

CPP ANNUAL USE OF CAPITAL SURVEY - 2011



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First National Corporation

Point of Contact:	M. Shane Bell	RSSD: (For Bank Holding Companies)	1076123
UST Sequence Number:	699	Docket Number: (For Thrift Holding Companies)	N/A
CPP/CDCI Funds Received:	13,900,000	FDIC Certificate Number: (For Depository Institutions)	6917
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	N/A
Date Funded (first funding):	March 13, 2009	City:	Strasburg
Date Repaid ¹ :	N/A	State:	Virginia

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

Increase lending or reduce lending less than otherwise would have occurred.

The Bank was able to continue lending during 2011 rather than reduce lending.

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To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

[Empty response area for increased lending]

Increase securities purchased (ABS, MBS, etc.).

[Empty response area for increased securities purchased]

Make other investments.

[Empty response area for other investments]

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Increase reserves for non-performing assets.

The Bank was able to record provisions for loan losses and record specific reserves on impaired loans during 2011.

Reduce borrowings.

Increase charge-offs.

The Bank was able to significantly increase loan charge-offs during 2011.

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Purchase another financial institution or purchase assets from another financial institution.

Held as non-leveraged increase to total capital.

Although the Bank has not used CPP funds for leverage, CPP funding has benefited our Bank by supporting higher capital ratios.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

First Bank, the wholly-owned subsidiary of First National Corporation, may have been able to maintain higher credit ratings because of the capital infusion from the Treasury. Higher capital levels and more favorable credit ratings are expected to have a positive impact on Bank liquidity. An example of a positive impact to Bank liquidity is the ability to maintain available lines of credit with correspondent banks.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Because we maintained a well-capitalized status and adequate liquidity during 2011, the Bank was able to continue lending, significantly increase loan charge-offs, record specific reserves on impaired loans, and record higher levels of provisions for loan losses during the year.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

None.