



PUBLIC DISCLOSURE

November 20, 2017

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Michigan
Charter Number #24637

348 West Michigan Avenue
Kalamazoo, MI 49007

Office of the Comptroller of the Currency

Cleveland Field Office
200 Public Square Suite 1610
Cleveland, OH 44114-2301

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors supporting this rating are:

- First National Bank of Michigan's (FNBM) geographic distribution of small loans to businesses reflects reasonable dispersion throughout its assessment areas (AAs) during the evaluation period.
- FNBM's distribution of small loans to businesses of different sizes reflects reasonable penetration throughout its AAs as measured by both number and dollar amount.
- FNBM originated a substantial majority of its loans inside its AAs during the evaluation period.
- FNBM's average loan-to-deposit (LTD) ratio is reasonable given the bank's size and financial condition, and the credit needs of the community.
- The bank's community development (CD) performance demonstrates adequate responsiveness to CD needs in its AAs based upon its record of lending, qualified investments and services during the evaluation period.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Aggregate Lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Census Tract (CT): A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. Their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community Development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Consumer Loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor

vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full Review: Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), loan pricing, the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

Home Mortgage Loans: Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited Review: Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-Income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market Share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

Median Family Income (MFI): The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Area (MA): Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget, and any other area designated as such by the appropriate federal financial supervisory agency.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

Middle-Income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-Income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other Products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-Occupied Units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated Area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small Loan(s) to Business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

Small Loan(s) to Farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Tier One Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income: Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

Description of Institution

First National Bank of Michigan (FNBM or bank) is an intrastate bank headquartered in Kalamazoo, Michigan. As of December 31, 2016, the bank reported \$456 million in total assets, \$43 million in tier 1 capital, and \$356 million in gross loans (78 percent of total assets). FNBM is a wholly owned subsidiary of the First National Bancorp, Inc., a single-bank holding company. The bank did not participate in any merger or acquisition activity during the evaluation period.

FNBM is located in two AAs in western Michigan, Kalamazoo County and Kent County. The bank has a total of four full service branches, and four automated teller machines (ATM). Three branches are located in Kalamazoo County, the main office and two additional branches. The lobby hours for the three branches are 9:00 am to 5:00 pm Monday through Friday and 9:00 am to 12:00 pm on Saturday; however, the downtown (main) office is closed on Saturday. While all the offices have ATMs with deposit capabilities, the main office ATM is only available during lobby hours. Both the other offices in the county offer drive-up service. The main office and one branch are located in moderate-income census tracts, while the other branch is located in a low-income census tract. FNBM has one branch in the Kent County AA. The lobby hours are Monday through Friday 9:00 am to 5:00 pm and closed on Saturday. The office does not offer drive-up service, but does have an ATM with deposit capabilities. The branch is located in a moderate-income census tract.

FNBM offers traditional banking products and services. The bank's personal and business deposit products and services include checking, savings, money market accounts, certificates of deposit, online and mobile banking services. Through an ATM partnership with a larger financial institution, FNBM customers have free access to a significantly larger network of ATMs. Additional business related deposit products and services include interest only lawyer's trust accounts (IOLTAs), cash management and merchant services, as well as a community funds checking product that is available only to non-profit, religious organizations and municipalities. The bank also offer personal loans including mortgages, home equity lines of credit (HELOCs), home equity, construction, bridge, lot and land loans. Business loans include commercial mortgages, lines of credit, construction, and term loans. The bank also originate loans under the Small Business Administration (SBA).

The bank's primary business strategy is business lending. Based upon reports of loan volume and total dollar amounts of loans originated, the bank's strategic plan and discussions with senior management, we determined the bank's primary area of lending focus to be business lending. Therefore, we did not consider consumer, mortgage, or farm lending as part of this evaluation, as the analysis would not be meaningful. As of December 31, 2016, commercial loans, including non-residential real estate represented 84 percent of total loans, while consumer loans, including residential mortgages accounted for 16 percent. The following table depicts FNBM's loan portfolio as of December 31, 2016.

First National Bank's Loan Portfolio (as of December 31, 2016)		
Loan Category	Amount \$(000's)	Percentage of Total Loans
Nonresidential Mortgage	198,815	56%
Commercial/ Industrial – Non-mortgage	71,680	20%
Residential Mortgage (including 1-4 family construction)	39,029	11%
Commercial – Multifamily Mortgage	28,500	8%
Home Equity Loans (revolving and closed end)	15,155	4%
Loans to Individuals/Other Consumer Installment	3,181	1%
Total	356,360	100%

Source: First National Bank of Michigan's Report of Condition and income (Call Report) dated December 31, 2016.

There are currently no legal or financial circumstances that impede the bank's ability to serve the credit needs of its assessment areas. FNBM's last CRA examination was dated July 8, 2014, and the rating was "Satisfactory."

Scope of the Evaluation

Evaluation Period/Products Evaluated

We evaluated the bank's performance within its delineated AAs using intermediate-small bank Community Reinvestment Act (CRA) full-scope procedures. The prior CRA evaluation was performed under small bank procedures as of June 30, 2014. This Performance Evaluation covers the period of July 9, 2014 through December 31, 2016. The evaluation for lending covers the period from January 1, 2015 through December 31, 2016. However, for determining the bank's average loan-to-deposit ratio, the period covers September 30, 2014 through September 30, 2017. We focused on the bank's primary lending products when assessing FNBM's lending performance. Our evaluation of Community Development (CD) covers the period from July 9, 2014 through December 31, 2016.

Data Integrity

FNBM is not required to report small business lending data. Therefore, we based our lending-related conclusions on a sample of small loans to businesses for each AA for the period between January 1, 2015 and December 31, 2016. A sample of 50 small loans to businesses were selected for Kalamazoo County AA and only 48 for Kent County AA due to a limited amount of business loans originated in 2015.

Selection of Areas for Full-Scope Review

We performed a full-scope review of FNBM's two AAs, Kalamazoo County and Kent County. Please refer to *Appendix A* for more information.

Ratings

The bank's overall rating is based on the bank's performance in both AAs. However, we gave more consideration to the bank's performance within its Kalamazoo AA, as this is the bank's primary market. See *Appendix B* for details regarding each of the bank's AAs.

Discriminatory or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution [or any affiliate whose loans have been considered as part of the institution's lending performance] has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

Conclusions with Respect to Performance Tests

LENDING TEST

FNBM's record of lending within its AAs meets the standard for satisfactory performance.

Loan-to-Deposit Ratio

FNBM's LTD ratio is reasonable. During the evaluation period of September 30, 2014 through September 30, 2017, the bank's average quarterly loan-to-deposit ratio was 84.74 percent, with quarterly ratios ranging from a low of 76.49 percent to a high of 95.83 percent. FNBM's performance was comparable to its peer banks, as their LTD averages ranged from 47.39 percent to 107.97 percent during the same period.

Lending in Assessment Area

FNBM's record of lending within its AAs exceeds the standard for satisfactory performance. The bank originated a substantial majority of its small loans to businesses (*business loans \$1 million or less*) both by number and dollar amount in its AAs during the evaluation period. As shown in Table 1, the bank originated or purchased 98.98 percent by number and 99.18 percent by dollar amount of small loans to businesses within its AAs.

Geography	Number of Loans	Percentage of Total Loans	Dollar of Loans (\$000's)	Percentage of Total Loans
Kalamazoo County AA	50	51.02	\$11,526	47.18
Kent County AA	47	47.96	\$12,702	52.00
Outside Assessment Areas	1	1.02	\$200	.82
Totals	98	100.00	\$24,428	100.00

Source: Sample of loans from the commercial/business loan portfolios from January 1, 2015 through December 31, 2016.

Lending to Businesses of Different Sizes

The distribution of businesses of different sizes is reasonable and meets the standards for satisfactory performance.

As identified in the *Scope of Examination* section as well as below, when determining our overall performance ratings, we based our analysis on the bank's business lending within its AAs during the review period. As identified in the *Description of AAs* section, when determining our ratings for each area, we considered the strong levels of competition in the marketplace that would affect the bank's ability to lend. In addition, for comparative purposes to the bank's level of lending, we also considered peer's 2016 aggregate percentage of small loans to businesses lending within the AA.

Kalamazoo County

FNBM distribution of small loans to businesses reflects a reasonable penetration among businesses of different sizes within the Kalamazoo County AA. This is based on a sample of 50 business loans originated during the evaluation period. As shown in Table 2, the bank originated or purchased 36.0 percent of its loans by number and 41.9 percent of its loans by dollar amount to businesses with annual revenues less than or equal to \$1 million. The primary factor affecting the bank's ability to lend to small businesses within the AA is competition. For comparison, FNBM's percentage of small loans to businesses by number is near the percentage of peer's small business lending in the AA of 42.8 percent, which is also significantly below the percentage level of businesses with revenues of \$1 million or less in the AA.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	78.9%	7.8%	13.3%	100%
% of Bank Loans in AA by #	36.0%	58%	6.0%	100%
% of Bank Loans in AA by \$	41.9%	53.3%	4.8%	100%

Source: Sample of loans from the commercial/business loan portfolios from 2015 and 2016.

Kent County

FNBM distribution of small loans to businesses reflects a reasonable penetration among businesses of different sizes within the Kent County AA. This is based on a sample of 48 business loans originated during the evaluation period. As shown in Table 3, the bank originated 58.3 percent of loans by number and 41.3 percent of loans by dollar amount to businesses with annual revenues less than or equal to \$1 million. However, by comparison, the bank exceeds peer's percentage of small loans to businesses by number, which equated to 37.38 percent in 2016.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	77.69%	9.57%	12.74%	100%
% of Bank Loans in AA by #	58.3%	25.0%	16.7%	100%
% of Bank Loans in AA by \$	41.3%	31.6%	27.1%	100%

Source: Sample of loans from the commercial/business loan portfolios from 2015 and 2016.

Geographic Distribution of Loans

The bank's geographic distribution of loans among geographies of different income levels is reasonable and meets the standards for satisfactory performance.

As identified in the *Scope of Examination* section, when determining our overall rating, we based our analysis on the bank's business lending within its AAs during the review period. In determining our ratings for each area, we gave consideration to factors

detailed within the *Description of AAs* section of this report that could affect the bank's ability to lend throughout each AA. These factors included competition as well as the number of low- and moderate-income census tracts within each AA. The factors also include the bank's presence within each AA. For comparative purposes to the bank's level of lending, we also considered peer's 2016 aggregate percentage of small loans to business lending within the AAs.

Kalamazoo County

The geographic distribution of loans among geographies of different income levels within the Kalamazoo County AA reflects reasonable dispersion. As shown in Table 4, the bank made loans in all income census tracts consistent with the percent of AA businesses. In addition, the percentage of the bank's small loans to businesses exceeded the percentage level of peer small business loans in low- and moderate-income tracts, which equated to 5.66 and 15.05 percent, respectively in 2016.

Table 4 - Geographic Distribution of Loans to Businesses in Kalamazoo County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	7.37	8.00	18.81	18.00	49.03	44.00	24.79	30.00

Source: Sample of loans from the commercial/business loan portfolios from January 1, 2015 through December 31, 2016. 2010 US Census data.

Kent County

The geographic distribution of loans among geographies of different income levels within the Kent County AA reflects reasonable dispersion. As shown in Table 5, the bank's percentage of small loans to businesses in the low- and moderate-income tracts exceeded the percent of AA businesses in those tracts. The bank's percentages for small loans to businesses exceeded the percentage level of peer small loans to businesses in low- and moderate- income tracts, which equated to 5.83 and 15.45 percent, respectively in 2016.

Table 5 - Geographic Distribution of Loans to Businesses in Kent County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	6.28	18.75	18.59	25.00	39.72	33.33	35.41	22.92

Source: Sample of loans from the commercial/business loan portfolios from January 1, 2015 through December 31, 2016. 2010 US Census data.

Responses to Complaints

FNBM has not received any written complaints during the period of review that are related to its performance in meeting the credit and deposit needs of the AA.

COMMUNITY DEVELOPMENT TEST

The bank's overall performance under the CD test reflects an adequate responsiveness in meeting the CD lending, investment and service needs of its AAs and meets the standard for satisfactory performance.

Number and Amount of Community Development Loans

FNBM overall performance in meeting the CD lending needs of its AAs are reasonable.

Kalamazoo County

The bank's CD lending within the Kalamazoo County AA is excellent. The bank originated 13 qualifying CD loans for \$13 million during the evaluation period. These loans were provided to organizations whose primary purpose is assisting with affordable housing in low- and moderate-income (LMI) tracts, community services targeted to LMI individuals, foreclosure and repurchase loan advances, activities that revitalize or stabilize LMI geographies, and SBA economic development participation.

Kent County

The bank's CD lending within the Kent County AA is excellent. The bank originated six qualifying CD loans for \$5 million during the evaluation period. These loans were provided to organizations whose primary purpose is assisting with affordable housing in LMI tracts, community development with Michigan State Housing Development Authority, and SBA economic development participation.

Number and Amount of Qualified Investments

The bank's responsiveness to the CD needs of the AAs meets the standards for satisfactory performance. During the evaluation period, the bank donated or invested approximately \$1.3 million in qualified CD investments and donations.

Kalamazoo County

FNBM was responsive to the CD needs of the AA by making qualified investments totaling \$905,000 during the evaluation period. Investments made during the evaluation period are detailed below:

- The bank made a qualified investment of \$525,000 for the purpose of acquiring, constructing, furnishing, and equipping a psychiatric clinic for mental health and

substance abuse services for the county, which primarily services LMI individuals.

- The bank also provided a qualified investment of \$380,000 for the Parchment School District, where a majority of students are LMI. The funds were used retire existing bonds, which were originally used for building renovations and improvements.

Kent County

FNBM was responsive to the CD needs of the AA by making a qualified investment totaling \$400,000 during the evaluation period. The investment was to retire existing bonds for the Comstock Park School District, where a majority of the students are LMI. The bonds were originally used for updating technology, constructing, remodeling, and furnishing improvements to the school's facilities.

Extent to Which the Bank Provides Community Development Services

The bank's service performance over the evaluation period reflects an adequate level of responsiveness to CD service needs. Though FNBM provides or volunteers for several community services within the AAs it serves, not all qualified as community development services. Thus, the following represent qualifying community development services performed.

Kalamazoo and Kent Counties

FNBM offers a full range of consumer and business banking products and services through its four branch offices, which include Interest on Lawyers Trust Accounts (IOLTA) that are used to assist in providing legal services to LMI individuals, and community funds checking. In addition to full-service branches, the bank offers mobile and on-line banking. Customers also have access to their accounts through the bank's ATMs located at each of the branches, though the main office ATM is only available during lobby hours. All of the ATMs have deposit capabilities. Through an ATM partnership with Fifth Third Bank, FNBM customers are also allowed to conduct transactions at Fifth Third Bank ATMs for free. The bank's office hours and services are provided in a manner that does not inconvenience any portion of the AAs. Two offices in Kalamazoo County have drive-up service and extended hours on Saturday, one office is located in a moderate-income tract and the other is located in a low-income tract.

Kalamazoo County

FNBM's service performance in Kalamazoo County AA is adequate. During the evaluation period, 15 employees participated in several qualified service activities, such as serving on the Board, loan committee, finance committee or handling treasurer functions of non-profit organizations responsible for providing services for low- and moderate-income families or individuals. Employees participating on the Board or

serving in other financial capacities provided financial guidance to non-profit organizations. For example, several bank staff members sit on boards of organizations primarily focused on providing social services and LMI housing. Five of the employees serving on the Boards are on loan or finance committees providing lender experience regarding home ownership in LMI areas.

Kent County

Service performance in the Kent County AA is adequate. Two members of the staff serve on the Boards of local non-profit organizations that provide social services to LMI individuals providing technical/financial expertise services. The one organization provided assistance regarding home ownership in LMI areas. The other non-profit organization advocated for individuals with developmental disabilities.

Responsiveness to Community Development Needs

The bank's CD performance is satisfactory. Responsiveness to CD needs of the AAs through CD loans, qualified investments, and qualified services is reasonable.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

Time Period Reviewed	Lending Test (excludes CD loans): (01/01/2015 to 12/31/2016) Investment and Service Tests and CD Loans: (07/09/2014 to 12/31/2016)	
Financial Institution	Products Reviewed	
First National Bank of Michigan (FNBM) Kalamazoo, Michigan	Business Loans	
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Michigan Kalamazoo County #28020 Kent County #24340	Full-Scope Full Scope	Kalamazoo County – 57 census tracts (7 – low-income, 11 – moderate-income, 26 – middle-income, and 13 – upper- income) Kent County – 128 census tracts (12 – low-income, 30 – moderate-income, 55 – middle-income, and 31 – upper- income)

Appendix B: Community Profiles for Full-Scope Areas

Kalamazoo County AA

Demographic Information for Full-Scope Area: Kalamazoo County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	57	12.28	19.30	45.61	22.81	0.00
Population by Geography	250,331	10.60	14.81	47.31	27.28	0.00
Owner-Occupied Housing by Geography	109,233	4.93	10.31	51.78	32.98	0.00
Businesses by Geography	13,180	7.37	18.81	49.03	24.79	0.00
Farms by Geography	525	2.10	10.86	59.81	27.24	0.00
Family Distribution by Income Level	99,456	17.33	24.40	44.98	13.28	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	99,456	8.18	16.32	49.74	25.75	0.00
Median Family Income HUD Adjusted Median Family Income for 2016 Low Income (Below 50% of ADM) Moderate Income (50% to 79.99%) Middle Income (80% to 119.99%) Upper Income (120% and Above ADM) Households Below the Poverty Level	= \$63,302 = \$0 - \$31,650 = \$31,651 - \$50,640 = \$50,641 - \$75,961 = \$75,962 - Above =17,426 (17.52)	Median Housing Value Unemployment Rate United States Michigan Kalamazoo County	= \$144,177 December 2016 = 4.7% = 4.5% = 3.5%			

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census, and 2016 HUD updated MFI.

FNBM's primary AA is Kalamazoo County. The AA is part of the Kalamazoo-Portage, MI Metropolitan Statistical Area (MSA) (#28020). The AA does not arbitrarily exclude low- or moderate-income areas and meets the requirements of the CRA regulation. Based on the 2010 U.S. Census, the AA consists of 57 census tracts with seven low-income (12 percent), 11 moderate-income (19 percent), 26 middle-income (46 percent), and 13 upper-income (23 percent) tracts. FNBM's main office branch and two additional branches are located in the AA. Each branch have ATMs available with deposit capabilities. The main office branch and one other branch is located in moderate-income census tracts, while the other branch is located in a low-income census tract. The bank has not opened or closed a branch in the AA during the evaluation period.

Kalamazoo County is located in southwestern Michigan. The county consists of four cities, five villages, and fifteen townships. The largest cities are Kalamazoo, the county seat, and Portage. Major employers in the AA include Borgess Medical Center, Pfizer, Stryker, Perrigo, and Bronson Hospital.

The AA has a very strong competitive banking environment. There are seventeen institutions in the Kalamazoo County AA, which includes 15 banks, and two savings banks. FNBM is ranked third with a total deposit market share of 9.59 percent according to the FDIC Deposit Market Share Report dated June 30, 2016. The bank trails PNC Bank (29.16 percent of total deposits) and Fifth Third Bank (20.91 percent of total deposits). Small business lending in the AA is also very strong. There are 56 financial institutions in the AA competing for small business loans. The major competitors are Citibank, N.A.; American Express, FSB; and PNC Bank, N.A.

Based on the information from the Bureau of Labor Statistics, the unemployment rate has consistently been below the seasonally adjusted unemployment rate for the state of Michigan. The unemployment rate for Kalamazoo County in December 2016 was 3.5 percent, while Michigan's unemployment rate was 4.5 percent and the U.S. unemployment rate was 4.7 percent. The unemployment rate for Kalamazoo County was a bit lower in December 2015 at 3.4 percent, while Michigan's unemployment rate was also lower at 4.4 percent and the U.S. unemployment rate was higher at 5.0 percent.

During our assessment of the bank's performance, we considered information from members of the community in order to obtain an understanding of the needs and credit opportunities of the AAs. The purpose of the contacts was to determine the credit and CD needs in the Kalamazoo County AA. The community contact, is a grassroots community group specializing in block-level residential development and revitalization of their neighborhoods. They indicated there are opportunities for various type of assistance including donations to fund projects. The contact also indicated the opportunity for volunteers to participate in neighborhood improvement projects.

Kent County AA

Demographic Information for Full-Scope Area: Kent County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	128	9.38	23.44	42.97	24.22	0.00
Population by Geography	602,622	6.80	20.77	42.13	30.29	0.00
Owner-Occupied Housing by Geography	245,778	3.45	16.74	45.62	34.18	0.00
Businesses by Geography	33,800	6.28	18.59	39.72	35.41	0.00
Farms by Geography	989	1.31	7.48	46.61	44.59	0.00
Family Distribution by Income Level	227,177	11.27	33.81	41.90	13.02	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	227,177	6.02	21.97	44.34	27.67	0.00
Median Family Income HUD Adjusted Median Family Income for 2016	= \$64,204	Median Housing Value Unemployment Rate		= \$153,036 December 2016		
Low Income (Below 50% of ADM)	= \$0 - \$32,101	United States		= 4.7%		
Moderate Income (50% to 79.99%)	= \$32,102 - \$51,362	Michigan		= 4.5%		
Middle Income (80% to 119.99%)	= \$51,363 - \$77,043	Kent County		= 2.9%		
Upper Income (120% and Above ADM)	= \$77,044 - Above					
Households Below the Poverty Level	=29,137 (12.83)					

(*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2010 U.S. Census, and 2016 HUD updated MFI.

FNBM's secondary AA is Kent County. The AA is within the Grand Rapids-Wyoming, MI MSA (#24340) consisting of the complete geography and does not arbitrarily exclude low- or moderate-income areas and meets the requirements of the CRA regulation. Based on the 2010 U.S. Census, the AA consists of 128 census tracts with 12 low-income (9.38 percent), 30 moderate-income (23.44 percent), 55 middle-income (42.97 percent), and 31 upper-income (34.22 percent) tracts. FNBM has one branch and one ATM with deposit capabilities in the AA. The branch is located in a moderate-income census tract. The bank has not opened or closed a branch in the AA during the evaluation period.

Kent County is located in southwestern Michigan. The county consists of nine cities, five villages, and 21 townships. The largest city is Grand Rapids, the county seat. Major employers in the AA include Spectrum, Meijer, Amway, Steelcase, Herman Miller, and Grand Valley State University.

The AA has a highly competitive banking environment. There are 24 institutions in the Kent County AA, which includes 23 banks, and one savings association. FNBM is ranked twentieth with a total deposit market share of 0.39 percent according to the FDIC Deposit Market Share Report dated June 30, 2016. The top two banks in the AA are PNC Bank (21.74 percent of total deposits) and Wells Fargo Bank (13.37 percent of

total deposits). The AA also has a very strong competitive market for mortgages. FNBM ranks 144 out of 326 mortgage lenders with market share of 0.04 percent. Small business lending in the AA is also very strong. There are 78 financial institutions in the AA competing for small business loans. The major competitors are Citibank, N.A.; American Express, FSB; and Chase Bank, N.A.

Based on the information from the Bureau of Labor Statistics, the unemployment rate has consistently been below the seasonally adjusted unemployment rate for the state of Michigan and the U.S. The unemployment rate for Kent County in December 2016 was 2.9 percent, while Michigan's unemployment rate was 4.5 percent and the U.S. unemployment rate was 4.7 percent. The unemployment rate for Kent County was steady in December 2015 at 2.9 percent, while Michigan's unemployment rate was a bit lower at 4.4 percent and the U.S. unemployment rate was higher at 5.0 percent.

During our assessment of the bank's performance, we considered information from members of the community in order to obtain an understanding of the needs and credit opportunities of the AAs. The purpose of the contacts was to determine the credit and CD needs in the Kent County AA. We reviewed two community contacts, both of which are affordable housing community action organizations. The community contacts indicated there are opportunities for various type of CD loans including construction to permanent, mortgages, rehab, and smaller loans. There is also a need for small business loans for early start-ups. They indicated the need for funding homeownership counseling and financial literacy as well.