



Audit Committee Charter

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I. Purpose

The Board of Directors of First National Corporation (“Company”) hereby constitutes and establishes an Audit Committee with authority, responsibility and specific duties as described below. The essential purpose of this Committee is to oversee the accounting and financial reporting processes of the Company, audits of the financial statements and internal controls of the Company, and compliance with laws, rules, and regulations.

II. Composition and Member Independence

- A. *Composition.* The First National Corporation Audit Committee serves as the Audit Committee for the Company and its subsidiaries. The Audit Committee shall be comprised of at least three (3) independent directors. One of the members shall be appointed Committee Chairman by the Chairman of the Board.
- B. *Member Independence and Qualifications.* The members of the Committee shall meet the independence and experience requirements of the NASDAQ Stock Market, Inc. (the “NASDAQ”) and the U.S. Securities and Exchange Commission (the “SEC”).

III. Meetings and Reports

- A. *Frequency.* The Audit Committee is to meet at least once per quarter and as many additional times as necessary as determined by the Committee Chairman.
- B. *Attendance.* Members of the Audit Committee are expected to be present at all meetings. Meetings may be in person, or in a virtual format such as a teleconference, video conference or WebEx, as determined by the Chairman. As necessary or desirable, the Chairman may request that members of management, representatives of the independent accountants, internal auditors and other advisors be present at meetings of the Committee.
- C. *Agenda & Minutes.* Advance agenda material and minutes of each meeting are to be sent to Committee members. The Secretary to the Company shall serve as Secretary to the Committee and maintain minutes and agenda material for permanent filing. The Senior Vice President – Internal Auditor will provide to the Committee copies of audit reports and corresponding replies for all audits completed since the previous Audit Committee meeting.
- D. *Reports.* Reports of Audit Committee meetings will be provided to the Board of Directors. The Committee shall also report to the Board of Directors any material issues that arise with respect to the quality or integrity of the Company’s financial statements, the Company’s compliance with legal or regulatory requirements, the performance and independence of the Company’s independent accountant or the performance of the internal audit function. In addition, the Committee shall

annually report to the Board of Directors its conclusions with respect to the performance and independence of the Company's independent accountant.

IV. Authority

The Audit Committee is granted the authority to investigate any activity of the Company, and all employees are directed to cooperate as requested by members of the Committee. The Committee is empowered to engage independent counsel and other advisors having special competence as necessary to assist the Committee in fulfilling its responsibility. The Company shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent accountants for the purpose of rendering or issuing an audit report and other services, and to any advisors employed by the Committee, and for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties

V. Responsibility.

A. *General.* The Audit Committee is to serve as a focal point for communication between non-committee directors, external auditors, internal auditors, and the Company's management, as their duties relate to financial accounting, reporting, internal controls, and compliance with laws and regulations. The Audit Committee is to assist the Board of Directors in fulfilling its fiduciary responsibilities as to accounting policies and reporting practices of the Company and its subsidiaries and the sufficiency of auditing relative thereto. It is to be the Board's principal agent in assuring the independence of the Company's external auditors, the integrity of management, and the adequacy of disclosures to shareholders. The opportunity for the external or internal auditors to meet with the entire Board as needed is not to be restricted.

B. *Specific Duties.*

1. Be directly responsible for the appointment, compensation, and oversight of the work of the independent accountants for the purpose of preparing or issuing an audit report or related work. The independent accountants shall report directly to the Committee.
2. Inform the external auditors and management that the auditors and the Committee may communicate directly with each other; and the Committee Chairman may call a meeting whenever he deems it necessary.
3. Review with the Company's management, external and internal auditors, and Chief Financial Officer, the Company's policies and procedures to reasonably assure the adequacy of internal accounting and financial reporting controls.
4. Have familiarity, through the individual efforts of its members, with the accounting and reporting principles and practices applied by the Company

- in preparing its financial statements. Further, the Committee is to make, or cause to be made, all necessary inquiries of management and the external and internal auditors concerning established standards of corporate conduct and performance, and deviations there from.
5. Preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent accountants, subject to the exceptions for permissible non-audit services that are subsequently approved by the Committee.
 6. Receive a formal written report and other periodic information from the independent accountants regarding the independence of the independent accountants, discuss such information with the independent accountants, and take appropriate actions to satisfy itself of the independent accountants' independence.
 7. Review, prior to the annual external audit, the scope and general extent of the external auditor's audit procedures, including their engagement letter.
 8. Review with management and the external auditors, upon completion of their annual external audit, financial results for the year prior to their release to the public on Form 10-K or the Company's Annual Report to Shareholders.
 9. Recommend to the Board of Directors whether the audited financial statements should be included in the Company's Form 10-K.
 10. Review with management and the external auditors, upon completion of their quarterly reviews, financial results for the period prior to their release to the public on Form 10-Q.
 11. Review on a quarterly basis for reasonableness, all press releases announcing the Company's financial results prior to release to the public.
 12. Review with management filings of Forms 8-K relating to auditing, accounting or financial reporting matters. Copies of all other Forms 8-K filed with the SEC will be made available to committee members.
 13. Resolve, as it deems appropriate, all disagreements between management and the independent accountant.
 14. Discuss with the external auditors the quality of the Company's financial and accounting personnel, and any relevant comments and recommendations.
 15. Discuss with Company management the scope and quality of internal accounting and financial reporting controls in effect.

16. Recommend to the Board of Directors any appropriate extensions or changes in the duties of the Committee.
17. Oversee the Company's compliance with laws, rules and regulations.
18. Establish and maintain procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by the employees of the Company of concerns regarding questionable accounting or auditing practices.
19. Act as the direct reporting entity for the internal auditor(s) to include review and approval of the organization and staffing of the internal audit function and the hiring and appointing of the internal audit supervisor and staff.
20. Insure that there are no restrictions or limitations placed upon the internal auditor(s) by Company management with regard to the scope of internal audit or access to information, and meet periodically with the internal audit supervisor without the presence of Company management.
21. Annually review the effectiveness of the internal audit function and the internal audit staff and recommend any changes.
22. Annually review and assess the adequacy of the Audit Committee Charter and obtain approval by the Board of Directors.
23. Bi-annually conduct a self-assessment of the Committee's performance with regard to the specific duties noted in this Charter.