889,302	$ -	$ (6,119,882)	$ 84,769,420
U.S. Treasury	33,323,593	-	(1,847,908)	31,475,685
Certificate of deposit investments	2,975,000	169	(239,943)	2,735,226
Corporate	28,305,367	28,923	(2,183,293)	26,150,997
Mortgage-backed securities	41,673,825	-	(4,809,222)	36,864,603
State and municipal	82,357,529	245	(5,916,672)	76,441,102
Total available-for-sale securities	$ 279,524,616	$ 29,337	$ (21,116,920)	$ 258,437,033

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	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
Certificate of deposit investments	1,492,000	-	(13,574)	1,478,426
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	$ 212,942,438	$ 580,064	$ (2,350,951)	$ 211,171,551

Note 4 - Securities (continued)

At December 31, 2022 and 2021, securities with a carrying value of approximately $44,256,000 and $51,834,000, respectively, were pledged to secure borrowings.

The amortized cost and fair value of securities by contractual maturity at December 31, 2022 are as follows:

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 40,418,267	$ 39,635,860
Due in one through five years	180,346,164	166,325,157
Due after five years through ten years	17,086,360	15,611,413
Total	237,850,790	221,572,430
Mortgage-backed securities	41,673,825	36,864,603
Total	$ 279,524,616	$ 258,437,033

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

	2022	2021
Proceeds from sales	$ 2,274,147	$ 9,337,951
Proceeds from calls	1,410,000	10,925,859
Gross gains	-	1,236
Gross losses	(39,017)	(55,665)

First National Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2022 and 2021

Note 4 - Securities (continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2022			
	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	$ (1,628,116)	$ 28,570,442	$ (4,491,766)	$ 56,198,978
U.S. Treasury	(319,997)	10,543,809	(1,527,911)	16,931,875
Certificate of deposit investments	(102,985)	1,131,015	(136,958)	1,355,041
Corporate	(437,729)	6,766,405	(1,745,564)	17,236,411
Mortgage-backed securities	(1,148,213)	11,001,020	(3,661,009)	25,863,583
State and municipal	(2,763,055)	42,952,396	(3,153,617)	32,454,607
Total available-for-sale securities	$ (6,400,095)	$ 100,965,087	$ (14,716,825)	$ 150,040,495

	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	-	-
Certificate of deposit investments	(13,574)	1,478,426	-	-
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	$ (2,169,769)	$ 161,315,224	$ (181,182)	$ 8,024,242

At December 31, 2022 and 2021, there were 331 and 182 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 securities approach the maturity date.

Other securities totaling $5,573,650 and $5,025,400 at December 31, 2022 and 2021, respectively, consist of restricted Federal Home Loan Bank stock and Federal Reserve Bank stock.

Note 5 - Loans

A summary of the balances of loans is as follows:

	2022	2021
Commercial:		
Real estate – Construction	$ 52,025,809	$ 28,719,014
Real estate – Commercial and Multifamily	429,109,492	402,827,862
Commercial and Industrial	116,517,668	103,844,473
Total Commercial	597,652,969	535,391,349
Real estate - Residential	29,609,122	28,452,372
Consumer	656,220	1,124,719
Total loans	627,918,311	564,968,440
Less - Allowance for loan losses	12,603,100	10,524,000
Loans – net	$ 615,315,211	$ 554,444,440

In the ordinary course of business, the Corporation has granted loans to directors and their affiliates amounting to $15,471,000 and $20,111,000 as of December 31, 2022 and 2021, respectively. There were outstanding balances of $0 and $26,000 in loans to officers of the Corporation as of December 31, 2022 and 2021.

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. At December 31, 2022 and 2021, there were approximately $350,000 and $15,156,000, respectively, which remained outstanding still waiting to be forgiven and repaid. These loans are included in Commercial and Industrial loans in the loan composition table above. Fee income earned on PPP loans was $430,000 and $4,669,000 for 2022 and 2021, respectively and is included in interest income – loans including fees in the consolidated statement of income.

Note 5 - Loans (continued)

Activity in the allowance for loan losses for 2022 and 2021 is summarized as follows:

	Year Ended December 31, 2022					
	Real Estate – Construction	Real Estate – Commercial and Multifamily	Commercial and Industrial	Real Estate - Residential	Consumer	Total
Beginning balance	$ 512,376	$ 6,918,934	$ 1,542,770	$ 1,537,471	$ 12,449	$ 10,524,000
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	1,100	-	-	1,100
Provision	465,424	555,513	585,375	476,175	(4,487)	2,078,000
Ending balance	$ 977,800	$ 7,474,663	$ 2,129,029	$ 2,013,646	$ 7,962	$ 12,603,100
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	977,800	7,474,663	2,129,029	2,013,646	7,962	12,603,100
Ending allowance balance	$ 977,800	$ 7,474,663	$ 2,129,029	$ 2,013,646	$ 7,962	$ 12,603,100
Loans:						
Individually evaluated for impairment	$ -	$ 183,761	$ -	$ 59,542	$ -	$ 243,303
Collectively evaluated for impairment	52,025,809	428,925,731	116,517,668	29,549,580	656,220	627,675,008
Total loans	$ 52,025,809	$ 429,109,492	$ 116,517,668	$ 29,609,122	$ 656,220	$ 627,918,311

	Year Ended December 31, 2021					
	Real Estate – Construction	Real Estate – Commercial and Multifamily	Commercial and Industrial	Real Estate - Residential	Consumer	Total
Beginning balance	$ 928,947	$ 4,904,920	$ 1,496,512	$ 1,279,863	$ 11,758	$ 8,622,000
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	6,000	-	-	6,000
Provision	(416,571)	2,014,014	40,258	257,608	691	1,896,000
Ending balance	$ 512,376	$ 6,918,934	$ 1,542,770	$ 1,537,471	$ 12,449	$ 10,524,000
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	512,376	6,918,934	1,542,770	1,537,471	12,449	10,524,000
Ending allowance balance	$ 512,376	$ 6,918,934	$ 1,542,770	$ 1,537,471	$ 12,449	$ 10,524,000
Loans:						
Individually evaluated for impairment	$ -	$ -	$ 16,325	$ 330,059	$ -	$ 346,384
Collectively evaluated for impairment	28,719,014	402,827,862	103,828,148	28,122,313	1,124,719	564,622,056
Total loans	$ 28,719,014	$ 402,827,862	$ 103,844,473	$ 28,452,372	$ 1,124,719	$ 564,968,440

Note 5 - Loans (continued)

Credit Risk Grading

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

Pass

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

Special Mention

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

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the loan. 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, 2022				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Commercial:					
Real estate – construction	$ 51,435,814	$ 589,995	$ -	$ -	$ 52,025,809
Real estate – commercial and multifamily	425,916,605	2,597,646	595,241	-	429,109,492
Commercial and industrial	110,682,902	2,482,793	3,351,973	-	116,517,668
Total commercial	588,035,321	5,670,434	3,947,214	-	597,652,969
Real estate - Residential	29,358,168	-	250,954	-	29,609,122
Consumer	656,220	-	-	-	656,220
Total	$ 618,049,709	$ 5,670,434	$ 4,198,168	$ -	$ 627,918,311

	December 31, 2021				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Commercial:					
Real estate – construction	$ 28,719,014	$ -	$ -	$ -	$ 28,719,014
Real estate – commercial and multifamily	399,715,069	-	3,112,793	-	402,827,862
Commercial and industrial	97,505,891	27,000	6,311,582	-	103,844,473
Total commercial	525,939,974	27,000	9,424,375	-	535,391,349
Real estate - Residential	27,745,414	-	706,958	-	28,452,372
Consumer	1,124,719	-	-	-	1,124,719
Total	$ 554,810,107	$ 27,000	$ 10,131,333	$ -	$ 564,968,440

Note 5 - Loans (continued)

Analysis of Past Due and Non-Accrual Loans

At December 31, 2022, there were two loan relationships on non-accrual for $243,303. These nonaccrual loans consisted of the following: one commercial loan for $183,761 contractually less than 30 days past due and one real estate – residential loan for $59,542 contractually over 30 days past due.

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

Except as described above, there were no other delinquent loans at year-end 2022 or 2021.

Troubled Debt Restructurings

As of December 31, 2022 and 2021, 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, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance for loan losses recorded:					
Real estate – commercial and multifamily	$ 183,761	$ 183,761	$ -	$ 192,211	$ 5,294
Real estate – residential	59,542	59,542	-	61,524	3,155
Total	$ 243,303	$ 243,303	$ -	$ 253,735	$ 8,449

	As of and for the Year Ended December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment for the Year	Interest Income Recognized for the Year
With no related allowance for loan losses recorded:					
Commercial and industrial	$ 16,325	$ 16,325	$ -	$ 28,975	$ -
Real estate – residential	330,059	330,059	-	333,204	11,652
Total	$ 346,384	$ 346,384	$ -	$ 362,179	$ 11,652

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. The unpaid principal balance is not reduced for partial charge-offs. Cash basis interest income received approximates interest income recognized for the year.

Note 6 – Premises and Equipment

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

	2022	2021
Land	$ 250,000	$ 250,000
Buildings and building improvements	3,310,791	3,310,791
Leasehold improvements	4,102,893	4,040,838
Furniture, fixtures, and equipment	1,774,735	1,872,284
Construction in progress	488,317	31,456
Total cost	9,926,736	9,505,369
Accumulated depreciation	(3,607,273)	(3,260,560)
Premises and equipment, net	$ 6,319,463	$ 6,244,809

Note 7 – Leases

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

The Bank leases two other branch properties with operating leases which have remaining terms ranging from 11 to 13 years, both of which have renewal options to extend the lease for up three additional five-year terms.

Total operating lease cost for the years ended December 31, 2022 and 2021 amounted to $628,075 and $599,706, respectively.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2022 are as follows:

Years Ending	Related Party Leases	Other Lease Agreements	Total Lease Agreements
2023	$ 232,126	$ 315,614	$ 547,740
2024	119,272	318,817	438,089
2025	79,516	321,215	400,731
2026	-	328,412	328,412
2027	-	328,412	328,412
Thereafter	-	2,229,923	2,229,923
Total undiscounted lease payments	430,914	3,842,393	4,273,307
Less: imputed interest	(10,164)	(498,520)	(508,684)
Net lease liabilities	$ 420,750	$ 3,343,873	$ 3,764,623

Note 7 – Leases (continued)

Supplemental lease information:

	December 31, 2022
Operating lease weighted average remaining lease term (years)	10.61
Operating lease weighted average discount rate	1.96%
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	$ 548,390
Right-of-use assets recorded in exchange for operating lease liabilities	$ 4,309,040

Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2022 and 2021:

	2022	2021
Noninterest-bearing deposits	$ 240,429,952	$ 250,769,054
Interest-bearing deposits and NOW accounts	198,285,554	146,463,632
Savings and money market accounts	217,094,041	221,198,768
Time deposits:		
Under $250,000	76,999,889	87,572,708
$250,000 and over	53,486,249	35,248,689
Total	$ 786,295,685	$ 741,252,851

At December 31, 2022, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2023	$ 79,530,484
2024	35,436,369
2025	9,691,337
2026	15,941
2027	5,563,007
Thereafter	249,000
Total	$ 130,486,138

Note 9 - 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, 2022 and 2021. The unused portion of the facility was approximately $49,000,000 and $43,000,000 at December 31, 2022 and 2021, respectively. The collateral on the borrowing arrangement consists of commercial and consumer loans with a book balance of approximately $61,897,000 and $58,658,000 at December 31, 2022 and 2021, 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 $20,000,000 at December 31, 2022 and $10,000,000 at December 31, 2021. There were no amounts outstanding at December 31, 2022 or 2021.

As of December 31, 2022, the Corporation had three advances from the Federal Home Loan Bank (FHLB) totaling $80,000,000 with fixed interest rates ranging from 0.92 percent to 4.28 percent with a weighted average rate of 3.06 percent. As of December 31, 2021, 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 included $38,000,000 of advances with an option held by the FHLB to put the advance. The outstanding advances as of December 31, 2022 mature in 2023 ($50,000,000), 2026 ($10,000,000), and 2029 ($20,000,000). Interest is payable monthly. The advances were collateralized by approximately $187,000,000 and $208,000,000 of real estate – residential and real estate - commercial loans as of December 31, 2022 and 2021, 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. In a prior year, 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, 2022 of $2,298,282 is included in borrowings in the consolidated balance sheet and included in the maturity schedule below. The weighted average rate of the advances, including the effect of amortizing the prepayment penalties, is 3.61% at December 31, 2022. Amortization of the prepayment penalties is included in interest expense – borrowings in the consolidated statement of income.

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, 2022 or 2021.

The Corporation has a revolving line of credit agreement with a bank allowing for available credit up to $12,000,000 and $10,000,000 as of December 31, 2022 and 2021, respectively. 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, 2025. The line of credit is secured by all the outstanding stock of the Bank. As of December 31, 2022 and 2021, there was $1,850,000 and $275,000 outstanding, respectively.

Note 9 – Borrowings (continued)

The balance of the above borrowings matures as follows:

Years Ending	Amount
2023	$ 50,000,000
2024	-
2025	1,850,000
2026	10,000,000
2027	-
Thereafter	20,000,000
Unamortized prepayment penalties	(2,298,282)
Total	$ 79,551,718

Note 10 - Income Taxes

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

	2022	2021
Current expense	$ 1,717,908	$ 2,007,000
Deferred expense (benefit)	(371,000)	(477,000)
Total income tax expense	$ 1,346,885	$ 1,530,000

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:

	2022	2021
Income before taxes	$ 8,682,061	$ 9,561,423
Income tax expense at federal statutory rate (21 percent in 2022 and 2021)	1,823,233	2,007,899
Low income housing tax benefits, net of investment amortization	(36,000)	(29,000)
Captive insurance benefit	(183,000)	(143,000)
Increases (decreases) to or from nontaxable income - Net of nondeductible expenses	(257,348)	(305,899)
Total income tax expense	$ 1,346,885	$ 1,530,000

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

	2022	2021
Total deferred tax liabilities	$ (1,812,000)	$ (948,000)
Total deferred tax assets	8,642,893	3,352,000
Total	$ 6,830,893	$ 2,404,000

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

Note 10 – Income Taxes (continued)

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 2019.

Note 11 – 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, 2022 and 2021, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2022	2021
Commitments to grant loans	$ 33,648,000	$ 48,331,000
Unfunded commitments under lines of credit	190,007,000	179,225,000
Commercial and standby letters of credit	639,000	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 12 - Minimum Regulatory Capital Requirements

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgements by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As year-end 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts (in thousands) and ratios are presented below at year-end. These tables do not include the 2.5% capital conservation buffer requirement which effectively increases the required minimum total risk-based, Common Tier 1 (CET 1), and tier 1 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.

(000s omitted from dollar amounts)	Actual		Minimum For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Common Tier 1 (CET1) to risk weighted assets	$ 78,256	10.30%	$ 34,188	4.50%	$ 49,383	6.50%
Total Capital to risk weighted assets	87,791	11.56	60,779	8.00	75,974	10.00
Tier 1 (Core) Capital to risk weighted assets	78,256	10.30	45,584	6.00	60,779	8.00
Tier 1 (Core) Capital to average assets	78,256	8.43	37,131	4.00	46,413	5.00
As of December 31, 2021						
Common Tier 1 (CET1) to risk weighted assets	$ 71,250	10.79%	$ 29,704	4.50%	$ 42,906	6.50%
Total Capital to risk weighted assets	79,529	12.05	52,808	8.00	66,009	10.00
Tier 1 (Core) Capital to risk weighted assets	71,250	10.79	39,606	6.00	52,808	8.00
Tier 1 (Core) Capital to average assets	71,250	7.97	35,772	4.00	44,715	5.00

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 – Share-Based Compensation

At December 31, 2022, the Corporation has a share-based compensation plan, which is described below. The compensation cost that has been charged against earnings for the plan was approximately $535,000 and $392,000 for 2022 and 2021, respectively. There were no significant deferred income tax benefits recognized in the consolidated statement of income for share-based compensation arrangements for both 2022 and 2021.

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 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 2022, the Corporation granted 3,500 options at a strike price of $50.00. In 2021, the Corporation granted 3,500 options at a strike price of $40.00. Information used to measure the 2022 and 2021 options granted are as follows:

	2022	2021
Expected volatility	20.00%	20.00%
Expected term (in years)	10	10
Risk-free rate	2.03%	1.16%

A summary of option activity under the Plan for the year ended December 31, 2022 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, 2021	58,822	$ 30.32	5.44	$ 1,157,471
Granted	3,500	50.00		
Exercised	(6,031)	17.81		
Outstanding at December 31, 2022	56,291	32.89	5.10	1,160,376
Exercisable at December 31, 2022	49,624	31.09	4.41	1,112,042

Note 14 – Share-Based Compensation (continued)

The weighted-average grant-date fair calculated value of options granted during 2022 and 2021 was $16.40 and $11.73, respectively.

The intrinsic value of options exercised in 2022 and 2021 was $209,735 and $8,388, respectively.

As of December 31, 2022 there was approximately $57,000 of total unrecognized compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognized through December 31, 2025.In 2022 and 2021, the Corporation also awarded 28,210 and 16,630 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 2022 and 2021 was $1,460,480 ($51.77 per share) and $673,750 ($40.51 per share), respectively. The unrecognized cost for restricted share awards was approximately $1,899,000 at December 31, 2022 and is expected to be recognized through December 31, 2027. The weighted-average fair value of shares vested during the years ended December 31, 2022 and 2021 was $327,445 ($42.27 per share) and $221,880 ($43.04 per share), respectively.

A summary of changes in the Corporation's nonvested restricted shares for the year ended December 31, 2022 follows:

Nonvested Restricted Shares	Number of Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Vesting Term (in years)
Nonvested at December 31, 2021	29,750	$ 42.68	3.31
Granted	28,210	51.77	
Vested	(7,746)	42.27	
Forfeited	(1,180)	45.83	
Nonvested at December 31, 2022	49,034	47.90	3.51

Note 15 - 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, 2022 and 2021 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. The Corporation's Level 1 investment securities consisted of US Treasuries.

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Note 15 - 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 mortgage-backed securities.

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, 2022			
	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, 2022
Assets				
Available-for-sale investment securities:				
U.S. government and federal agency	$ -	$ 84,769,420	$ -	$ 84,769,420
Treasury	31,475,685	-	-	31,475,685
Certificate of deposit investments	-	2,735,226	-	2,735,226
Corporate	-	26,150,997	-	26,150,997
Mortgage-backed securities	-	36,864,603	-	36,864,603
State and municipal	-	75,512,049	929,053	76,441,102
Total assets	$ 31,475,685	$ 226,032,295	$ 929,053	$ 258,437,033

	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, 2021
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
Certificate of deposit investments	-	1,478,426	-	1,478,426
Corporate	-	21,198,999	-	21,198,999
Mortgage-backed securities	-	37,934,000	-	37,934,000
State and municipal	-	62,353,951	1,398,596	63,752,547
Total assets	$ 19,716,065	$ 190,056,890	$ 1,398,596	$ 211,171,551

Note 15 - Fair Value Measurements (continued)

There were no significant assets measured at fair value on a nonrecurring basis in which gains or losses were recognized in 2022 or 2021.

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. The change in Level 3 investment securities related to state and municipal securities from December 31, 2021 to December 31, 2022 was due to maturities and paydowns on these investment securities. There were no purchases, sales or transfers in and out of Level 3 for state and municipal securities with Level 3 inputs. Additional disclosures of quantitative information are not material to these consolidated financial statements.