FIRST NATIONAL BANK
of Michigan

April 9, 2024

TO OUR SHAREHOLDERS:

Enclosed please find our 2024 Proxy Statement and Notice of our 2024 Annual Meeting.

The First National Bancorp, Inc. Annual Meeting will be held in the Executive Boardroom on the 2nd Floor of the First National Bank of Michigan building at 348 West Michigan Avenue, Kalamazoo, Michigan 49007, at 10:00 a.m. on May 9, 2024.

Your vote is very important to us; please return the enclosed proxy via U.S. mail to Continental Stock Transfer & Trust Company no later than 10:00 a.m., May 9, 2024. Should you have any questions, please email Daniel E. Bitzer at debitzer@fnbmichigan.bank.

This is our first Shareholder Vote utilizing the recently engaged Continental Stock Transfer & Trust Company ("CSTT") who has become the stock transfer agent and registrar for First National Bancorp. CSTT has taken over responsibility for maintaining all shareholder records and responding to inquiries regarding registered shareholders.

Continental Stock Transfer & Trust Company is the longest standing and largest US-owned transfer agent in North America providing transfer agent services to public and private companies since 1964.

An email with your invitation to the Annual Shareholder Meeting will be coming from Executive Assistant, Stena Buck, in the next few weeks. If you do not receive this email invitation by April 9, please reach out to Ms. Buck at sjbuck@fnbmichigan.bank or 269-488-8858 to RSVP for the event. An electronic version of the 2023 Annual Report is available on First National Bank of Michigan's website: www.fnbmichigan.bank.

FIRST NATIONAL BANCORP, INC.

A FINANCIAL HOLDING COMPANY FOR

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

May 9, 2024

NOTICE IS HEREBY GIVEN that the 2024 Annual Meeting of Shareholders of FIRST NATIONAL BANCORP, INC., a Michigan corporation and registered financial holding company, will be held in the Executive Boardroom at First National Bank of Michigan at 348 West Michigan Avenue, Kalamazoo, Michigan 49007, at 10:00 a.m., on May 9, 2024, 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 H. Manns, Rachel S. Michaud, 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 2025 annual meeting of shareholders.

2. Ratification of the appointment of the independent auditors, Crowe, LLP for the year ending December 31, 2024.

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 9, 2024 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 9, 2024) (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 9, 2024

Important: This notice and the accompanying proxy materials were first mailed to shareholders on or about April 9, 2024. The prompt return of proxies will save the expense of further requests for proxies in order to obtain a quorum. An addressed envelope is enclosed for your convenience.

FIRST NATIONAL BANCORP, INC.

A FINANCIAL HOLDING COMPANY FOR

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

May 9, 2024

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 2024 Annual Meeting of Shareholders to be held in the Executive Boardroom at First National Bank of Michigan at 348 West Michigan Avenue, Kalamazoo, Michigan 49007, at 10:00 a.m., on May 9, 2024 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, Ben T. Ipema, Larry D. Lueth, Bill H. Manns, Rachel S. Michaud, 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 2025 annual meeting of shareholders.

2. Ratification of the appointment of the independent auditors, Crowe, LLP for the year ending December 31, 2024.

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

(remainder of page intentionally left blank)

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 9, 2024 (the ***"Record Date"***), may vote by returning a Proxy via U.S. Mail to be received on or before 10 a.m., May 9, 2024. As of both the Record Date and the date of this Proxy Statement, the Company had 1,981,150 issued and outstanding shares. Each such share is entitled to one vote on each of the matters presented for shareholder action.

How to vote

You may vote by returning a Proxy via U.S. Mail to be received on or before 10 a.m., May 9, 2024.

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 9, 2024. If your proxy is not received prior to the Annual Meeting, your shares will not be voted at the Annual Meeting.

Revoking a proxy

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

- submitting a new proxy with a later date; or
- notifying the Company's Secretary in writing before the Annual Meeting

Quorum

In order to carry on the business of the Annual Meeting, we must have a quorum. This means at least a majority of the outstanding shares of Company common stock eligible to vote at the Annual Meeting must be represented at the Annual Meeting by proxy, including abstentions.

Votes needed

The director nominees who receive a plurality of the votes cast will be elected to fill the 14 seats on the Board. Abstentions will not be included in the vote count.

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

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

As of the date of this Proxy Statement, the Company's directors and executive officers were the beneficial owners of 22.40% of the issued and outstanding shares of common stock of the Company. *See* "Beneficial Stock Ownership" below.

BUSINESS

First National Bancorp, Inc. is a Michigan corporation that was incorporated on July 7, 2005 to organize and serve as the financial holding company for First National Bank of Michigan, a national banking association with branches located at 348 West Michigan Avenue, Kalamazoo, Michigan 49007, 2700 W. Centre Ave., Portage, Michigan 49024, 5313 West Main Street, Kalamazoo, Michigan 49009, 141 Ionia NW, Grand Rapids, Michigan 49503, 1 West 8th Street, Holland, Michigan 49423, 101 S. Washington Square, Suite 100, Lansing, MI 48933 and a Loan Production Office in Traverse City, Michigan. The Company received approval from the Federal Reserve Board to become a financial holding company and acquired all of the stock of the Bank. The Bank received regulatory approval to open from the Office of the Comptroller of the Currency and for deposit insurance with the Federal Deposit Insurance Corporation. The Bank focuses on the local community, emphasizing personal service to businesses and individuals in its primary service area.

The Bank offers convenient service, local decision-making and competitively priced deposit and loan products in its primary service area. By focusing its operations on the communities it serves, the Bank should be able to respond to changes in the market more quickly than large non-local institutions.

PROPOSAL 1 - ELECTION OF DIRECTORS

The Board currently consists of 14 members who serve one-year terms. The 14 director nominees listed below, all of whom are current directors of the Company, were nominated by the Board to fill the 14 Board seats for one year terms expiring at the 2025 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, 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.

JOSEPH S. CALVARUSO. Mr. Calvaruso has most recently served for 18 months 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 Life 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.

JAMES J. DEKRUYTER. Mr. DeKruyter currently serves on the board of the Gull Lake Ministries and 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, 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.

JAMES S. DEMOSS. Dr. DeMoss is President of Southwestern Michigan Emergency Services, P.C. (SWMES), 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.

DAVID G. ECHELBARGER. 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 strategy, nurturing the culture for the firm, and keeping up to date with industry trends.

Dave has 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 team and manages the overall operations of the firm. As the Visionary for the firm, Dave inspires team members to live the EHTC core values and motivates team members and clients to achieve their full potential. 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 is active in the community and industry. He is Past Chair of the Board of Directors 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, Microsoft Corporation and BDO for their contributions to the industry.

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.

BEN T. IPEMA. Mr. Ipema is serving as a Director at Level Data, LLC. where he was COO, a "software as a service" (SaaS) company which providing 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 VP at Airpower America. Mr. Ipema's diverse experience provides a unique and valuable resource related to IT, Marketing, and manufacturing for the Bank. Mr. Ipema has served 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.

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 President of the Western Michigan University Foundation, as well as serving on the Finance Committee.

BILL H. MANNS. Mr. Manns is President and Chief Executive Officer for Bronson Healthcare - the largest employer and leading healthcare system in southwest Michigan. In 2023, Bronson was named one of the nation's 15 Top Health Systems by PINC AI. It is also ranked by Forbes as one of America's Best-In-State Employers (2022-23), by Newsweek as one of America's Greatest Workplaces for Women (2023) and by the National Association for Business Resources as one of the 2023 Top 101 Best and Brightest Companies to Work For. As the senior executive, he oversees a full range of services from primary care to critical care across more than 100 locations.

Mr. 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, Hospital Network Ventures, Southwest Michigan First, Western Michigan University Homer Stryker M.D. School of Medicine, and W.E. Upjohn Institute for Employment Research.

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.

RACHEL S. MICHAUD. President and COO of Gillespie Group, Rachel focuses on the strategic growth and elevation of overall leadership practices within the organization. With an eye to the future, she oversees the executive team with a key focus on client, partner, and community stakeholder relationships. A member of the Gillespie Group team for over 25 years, Rachel is instrumental in the success of the company in all aspects from business development to operational management. Recognized in 2022 as a Notable Woman in Construction, Design and Architecture in CRAIN'S Detroit Business publication, Rachel's impact through strategic planning and project execution initiatives continue to enhance Gillespie's continued success.

EDWARD B. MONTGOMERY. Edward Montgomery, who has served as the ninth president of Western Michigan University since 2017, is a nationally known labor economist who played major roles in both the Clinton and Obama administrations.

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 to focus on holistic student development and on being an engine of social mobility for generations to come.

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.

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. He has also served as the Dean of the College of Behavioral and Social Sciences at the University of Maryland and as the 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, joining distinguished inductees such as Benjamin Franklin, Charles Darwin, Albert Einstein, Martin Luther King Jr., and Condoleezza Rice among others. 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 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 served 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. He and his wife, Kari, a Michigan native, have three grown children—Lindsay, Elizabeth, and Edward and one granddaughter, Mia.

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 opened a new showroom and studio in Otsego, MI and is also the new director of Otsego Arts. 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). is the Founder and Chairman of SeyferthPR, based in Grand Rapids, Michigan. The firm is one of the Midwest's largest independently-owned public relations agencies offering media, social media, crisis/issues management and brand reputation strategy to multiple clients. SeyferthPR clients include more than 1,300 McDonald's Restaurants; Amway; Blue Cross Blue Shield of Michigan; the Detroit Public Schools; Hope Network; Trinity Health and dozens of clients in the education and manufacturing areas.

While her firm has grown significantly, Ginny's personal practice continues in helping lead brand reputation strategy for a number of McDonald's initiatives. She also serves of-counsel to several Midwest law firms in the areas of issues and crisis management, labor relations and corporate downsizing and/or acquisition initiatives.

Ginny remains active in a number of Michigan and Indiana economic and education policy issues including helping solidify funding for Early Childhood Education in Michigan and she is an advocate for school funding tied to third-grade reading success. A sample of boards that Ginny has served on includes: The West Michigan Policy Forum; Talent First; Ruth Chris Cares Foundation; The Grand Rapids Economic Club; Grand Rapids Municipal Council; Goodwill Industries; the West Michigan Ronald McDonald House; the Grand Rapids Art Museum; Ferris State University and Detroit Receiving Hospital.

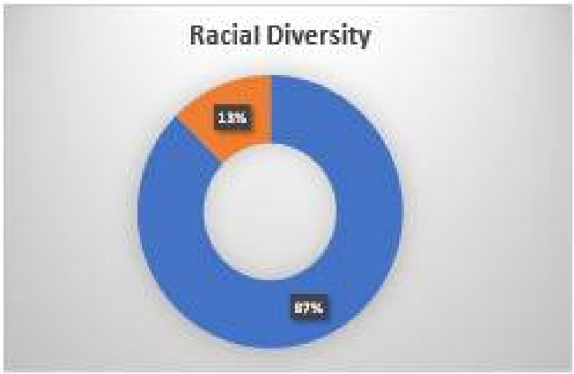
Ginny is well recognized for launching a number of community initiatives including the introduction of ArtPrize and LaughFest; the opening of the Grand Rapids Art Museum and the Frederik Meijer Gardens & Sculpture Park and the Gerald R. Ford Presidential Museum to name a few. She loves to share her experiences having served as an adjunct faculty at Aquinas College, Grand Valley State University, Hope College and Michigan State University.

Ginny's banking experience includes previous board roles on First of America Bank (Michigan), Irwin Union Bank (Michigan), PNC Bank (Michigan) and the Inner-city Christian Federation Mortgage Board.

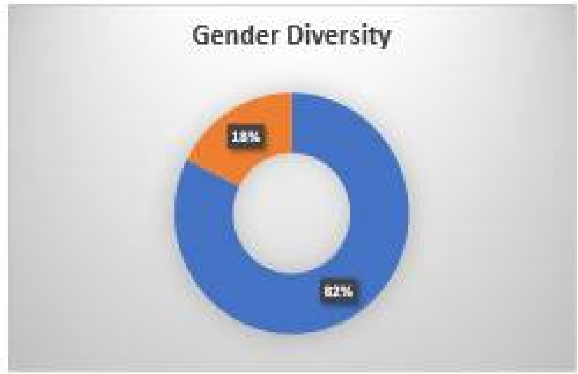
Ginny’s early career included work in PR for Amway; AMOCO Oil Company; and St. Jude Children's Research Hospital. Ginny and her husband Robert Boss have two married children and one grandchild.

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.

DIRECTOR COMPOSITION

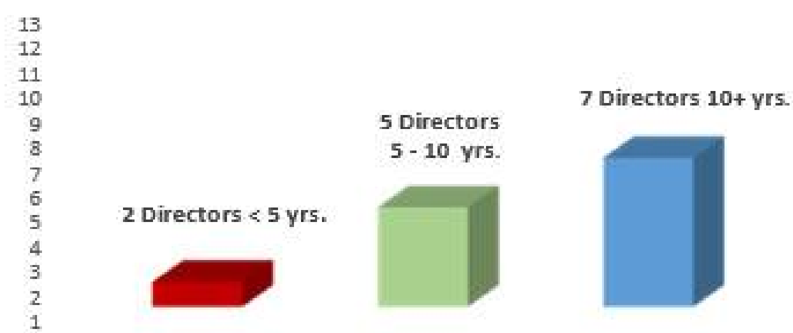


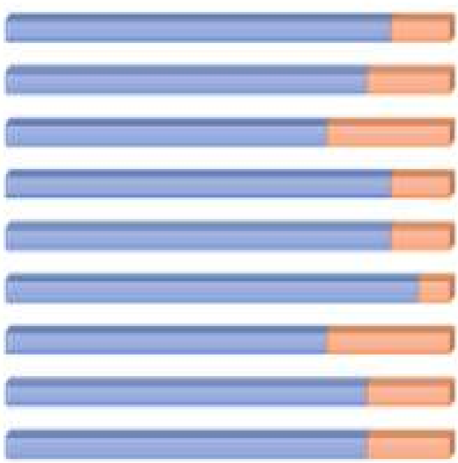
2 of 14
Are People of Color



3 of 14
Are Women

Range of Tenure





Audit Financial Reporting	James DeKruyter, David Echelbarger
Financial Services	Daniel Bitzer, Joseph Calvaruso, Larry Lueth
Consumer, Corporate, Investment Business, Business Development & Marketing	James DeKruyter, Rachel Michaud, 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, Rachel Michaud, Edward Montgomery
Real Estate	David Holmes, Rachel Michaud, Joshua Weiner

Average Board Member Age: 63 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 2023.

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 H. 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 2023.

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 three times during 2023.

PROPOSAL 2 – RATIFICATION OF THE APPOINTMENT OF THE INDEPENDENT AUDITORS FOR THE YEAR ENDING DECEMBER 31, 2024

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, 2024, 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, 2024.

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, 2024, 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 9, 2024 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 9, 2024.

Name of Beneficial Owner	Common Stock	Restricted Stock	Rights to Acquire[1]	Approximate Percent of Voting Shares[2]
Daniel E. Bitzer	5,305	7,420	36,900	0.64%
Joseph S. Calvaruso	10,300	0	0	0.52%
James J. DeKruyter	130,238	0	0	6.57%
James S. DeMoss	100	0	0	0.01%
David G. Echelbarger	5,780	0	0	0.29%
Jefra A. Groendyk	10,260	6,780	8,400	0.86%
David L. Holmes	20,000	0	0	1.01%
Benjamin T. Ipema	50,390	0	0	2.54%
Cynthia S. Kole	7,807	6,780	0	0.74%
Larry D. Lueth	57,000	0	5,539	2.88%
Bill Manns	250	0	0	0.01%
Rachel S. Michaud	400	0	0	0.02%
Edward B. Montgomery	1,000	0	0	0.05%
Matthew J. Morgan	4,910	2,490	4,750	0.37%
Sondra K. Phillips	5.000	0	0	0.25%
Steven K. Piper	3,060	2,490	0	0.28%
Virginia M. Seyferth	1,000	0	0	0.05%
Joshua T. Weiner	105,000	0	0	5.30%

* "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 1,981,150 shares issued and outstanding as of April 9, 2024.

EXECUTIVE OFFICERS

Current executive officers are as follows:

Name	Position	Current 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	July 12, 2019
Cynthia S. Kole	Executive Vice President of the Company and the Bank	November 12, 2020
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	November 12, 2020

FINANCIAL INFORMATION

The Profit and Loss Statement of the Company for fiscal year 2023 and the Balance Sheet as of December 31, 2023 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).

(remainder of page intentionally left blank)

Annex A

First National Bancorp, Inc. and Subsidiaries

Consolidated Financial Report
December 31, 2023

First National Bancorp, Inc. and Subsidiaries

Contents

Annex A

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 sheet as of December 31, 2023 and 2022, and the related consolidated statement 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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in the year-ended December 31, 2023, First National Bancorp. Inc. and Subsidiaries adopted new accounting guidance ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended. Our opinion is not modified with respect to this matter.

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

Grand Rapids, Michigan
March 8, 2024

Annex A

First National Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheet

December 31, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	$ 18,254,857	$ 16,247,454
Interest-bearing time deposits in other financial institutions	1,491,000	3,475,000
Investment securities - available for sale, at fair value	214,062,238	258,437,033
Other restricted stock, at cost	6,268,800	5,573,650
Loans - Net of allowance for credit losses of $10,453,705 and $12,603,100 as of December 31, 2023 and 2022, respectively	702,374,179	615,315,211
Premises and equipment – Net	6,259,412	6,319,463
Accrued interest receivable	3,281,860	2,783,272
Deferred tax assets – Net	5,896,000	6,830,893
Bank owned life insurance	12,651,048	12,347,133
Low-income housing investments	2,334,043	2,713,222
Right-of-use assets	3,768,958	3,764,623
Other assets	3,572,455	2,723,334
Total assets	$ 980,214,850	$ 936,530,288
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 181,459,382	$ 240,429,952
Interest bearing	596,511,132	545,865,733
Total deposits	777,970,514	786,295,685
Borrowings	119,940,757	79,551,718
Accrued interest payable	2,801,479	183,491
Allowance for credit losses on off-balance sheet credit exposures	1,766,003	-
Lease liabilities	3,768,958	3,764,623
Other liabilities	3,261,636	4,119,501
Total liabilities	909,509,347	873,915,018
Stockholders' equity		
Common stock – Voting, $10 stated value; 2,500,000 shares authorized; 1,969,675 and 1,986,699 shares issued at December 31, 2023 and 2022, respectively	19,696,750	19,866,990
Additional paid-in capital	2,234,343	1,627,202
Retained earnings	61,492,496	57,780,769
Accumulated other comprehensive loss	(12,718,086)	(16,659,691)
Total stockholders' equity	70,705,503	62,615,270
Total liabilities and stockholders' equity	$ 980,214,850	$ 936,530,288

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Income

Years Ended December 31, 2023 and 2022

	2023	2022
Interest Income		
Loans - Including fees	$ 37,364,198	$ 27,540,078
Investment securities:		
Taxable	2,833,405	2,646,477
Tax-exempt	658,077	695,906
Dividend income on restricted stock	386,838	201,275
Other	1,078,730	447,030
Total interest income	42,321,248	31,530,766
Interest Expense		
Deposits	14,066,404	2,429,883
Borrowings	4,589,223	1,368,120
Total interest expense	18,655,627	3,798,003
Net Interest Income	23,665,621	27,732,763
Credit loss provision – loans	2,093,855	2,078,000
Credit loss provision – off-balance sheet credit exposures	(1,433,782)	-
Total net credit loss provision	660,073	2,078,000
Net Interest Income after credit loss provision	23,005,548	25,654,763
Noninterest Income		
Service charges - Other	904,761	828,601
Increase in cash surrender value of bank owned life insurance	303,915	277,251
Loss on sales of investment securities – available for sale	(7,324)	(39,017)
Other	226,074	158,279
Total noninterest income	1,427,426	1,225,114
Noninterest Expense		
Salaries and employee benefits	11,586,562	11,250,752
Occupancy and equipment	1,700,399	1,737,266
Data processing	1,155,292	1,184,154
FDIC insurance	765,381	552,036
Professional fees	774,156	725,221
Other	3,516,788	2,748,387
Total noninterest expense	19,498,578	18,197,816
Income before income taxes	4,934,396	8,682,061
Income Tax Expense	724,023	1,346,885
Net Income	$ 4,210,373	$ 7,335,176

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income (Loss)

Years Ended December 31, 2023 and 2022

	2023	2022
Net Income	$ 4,210,373	$ 7,335,176
Other Comprehensive Income (Loss)		
Unrealized gain (loss) on investment securities – available for sale:		
Arising during the year	4,995,821	(19,277,679)
Reclassification adjustment (1)	(7,324)	(39,017)
Tax effect	(1,046,892)	4,055,870
Total other comprehensive income (loss)	3,941,605	(15,260,826)
Comprehensive Income (Loss)	$ 8,151,978	$ (7,925,650)

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

See notes to consolidated financial statements.

First National Bancorp, Inc. and Subsidiaries

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2023 and 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance - January 1, 2022	$ 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)	-	-	-
					488,911
Vesting of restricted stock – 7,746 shares	-	488,911	-	-	
Restricted stock forfeiture – 1,180 shares	(11,800)	11,800	-	-	-
					27,876
Issuance of common stock – 539 shares	5,390	22,486	-	-	
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
Cumulative change in accounting principle (Note 2)	-	-	825,515	-	825,515
Balance - January 1, 2023 (as adjusted for change in accounting principle)	19,866,990	1,627,202	58,606,284	(16,659,691)	63,440,785
Comprehensive income	-	-	4,210,373	3,941,605	8,151,978
Issuance of restricted stock – 15,880 shares	158,800	(158,800)	-	-	-
Vesting of restricted stock – 13,138 shares	-	712,202	-	-	712,202
Restricted stock forfeiture – 800 shares	(8,000)	8,000	-	-	-
Issuance of common stock – 426 shares	4,260	16,412	-	-	20,672
Repurchase of common stock – 34,530 shares	(345,300)	-	(1,324,161)	-	(1,669,461)
Stock option expense	-	49,964	-	-	49,964
Stock options exercised – 2,000 shares, net of 1,757 options tendered at exercise	20,000	(20,637)	-	-	(637)
Balance - December 31, 2023	$ 19,696,750	$ 2,234,343	$ 61,492,496	$ (12,718,086)	$ 70,705,503

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Net income	$ 4,210,373	$ 7,335,176
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	617,907	600,636
Credit loss provision	660,073	2,078,000
Amortization of securities - Net	919,582	1,210,623
Deferred income taxes	(331,999)	(371,000)
Stock-based compensation expense	762,166	534,709
Increase in cash surrender value of bank owned life insurance	(303,915)	(277,251)
Loss on sale of investment securities – available for sale	7,324	39,017
Amortization of long-term debt prepayment penalties	439,039	436,817
Net change in:		
Accrued interest receivable and other assets	3,345,745	(2,179,838)
Accrued interest payable and other liabilities	(2,554,152)	978,454
Net cash provided by operating activities	7,772,143	10,385,343
Cash Flows from Investing Activities		
Activity in investment securities – available for sale:		
Sales	5,105,640	2,274,147
Maturities, prepayments, and calls	44,258,222	66,065,640
Purchases	(927,476)	(136,171,605)
Additions to premises and equipment	(557,856)	(675,290)
Change in loans	(84,907,523)	(62,948,771)
Change in interest-bearing time deposits in other financial institutions	1,984,000	252,000
Purchase of FHLB stock	(675,000)	(540,000)
Purchase of FRB stock	(20,150)	(8,250)
Net cash used in investing activities	(35,740,143)	(131,752,129)
Cash Flows from Financing Activities		
Change in deposits	(8,325,171)	45,042,834
Effect of stock options exercised	(637)	(50,176)
Proceeds from new borrowings	90,000,000	50,000,000
Repayment of borrowings	(50,000,000)	(43,000,000)
Change in line of credit	(50,000)	1,575,000
Issuance of stock	20,672	27,876
Repurchase of stock	(1,669,461)	(2,139,694)
Net cash provided by financing activities	29,975,403	51,455,840
Net Increase (Decrease) in Cash	2,007,403	(69,910,946)
Cash and Cash Equivalents - Beginning of year	16,247,454	86,158,400
Cash and Cash Equivalents - End of year	$ 18,254,857	$ 16,247,454
Supplemental Cash Flow Information - Cash paid for		
Interest	$ 16,037,639	$ 3,704,271
Income taxes	550,000	1,400,000
Supplemental noncash disclosures		
Right-of-use assets recorded in exchange for operating lease liabilities	$ 549,652	$ 4,309,040

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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 owned a Nevada captive insurance company (the "Captive"), which provided various insurance for First National Bank of Michigan (the "Bank") and the Corporation by participating in a bank reinsurance pool until November 17, 2023 when the captive insurance company was dissolved, discontinued operations, and all its remaining net assets were transferred to the Corporation.

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") until November 17, 2023, which participated in a pooled captive plan with 16 other unrelated financial institutions from within the United States until it discontinued operations on November 17, 2023. The Captive was not material or significant to the consolidated financial statements for the years ended December 31, 2023 and 2022. 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 time deposits in other financial institutions.

Note 2 – Significant Accounting Policies (continued)

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, 2023 are scheduled to mature in 2024 ($1,241,000), and 2025 ($250,000).

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 income (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.

Interest income includes amortization and accretion of purchase premium or discount. Premiums and discounts on investment securities are amortized or accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable investment securities are amortized to their earliest call date.

Investment securities are placed on nonaccrual status at the time any principal or interest payments become greater than 90 days delinquent. Interest accrued but not received for an investment security placed on non-accrual is reversed against interest income.

Allowance for Credit Losses – Investment Securities - Available for Sale

For investment securities - available for sale in an unrealized loss position, the Corporation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through earnings. For investment securities - available for sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an investment security - available for sale is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on investment securities - available for sale totaled $1,058,998 at December 31, 2023 and is excluded from the estimate of credit losses.

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 borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Note 2 – Significant Accounting Policies (continued)

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable totaled $2,222,862 at December 31, 2023 and was reported in accrued interest receivable in the consolidated balance sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

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.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance is measured on a collective pool basis when similar risk characteristics exist. Loans with similar risk characteristics are grouped into homogenous segments, or pools, for analysis. Commercial loans are divided among three sub-segments based primarily on collateral type, risk characteristics, and primary and secondary sources of repayment. These sub-segments are then further stratified based on the commercial loan grade that is assigned using our standard loan grading paradigm. Non-commercial loans are divided into one of two segments or pools based on if the loan is secured by residential real estate or not.

The Corporation uses the weighted average remaining maturity ("WARM") method for each loan portfolio segment or pool. The Corporation has identified the following portfolio segments:

Note 2 – Significant Accounting Policies (continued)

Commercial Loans:

Commercial and Industrial: Risks to this loan category include industry concentration and the practical limitations associated with monitoring the condition of the collateral which often consists of inventory, accounts receivable, and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

Real Estate – Commercial and Multifamily: Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral. Declines in general economic conditions, increases in unemployment rates as well as market demand and supply of similar property and the resulting impact on business failure, occupancy rates, market rents, cash flow, and income-based real estate values, and other events can cause cash flows to fall to levels insufficient to service debt. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category.

Real Estate – Construction: Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements, and declines in real estate values. Residential construction loans are susceptible to those same risks as well as those associated with residential mortgage loans. Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

Non-Commercial Loans:

Real Estate – Residential: Residential mortgage loans are susceptible to weakening general economic conditions, increases in unemployment rates, and declining real estate values.

Consumer: Risks common to these loans include regulatory risks, unemployment, and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs as appropriate.

The “weighted average remaining maturity” methodology is utilized for all loan pools. This non-discounted cash flow approach projects an estimated future amortized cost basis based on current loan balance, repayment terms, and estimated prepayments. Our historical loss rate is then applied to the monthly estimated future loan balances at the instrument level. The baseline lifetime loss is adjusted for changes in macroeconomic conditions over the reasonable and supportable forecast and reversion periods via a series of macroeconomic forecast inputs, such as loss rates or the Bank’s national peer group, gross domestic product, unemployment rates, and interest rates to quantify the impact of current and forecasted economic conditions on expected loan performance.

An open pool approach is best utilized for all loans pools. A baseline loss rate is produced at each reporting date for each loan portfolio segment using bank-specific loan charge-off and recovery data over a defined historical look-back period. The look-back period represents the number of data periods that will be used to calculate a baseline loss rate for each loan portfolio segment. Management determined that the look-back period commencing on October 1, 2007 through September 30, 2014 was reasonable and appropriate.

Note 2 – Significant Accounting Policies (continued)

Reasonable and supportable economic forecasts have to be incorporated in determining expected credit losses. The forecast period represents the time frame from the current period end through the point in time that we can reasonably forecast and support entity and environmental factors that are expected to impact the performance of our loan portfolio. Ideally, the economic forecast period would encompass the contractual terms of all loans; however, the ability to produce a forecast that is considered reasonable and supportable becomes more difficult or may not be possible in later periods.

Subsequent to the end of the forecast period, we revert to historical loan data based on an ongoing evaluation of each economic forecast in relation to then current economic conditions as well as any developing loan loss activity and resulting historical data. As of December 31, 2023, management used a three-year reasonable and supportable economic forecast period for all loan segments.

We are not required to develop and use our own economic forecast model, and elected to utilize economic forecasts from third-party providers that analyze and develop forecasts of the economy for the entire United States at least quarterly. Our methodology does provide for a potential qualitative factor that can be used in the event of local or regional conditions that depart from the conditions and forecasts for the entire country.

During each reporting period, we also consider the need to adjust the historical loss rates as determined by our open pool approach to reflect the extent to which we expect current conditions and reasonable and supportable economic forecasts to differ from the conditions that existed for the period over which the open pool-based historical loss information was determined. These qualitative adjustments may increase or decrease our estimate of expected future credit losses.

Traditional qualitative factors may include:

- Changes in lending policies and procedures
- Changes in the nature and volume of the loan portfolio and in the terms of loans
- Changes in the experience, ability and depth of lending management and other relevant staff
- Changes in the volume and severity of past due loans, nonaccrual loans and adversely classified loans
- Changes in the quality of the loan review program
- Changes in the value of underlying collateral dependent loans
- Existence and effect of any concentrations of credit and any changes in such
- Effect of other factors such as competition and legal and regulatory requirements

The estimation of future credit losses should reflect consideration of all significant factors that affect the collectibility of the loan portfolio at each evaluation date. While our methodology considers both the historical loss rates as well as the traditional qualitative factors, there may be instances or situations where additional qualitative factors need to be considered. There are currently no additional qualitative factors applied to the current estimate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments as appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Corporation.

Note 2 – Significant Accounting Policies (continued)

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Corporation. Any allowance for off-balance sheet credit exposures is reported in other liabilities in the consolidated balance sheet and is increased or decreased via credit loss provision – off-balance sheet credit exposures in the consolidated statement of income. The calculation includes consideration of the likelihood that funding will occur and forecasted credit losses on commitments expected to be funded over their estimated lives. The allowance is calculated using the same aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to be funded.

Foreclosed Assets

Foreclosed assets are initially recorded at fair value less estimated costs to sell when acquired, establishing a new cost basis. Physical possession of real estate - residential property collateralizing a loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through earnings. Operating costs after acquisition are expensed. There were no foreclosed assets outstanding at December 31, 2023 and 2022.

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 ($7,324) in 2023 and $(39,017) in 2022 and are presented in net loss on sales of available-for-sale securities on the consolidated statement of income. Income tax benefit totaled $1,538 and $8,194 in 2023 and 2022, respectively, 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

Land owned by the Bank is carried at cost. Buildings, 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 noninterest expense – 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 statement 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 statement of income.

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain key officers. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the consolidated balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Low-Income Housing Investments

The Corporation has elected to account for its investment in affordable housing tax credit limited partnerships using the proportional amortization method. Under the proportional amortization method, the Corporation amortizes the initial cost of the investment to income tax expense in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the consolidated statement of income as a component of income tax expense.

Annex A

Note 2 – Significant Accounting Policies (continued)

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued 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.

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 than not that future taxable income will not be sufficient to realize such tax benefits, a valuation allowance is recorded against the net deferred tax asset.

The Corporation recognizes interest and/or penalties related to income tax matters in noninterest expense – other in the consolidated statement 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 8, 2024, 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, 2023, the Corporation adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In addition, ASC 326 made changes to be presented as an allowance rather than a write-down on investment securities – available for sale management does not intend to sell or believes that it is more likely than not they will be required to sell.

Note 2 – Significant Accounting Policies (continued)

The Corporation adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet ("OBS") credit exposures. Results for reporting periods beginning after December 31, 2022 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The following table illustrates the impact the transition adjustment of the adoption of ASC 326:

	January 1, 2023		
	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Allowance for credit losses	$ (8,357,800)	$ (12,603,100)	$ 4,245,300
Deferred tax asset - Net	6,610,893	6,830,893	(220,000)
Liabilities:			
Allowance for credit losses on OBS credit exposures	3,199,785	-	3,199,785
Stockholders' Equity:			
Retained earnings	58,606,284	57,780,769	825,515

On January 1, 2023, the Corporation adopted ASU No. 2022-02 *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This ASU eliminates the accounting guidance for troubled debt restructurings ("TDRs") by creditors in Subtopic 310-40, *Receivables – Troubled Debt Restructurings by Creditors*, while adding disclosures for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. This guidance requires an entity to determine whether the modification results in a new loan or a continuation of an existing loan. Additionally, the ASU requires disclosures of current period gross charge-offs by year of origination for financing receivables. The prospective adoption of this ASU did not have a material impact on the Corporation' financial results.

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, 2023 and 2022, these reserve balances amounted to $250,000 and $200,000, respectively.

Note 4 - Securities

The amortized cost and fair value of investment securities – available for sale, with gross unrealized gains and losses recognized in accumulated other comprehensive loss, are as follows:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities – available for sale:				
U.S. government and federal agency	$ 66,386,287	$ -	$ (3,924,971)	$ 62,461,316
U.S. Treasury	23,451,055	146	(1,351,912)	22,099,289
Certificate of deposit investments	2,233,000	-	(177,109)	2,055,891
Corporate	26,046,686	-	(2,043,094)	24,003,592
Mortgage-backed securities	37,183,221	-	(4,648,601)	32,534,620
State and municipal	74,861,075	52,737	(4,006,282)	70,907,530
Total	$ 230,161,324	$ 52,883	$ (16,151,969)	$ 214,062,238

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investment securities – available for sale:				
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	$ 279,524,616	$ 29,337	$ (21,116,920)	$ 258,437,033

There were no investment securities available for sale with an allowance for credit losses at December 31, 2023.

Note 4 - Securities (continued)

At December 31, 2023 and 2022, securities with a carrying value of approximately $103,396,000 and $44,256,000, respectively, were pledged to secure borrowings.

The amortized cost and fair value of investment securities available for sale are shown by contractual maturity at December 31, 2023. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ 43,337,825	$ 42,293,844
Due in one through five years	141,939,074	132,557,019
Due after five years through ten years	7,701,204	6,676,755
Total	192,978,103	181,527,618
Mortgage-backed securities	37,183,221	32,534,620
Total	$ 230,161,324	$ 214,062,238

The proceeds from sales and calls of investment securities – available for sale and the associated gains and losses are listed below:

	2023	2022
Proceeds from sales	$ 5,285,676	$ 2,274,147
Proceeds from calls	-	1,410,000
Gross gains	45,298	-
Gross losses	(52,622)	(39,017)

At December 31, 2023 and 2022, there were no holdings of investment securities - available for sale of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of total stockholders' equity.

Note 4 - Securities (continued)

Information pertaining to investment securities – available for sale with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	2023			
	Less than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Investment securities – available for sale:				
U.S. government and federal agency	$ -	$ -	$ (3,924,971)	$ 62,461,316
U.S. Treasury	-	-	(1,351,912)	21,400,312
Certificate of deposit investments	-	-	(177,109)	2,055,891
Corporate	(52,340)	447,660	(1,990,754)	23,555,933
Mortgage-backed securities	-	-	(4,648,601)	32,534,620
State and municipal	(899)	532,011	(4,005,383)	69,592,781
Total	$ (53,239)	$ 979,671	$ (16,098,730)	$ 211,600,853

	2022			
	Less than 12 Months		12 Months or Greater	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Investment securities – available for sale:				
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	$ (6,400,095)	$ 100,965,087	$ (14,716,825)	$ 150,040,495

At December 31, 2023 and 2022, there were 288 and 331 investment securities – available for sale, respectively, in an unrealized loss position. Unrealized losses on these 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 restricted stock totaling $6,268,800 and $5,573,650 at December 31, 2023 and 2022, 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:

	2023	2022
Commercial:		
Real estate – Construction	$ 69,650,339	$ 52,740,138
Real estate – Commercial and Multifamily	480,302,929	430,313,125
Commercial and Industrial	121,426,553	116,618,312
Total Commercial	671,379,821	599,671,575
Real estate - Residential	42,651,035	29,620,432
Consumer	609,319	656,220
Subtotal	714,640,175	629,948,227
Less – Net deferred loan fees	1,812,291	2,029,916
Less – Allowance for credit losses	10,453,705	12,603,100
Loans – net	$ 702,374,179	$ 615,315,211

In the ordinary course of business, the Corporation has granted loans to directors and their affiliates amounting to $24,754,000 and $15,471,000 as of December 31, 2023 and 2022, respectively. There were outstanding balances of $29,000 and $0 in loans to officers of the Corporation as of December 31, 2023 and 2022.

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

December 31, 2023	Real Estate – Construction	Real Estate – Commercial and Multifamily	Commercial and Industrial	Real Estate - Residential	Consumer	Total
Allowance for credit losses:						
Beginning balance, prior to adoption of ASC 326	$ 977,800	$ 7,474,663	$ 2,129,029	$ 2,013,646	$ 7,962	$ 12,603,100
Impact of adopting ASC 326	1,398,967	(4,806,160)	634,894	(1,469,207)	(3,794)	(4,245,300)
Charge-offs	-	-	-	-	-	-
Recoveries	-	-	2,050	-	-	2,050
Credit loss provision	740,739	3,173,801	(2,064,656)	246,356	(2,385)	2,093,855
Ending allowance balance	$ 3,117,506	$ 5,842,304	$ 701,317	$ 790,795	$ 1,783	$ 10,453,705

Note 5 - Loans (continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022:

December 31, 2022:	Real Estate – Construction	Real Estate – Commercial and Multifamily	Commercial and Industrial	Real Estate - Residential	Consumer	Total
Allowance for loan losses:						
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 allowance balance	$ 977,800	$ 7,474,663	$ 2,129,029	$ 2,013,646	$ 7,962	$ 12,603,100

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022:

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

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 Bank's credit position at some future date.

Note 5 - Loans (continued)

Substandard

Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower 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.

For real estate – residential and consumer loan classes, the Corporation also evaluates credit quality based on the aging status of the loan and by payment activity, which is presented below.

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

	December 31, 2023				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Commercial:					
Real estate – construction	$ 69,650,339	$ -	$ -	$ -	$ 69,650,339
Real estate – commercial and multifamily	474,010,038	1,491,303	4,801,588	-	480,302,929
Commercial and industrial	116,404,923	1,316,395	3,705,235	-	121,426,553
Total commercial	660,065,300	2,807,698	8,506,823	-	671,379,821
Real estate - Residential	42,306,943	-	344,092	-	42,651,035
Consumer	609,319	-	-	-	609,319
Total	$ 702,981,562	$ 2,807,698	$ 8,850,915	$ -	$ 714,640,175

	December 31, 2022				
	Pass	Special Mention (5)	Substandard (6)	Doubtful (7)	Total
Commercial:					
Real estate – construction	$ 52,150,143	$ 589,995	$ -	$ -	$ 52,740,138
Real estate – commercial and multifamily	427,120,238	2,597,646	595,241	-	430,313,125
Commercial and industrial	110,783,546	2,482,793	3,351,973	-	116,618,312
Total commercial	590,053,927	5,670,434	3,947,214	-	599,671,575
Real estate - Residential	29,369,478	-	250,954	-	29,620,432
Consumer	656,220	-	-	-	656,220
Total	$ 620,079,625	$ 5,670,434	$ 4,198,168	$ -	$ 629,948,227

Note 5 - Loans (continued)

Analysis of Past Due and Non-Accrual Loans

At December 31, 2023, there were four loan relationships on non-accrual for $270,358. These nonaccrual loans consisted of the following: one commercial and industrial loan for $39,200 contractually over than 90 days past due, one real estate – commercial and multifamily loan for $131,373 contractually less than 30 days past due, one real estate – residential loan for $55,883 contractually over 90 days past due, and one real estate – residential loan for $43,902 contractually less than 30 days past due. There were no non-accrual loans outstanding at December 31, 2023 that did not have an allowance for credit losses reserve.

At December 31, 2022, there were two loan relationships on non-accrual for $243,303. These non-accrual loans consisted of the following: one commercial and industrial 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.

Except as described above, all other loans were current and not delinquent at year-end 2023 or 2022.

Loan Modifications

Occasionally, the Corporation modifies loans to borrowers in financial distress by providing term extension, an other-than-insignificant payment delay, or interest rate reduction. In some cases, the Corporation provides multiple types of concessions on one loan. Typically, one type of concession, such as an other-than-insignificant payment delay, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as a term extension, may be granted. For the year ended December 31, 2023, the Corporation had no loans which were modified and there were no outstanding loans containing modifications at December 31, 2023.

Collateral Dependent Loans

There were no individually evaluated loans that were collateral dependent at December 31, 2023.

Impaired Loans

The following table presents information related to impaired loans by class of 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

The recorded investment in loans excluded accrued interest receivable and net deferred loans fees due to immateriality. 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:

	2023	2022
Land	$ 250,000	$ 250,000
Buildings and building improvements	3,310,791	3,310,791
Leasehold improvements	4,709,944	4,102,893
Furniture, fixtures, and equipment	2,210,264	1,774,735
Construction in progress	3,593	488,317
Total cost	10,484,592	9,926,736
Accumulated depreciation	(4,225,180)	(3,607,273)
Premises and equipment, net	$ 6,259,412	$ 6,319,463

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 2028 and is renewable for one additional five-year term. 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 10 to 12 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, 2023 and 2022 amounted to $609,657 and $628,075, respectively.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows:

Years Ending	Related Party Leases	Other Lease Agreements	Total Lease Agreements
2024	$ 242,386	$ 318,817	$ 561,203
2025	202,629	321,215	523,844
2026	123,114	328,412	451,526
2027	123,114	328,412	451,526
2028	112,853	338,791	451,644
Thereafter	-	1,891,133	1,891,133
Total undiscounted lease payments	804,096	3,526,780	4,330,876
Less: imputed interest	(72,673)	(489,245)	(561,918)
Net lease liabilities	$ 731,423	$ 3,037,535	$ 3,768,958

Note 7 – Leases (continued)

Supplemental lease information:

	December 31, 2023	December 31, 2022
Operating lease weighted average remaining lease term (years)	9.37	10.61
Operating lease weighted average discount rate	2.39%	1.96%
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows for operating leases	$ 558,000	$ 548,390
Right-of-use assets recorded in exchange for operating lease liabilities	$ 549,652	$ 4,309,040

Note 8 - Deposits

The following is a summary of the distribution of deposits at December 31, 2023 and 2022:

	2023	2022
Noninterest-bearing deposits	$ 181,459,382	$ 240,429,952
Interest-bearing deposits and NOW accounts	171,643,988	198,285,554
Savings and money market accounts	191,079,557	217,094,041
Time deposits:		
Under $250,000	164,508,517	76,999,889
$250,000 and over	69,279,070	53,486,249
Total	$ 777,970,514	$ 786,295,685

At December 31, 2023, the scheduled maturities of time deposits are as follows:

Years Ending	Amount
2024	$ 153,533,373
2025	25,795,379
2026	246,825
2027	8,132,010
2028	46,080,000
Total	$ 233,787,587

First National Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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 amounts outstanding of $90,000,000 and $0 at December 31, 2023 and 2022, respectively. The unused portion of the facility was approximately $62,000,000 and $49,000,000 at December 31, 2023 and 2022, respectively. The collateral on the borrowing arrangement consists of commercial and consumer loans with a book balance of approximately $53,212,000 and $61,897,000 at December 31, 2023 and 2022, respectively. The advances are also secured by investment securities, as described in Note 4.

As of December 31, 2023, the Bank had two advances from the Federal Home Loan Bank (FHLB) totaling $30,000,000 with fixed interest rates ranging from 0.92 percent to 1.09 percent with a weighted average rate of 1.03 percent. As of December 31, 2022, the Corporation had three advances from the Federal Home Loan Bank (FHLB) totaling $80,000,000 with interest rates ranging from 0.92 percent to 4.28 percent. The outstanding advances as of December 31, 2023 mature in 2026 ($10,000,000) and 2029 ($20,000,000). Interest is payable monthly. The advances were collateralized by approximately $191,000,000 and $208,000,000 of real estate – residential and real estate - commercial loans as of December 31, 2023 and 2022, respectively, under a specific mortgage collateral agreement. The advances are also secured by investment securities – available for sale, as described in Note 4. Total advances outstanding cannot exceed $250,000,000 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, 2023 of $1,859,243 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 2.49% at December 31, 2023. Amortization of the prepayment penalties is included in interest expense – borrowings in the consolidated statement of income.

Additionally, the Bank has 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, 2023 or 2022.

The Bank has 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, 2023 and 2022. There were no amounts outstanding at December 31, 2023 or 2022.

The Corporation has a revolving line of credit agreement with another financial institution allowing for available credit up to $12,000,000 as of December 31, 2023 and 2022. 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, 2023 and 2022, there was $1,800,000 and $1,850,000 outstanding, respectively.

Note 9 – Borrowings (continued)

The balance of the above borrowings contractually matures as follows:

Years Ending	Amount
2024	$ 90,000,000
2025	1,800,000
2026	10,000,000
2027	-
2028	-
Thereafter	20,000,000
Unamortized prepayment penalties	(1,859,243)
Total	$ 119,940,757

Note 10 - Income Taxes

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

	2023	2022
Current expense	$ 1,057,130	$ 1,717,885
Deferred benefit	(333,107)	(371,000)
Total income tax expense	$ 724,023	$ 1,346,885

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

	2023	2022
Income before income taxes	$ 4,934,396	$ 8,682,061
Income tax expense at federal statutory rate (21 percent in 2023 and 2022)	1,036,223	1,823,233
Low-income housing tax benefits, net of investment amortization	(62,000)	(36,000)
Captive insurance benefit	(116,000)	(183,000)
Decreases from nontaxable income - Net of nondeductible expenses	(134,200)	(257,348)
Total income tax expense	$ 724,023	$ 1,346,885

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

	2023	2022
Total deferred tax liabilities	$ (1,465,000)	$ (1,812,000)
Total deferred tax assets	7,361,000	8,642,893
Total	$ 5,896,000	$ 6,830,893

Deferred tax liabilities consist of depreciation, prepaid expenses, and unrealized gains on investment securities – available for sale. Deferred tax assets consist of allowance for credit losses, unvested stock compensation, deferred compensation, unrealized losses on investment securities – available for sale, 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 Corporation is no longer subject to examination by taxing authorities for years before 2020. There was no interest or penalties related to income taxes recorded in the consolidated statement of income for the years ended December 31, 2023 and 2022.

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, 2023 and 2022, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2023	2022
Commitments to grant loans	$ 11,490,000	$ 33,648,000
Unfunded commitments under lines of credit	193,453,000	190,007,000
Commercial and standby letters of credit	1,388,000	639,000

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 investment securities – available for sale is not included in computing regulatory capital. Management believes as of December 31, 2023, 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. At year-end 2023 and 2022, 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.

	Actual		Minimum For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
(000s omitted from dollar amounts)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Common Tier 1 (CET1) to risk-weighted assets	$ 83,528	10.10%	$ 37,213	4.50%	$ 53,752	6.50%
Total Capital to risk-weighted assets	93,888	11.35	66,156	8.00	82,695	10.00
Tier 1 (Core) Capital to risk-weighted assets	83,528	10.10	49,617	6.00	66,156	8.00
Tier 1 (Core) Capital to average assets	83,528	8.63	38,734	4.00	48,418	5.00
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

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, 2023, 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 $762,166 and $534,709 for 2023 and 2022, respectively. There were no significant deferred income tax benefits recognized in the consolidated statement of income for share-based compensation arrangements for both 2023 and 2022.

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 2023, the Corporation granted 2,500 options at a strike price of $53.50. In 2022, the Corporation granted 3,500 options at a strike price of $50.00. Information used to measure the 2023 and 2022 options granted are as follows:

	2023	2022
Expected volatility	20.00%	20.00%
Expected term (in years)	10	10
Risk-free rate	3.67%	2.03%

A summary of option activity under the Plan for the year ended December 31, 2023 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, 2022	56,291	$ 32.89	5.10	$ 1,160,376
Granted	2,500	53.50		
Exercised	(3,757)	20.45		
Outstanding at December 31, 2023	55,034	34.67	4.59	293,240
Exercisable at December 31, 2023	49,034	32.86	3.89	350,323

Note 14 – Share-Based Compensation (continued)

The weighted-average grant-date fair calculated value of options granted during 2023 and 2022 was $21.14 and $16.40, respectively.

The intrinsic value of options exercised in 2023 and 2022 was $91,093 and $209,735, respectively.

As of December 31, 2023 there was approximately $60,000 of total unrecognized compensation cost related to non-vested options granted under the Plan. That cost is expected to be recognized through December 31, 2026. In 2023 and 2022, the Corporation also awarded 15,880 and 28,210 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 2023 and 2022 was $846,605 ($53.31 per share) and $1,460,480 ($51.77 per share), respectively. The unrecognized cost for restricted share awards was approximately $1,994,000 at December 31, 2023 and is expected to be recognized through December 31, 2028. The weighted-average fair value of shares vested during the years ended December 31, 2023 and 2022 was $613,134 ($46.67 per share) and $327,445 ($42.27 per share), respectively.

A summary of changes in the Corporation's nonvested restricted shares for the year ended December 31, 2023 follows:

Nonvested Restricted Shares	Number of Shares	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Vesting Term (in years)
Nonvested at December 31, 2022	49,034	$ 47.90	3.51
Granted	15,880	53.31	
Vested	(13,138)	46.67	
Forfeited	(800)	50.10	
Nonvested at December 31, 2023	50,976	49.87	3.17

Note 15 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated 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, 2023 and 2022 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.

First National Bancorp, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2023 and 2022

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 and federal agency, certificate of deposit investments, corporate, state and municipal, 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, 2023			
	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, 2023
Assets				
Investment securities – available for sale:				
U.S. government and federal agency	$ -	$ 62,461,316	$ -	$ 62,461,316
U.S. Treasury	22,099,289	-	-	22,099,289
Certificate of deposit investments	-	2,055,891	-	2,055,891
Corporate	-	24,003,592	-	24,003,592
Mortgage-backed securities	-	32,534,620	-	32,534,620
State and municipal	-	69,906,686	1,000,844	70,907,530
Total assets	$ 22,099,289	$ 190,962,105	$ 1,000,844	$ 214,062,238

Note 15 - Fair Value Measurements (continued)

	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				
Investment securities – available for sale:				
U.S. government and federal agency	$ -	$ 84,769,420	$ -	$ 84,769,420
U.S. 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

There were no assets measured at fair value on a nonrecurring basis at December 31, 2023 and 2022.

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, 2022 to December 31, 2023 was due to $730,000 of purchases offset by maturities and paydowns on these investment securities. There were no 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.