



Compensation  
and Governance  
Committee Charter

**there's power in one** <sup>SM</sup>

## I. PURPOSE

The Board of Directors of First National Corporation and First Bank (the “Company”) hereby constitutes and establishes a Compensation and Governance Committee (the “Committee”) with authority, responsibility and specific duties as described below. The essential purposes of this Committee are to ensure that corporate governance activities and executive compensation are designed and implemented to enhance the long-term success of the company, as well as ensure that an executive team is in place to execute upon the Company’s success strategies.

## II. COMPOSITION

The Committee serves as the Compensation and Governance Committee for the Corporation and subsidiaries. The Committee shall be comprised of at least three independent directors appointed by the Chairman of the Board and approved by the full board. One of the members shall be appointed Committee Chairman by the Chairman of the Board. At all times, the Committee shall be comprised of independent directors, as defined by NASDAQ listing standards.

## III. MEETINGS

- A. Frequency. The Committee is to meet at least twice per year, and as many additional times as necessary as determined by the Committee Chairman.
- B. Attendance. Members of the Committee are expected to be present at all meetings. As necessary or desirable, the Chairman may request that members of management and outside advisors be present at meetings of the Committee.
- C. Agenda & Minutes. Advance agenda materials and minutes of each meeting are to be prepared by management and sent to committee members as deemed necessary by the Committee Chairman. The Executive Assistant to the President/CEO shall serve as Secretary of the Committee and maintain necessary minutes and agenda material for permanent filing. Reports of committee meetings will be provided to the Board of Directors.

## IV. AUTHORITY

The Committee is granted the authority to recruit candidates and fill the President/CEO position when vacated<sup>1</sup>, evaluate the effectiveness of the existing President/CEO and review and recommend the appropriate compensation of the President/CEO to the Board of Directors for approval. The Committee is authorized to review CEO recommendations for Named Executive Officers and director’s compensation and submit recommendations to the Board of Directors for approval. The Committee is

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<sup>1</sup> Should the President/CEO position suddenly and unexpectedly become vacant, the Committee should reference the First National Corporation President/CEO Unplanned Vacancy Procedures.

granted the authority to review and report candidates and nominees to the board, to evaluate the adequacy of the current board membership and to review and recommend the approval of corporate governance policies. The Committee is empowered to engage advisors having special competence as necessary to assist the Committee in fulfilling its responsibility.

## V. RESPONSIBILITY

A. Compensation: The Committee is to serve as a focal point for determining the appropriate compensation for the President/CEO and for reviewing Named Executive Officers, and Director's compensation. The Committee is also responsible for reviewing employment agreements and recommending approval to the Board of Directors. The Committee is to assist the Board of Directors in fulfilling its fiduciary responsibilities as to their oversight of management compensation and the organizational structure of the Company.

### i. Specific Duties

- a) Review with the Company's President/CEO, the sufficiency of compensation of the Company's Named Executive Officers to reasonably assure the fulfillment of the Company's financial objectives and compliance with rules, regulations and laws.
- b) Submit recommendations to the Board of Directors for approval of director and Named Executive Officer compensation.
- c) Evaluate and approve goals and objectives relevant to the compensation of the President/CEO, and evaluating performance in light of those goals and objectives.
- d) Annually review and recommend for approval by the Board of Directors the compensation of the President/CEO of the Company.
- e) Review performance-based compensation plans for the President/CEO and Named Executive Officers and review other benefit programs recommended to the Committee by the President/CEO. Provide appropriate certification of this review.
- f) Evaluate employment agreements.

B. Governance. The Committee is to serve as a focal point for identifying, evaluating and recommending candidates and nominees for Board membership. The Committee is also responsible for evaluating the adequacy of the current Board membership and recommending changes. The Committee is to assist the Board in

fulfilling its fiduciary responsibilities as to their oversight of the Company, including corporate governance matters.

*i. Specific Duties*

- a) Review annually with the Board the composition of the Board as a whole, and recommend if necessary, measures to be taken so that the Board reflects the appropriate knowledge, experience, skills, and expertise and contains at least the minimum number of independent directors required by NASDAQ.
- b) Review periodically the size of the Board and recommend to the Board any appropriate changes.
- c) Review and report to the Board the qualifications of candidates and individuals proposed for nomination to the Board.
- d) Evaluate the suitability of potential director nominees.
- e) Review the suitability for continued service as a director of each board member when his or her term expires or at other appropriate times, and recommend whether or not the director should be re-nominated.
- f) Review corporate governance matters on a regular basis, including related party transactions, director independence, conflicts of interest and corporate governance policies.

*C. Other Matters*

*i. Specific Duties*

- a) Annually review and assess the adequacy of the Compensation and Governance Committee Charter and obtain approval by the Board.
- b) Recommend to the Board the retention or non-retention of outside advisors, and provide a written summary of the basis for the recommendations.
- c) Recommend to the Board any appropriate extensions or changes in the duties of the Committee.
- d) Apprise the Board of Directors, through minutes and special presentations as necessary, of significant developments in the course of performing the above duties.