FIRST NATIONAL CORPORATION
A REGISTERED INVESTMENT ADVISOR

Chapoquoit

Dynamic Portfolios
Separately Managed Accounts

Strategy Profile

CHAPOQUOIT DYNAMIC PORTFOLIOS STRATEGY HIGHLIGHTS

Chapoquoit Dynamic Portfolios are offered to investors as separately managed accounts. Chapoquoit employs a tactical and purely quantitative investment allocation strategy using a universe of equity, fixed income, and commodity ETFs. The allocations to these ETFs are driven by a number of important market and macroeconomic factors identified by our top down research process.

Using an almost 40 year data history, we have successfully back tested the existence of cause and effect relationships between these specific market/macroeconomic factors and the ETF investment allocations. This rigorous out-of-sample back test confirms that Chapoquoit Dynamic Portfolios outperformed popular equity benchmarks while delivering bond like risk levels.

INVESTMENT PHILOSPHY

Chapoquoit Dynamic Portfolios holds the following tenets as the basis for our investment process:

- Past returns cannot profitably predict future performance.
- Using top down market and macroeconomic analysis to control monthly allocations to ETFs is a very effective investment approach.
- Limiting downside performance over a market cycle, while optimizing the upside, generates more favorable investment results compared to a buy-and-hold approach.

INVESTMENT OBJECTIVES

Chapoquoit Dynamic Portfolios seeks to attain each of the following investment objectives.

- A very attractive long-term investment return, after fees.
- Portfolio returns with low correlation to the stock market.
- Outperform the stock market in equity bear markets.
- Minimize the effect of months with negative returns.
- Portfolio returns above the long-term average for equities, but with bond-like risk.

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Examples of ETF Sectors Employed

US Stocks
Foreign Stocks
Long Government Bonds
Corporate Bonds
Gold
Petroleum

Examples of Factors Employed

Financial Market Factors such as
Equity Dividend Yield
Bond Yield
Interest Rate Term Spread
Interest Rate Credit Spread

Macroeconomic Factors such as
Unemployment
Manufacturing Capacity Utilization

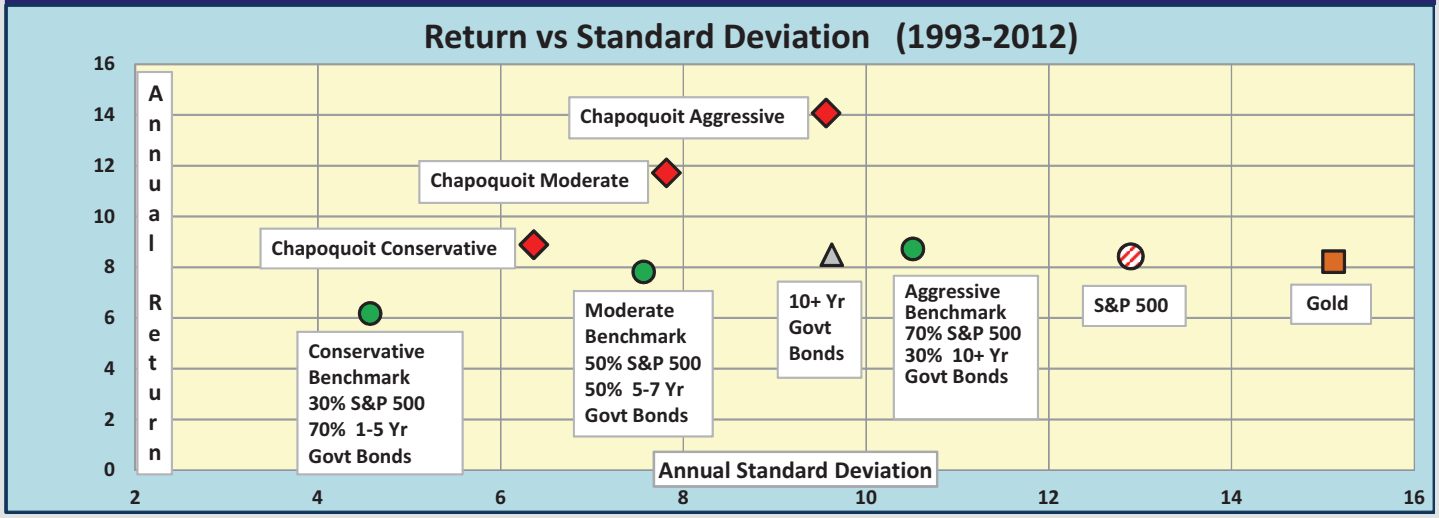
RESEARCH PROCESS

- Select the most effective set of ETFs for Chapoquoit Dynamic Portfolios.
- Select market/macroeconomic factors that influence the selected ETFs.
- Set practical asset allocation limits.
- Revise the optimal allocation control function coefficients monthly.
- Analyze a 20-year performance of the model on an out-of-sample basis.

QUANTITATIVE INVESTMENT PROCESS

- Employ our patented dynamic asset allocation process investing in equity, commodity and fixed income ETF investments.
- Generate adaptive asset allocation control functions from monthly market and macroeconomic factors based on data beginning in 1973.
- Apply the optimal control functions to obtain next month's allocations.
- Control historical monthly portfolio performance, not averages.
- Create three separately-managed account levels of risk control: Conservative, Moderate and Aggressive.
- Repeat this iterative investment process on a monthly basis.

COMPARISON OF CHAPOQUOIT DYNAMIC PORTFOLIOS TO BENCHMARKS



All statistics shown are hypothetical, based on an out-of-sample dynamic asset allocation simulation. These back-tests of Chapoquoit's technology may not represent future performance. All reported performance for Chapoquoit includes a 0.50% cost per transaction and a 0.90% Management Fee per year.

PORTFOLIO RISK CONTROLS

- Chapoquoit Dynamic Portfolios offers three separate investment accounts for investors with different levels of risk tolerance:
  - Aggressive Portfolio
  - Moderate Portfolio
  - Conservative Portfolio
- Portfolio allocations are redetermined every month.
- Limits are employed on the maximum allocation to each investment.
- Portfolios are optimized to control Downside Risk.
- Additional Portfolio performance risk measures monitored:
  - Standard Deviation
  - Largest Peak-to-Valley Loss
  - Sharpe Ratio
  - Downside Capture Ratio Versus a Market Index

Downside Risk Measure

The dynamic asset allocation model seeks to minimize the sum of monthly losses below a target return. This minimization of the semi-deviation is a key feature of the linear programming formulation employed.

MANAGED ACCOUNT BENEFITS FOR INVESTORS

- Chapoquoit Dynamic Portfolios are offered as managed accounts.
- Full transparency to investors.
- All the advantages of ETFs.
- No investment lockup.
- Account is very liquid and may be closed at any time.
- Ownership is in investor's name with an independent custodial firm.
- Minimum account size of $100,000.

Advantages of ETFs

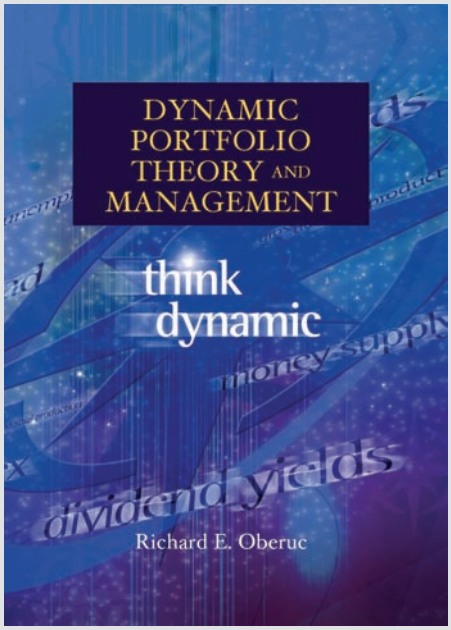
- Available for many investment sectors.
- Structured portfolios of the asset class.
- Transparent due to intra-day pricing.
- Very liquid.
- Leveraged and inverse ETFs available.
- Low transaction costs.
- Tax efficient.

FEE STRUCTURE

- Management fee paid at the beginning of each quarter.
- Liberal management fee discounts for larger account sizes.

Fee Levels by Asset Increments

Asset Increments	Management Fee
First $100,000-$500,000	0.90% / Year
Assets from $500,000 - $1 Million	0.85% / Year
Assets from $1 Million - $5 Million	0.75% / Year
Assets from $5 Million - $25 Million	0.65% / Year
Assets above $25 Million	0.60% / Year



Chapoquoit Team Biographies

Phil Nehro, CFP®
Investment Advisor Representative,
First National Corp.
Financial Consultant, Smith Barney.
Principal and a Managing Director with
PSAM, a New York based hedge fund.
Director position with Swiss Bank Corp.
VP of Alliance Capital Management.
VP of Salomon Brothers Inc.
Assistant VP of Federal Reserve
Bank of Chicago.

Richard E. Oberuc
Investment Advisor Representative,
First National Corp.
CEO of Burlington Hall Asset Management.
Developer of DynaPorte
Dynamic Asset Allocation System.
Developer of LaPorte
Asset Allocation System.
Commodity Trading Advisor,
Burlington Hall Asset Management.
Commodity Research Director, M&M/Mars.
Astronaut Training Simulator Manager,
McDonnell Douglas / NASA, Houston.

OUR RESEARCH DETAILED IN THE BOOK

- Comparison of the dynamic asset allocation model employed by Chapoquoit Dynamic Portfolios to other portfolio optimization models.
- Survey of factors proposed by academics that influence the stock market.
- Survey of factors proposed by academics that influence the bond market.
- Review of academic research on dynamic portfolio optimization models.
- Detailed formulation of the dynamic asset allocation model employed by Chapoquoit Dynamic Portfolios.
- Sample models evaluated.

ACTUAL AND SIMULATED TRACK RECORDS

- Chapoquoit's actual Aggressive track record begins in November 2012.
- Actual Moderate and Conservative track records begin in January 2013.
- Fact sheets are available to show detailed actual performance for Chapoquoit's Aggressive, Moderate and Conservative offerings.
- Chapoquoit Dynamic Portfolios have a simulated track record from 1993 to 2012 carefully calculated on an out-of-sample basis.
- A new set of investment model parameters is recalculated for each upcoming investment month.
- No knowledge of future performance is employed in determining parameter values utilized in Chapoquoit's investment models.

REASONS FOR CONFIDENCE IN CHAPOQUOIT DYNAMIC PORTFOLIOS

- Average simulated record outperforms a fixed combination of a broad market equity index and a long-term government bond index from 1993 to 2012, in both risk and return.
- Simulated track record performed well during
  Bear Market of 2000-2002
  Bear Market of 2008
- Experienced management team.
- First National Corporation is registered with the SEC as a Registered Investment Adviser
- Managers of Chapoquoit Dynamic Portfolios invest their own money in the program.
- Investors can track account values intra-day with independent custodian.
- Investment techniques developed by the author who wrote the book on Dynamic Portfolio Theory and Management.

THE SEEMINGLY RANDOM NATURE OF MARKETS

When comparing a set of investments over time, each investment generally has at least one year when it is the top performer for that year. Conversely, in another year it may be the worst performer. If one investment were consistently the best performer or if it made slow transitions in and out of the top spot, we could take advantage of that information. But it is not so easy to discover a pattern or cycle for when a particular investment will excel. A simple table of the annual returns of seven investments makes the point. For each year, the investments are ranked from highest on the top to lowest on the bottom. In this table Chapoquoit represents the Chapoquoit Dynamic Portfolios Aggressive Account in a hypothetical evaluation.

Annual Returns for Chapoquoit Aggressive and Other Investments

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
32.7	25.6	37.6	32.5	33.4	28.6	159.3	20.2	4.4	67.3	38.5	19.8	49.3	26.0	51.4	22.8	104.2	22.5	28.4	17.2
29.6	8.1	37.1	23.0	15.0	20.2	27.1	19.9	3.4	20.3	28.7	19.0	15.5	23.5	27.5	11.2	39.0	17.8	24.5	16.0
17.2	4.2	30.5	12.3	14.3	15.8	21.0	5.8	1.6	16.9	22.6	17.1	15.4	15.8	11.0	1.6	31.4	15.1	18.8	10.3
14.5	1.3	11.5	6.3	5.1	13.4	11.5	3.4	-5.5	7.8	23.5	10.9	13.4	13.2	9.7	1.4	26.5	15.1	14.0	3.9
10.1	-1.1	11.1	5.0	2.0	4.8	4.6	-4.1	-11.9	1.6	7.3	8.6	6.4	8.1	7.5	-37.0	25.5	9.5	2.1	2.2
3.0	-5.7	5.5	-0.9	-21.8	1.0	-2.9	-9.1	-21.0	-15.6	2.6	7.8	4.9	4.7	5.5	-43.2	0.1	7.4	0.1	0.1
-25.9	-7.4	2.1	-4.7	-31.3	-41.1	-8.6	-13.9	-36.7	-22.1	1.0	1.4	3.1	2.1	4.4	-57.2	-12.2	0.1	-12.2	-8.7

Chapoquoit | S&P500 | EAFE | Gold | Petroleum | Govt Bonds | T-Bills

A static asset allocation to these six investments would be adversely affected by the investments near the bottom of the table. Any dynamic asset allocation technique that could help reduce the allocations to the lower cells and increase the allocations to the upper cells would perform better than any fixed allocation over time.

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MULTIPLE SIMULTANEOUS FACTORS

- Chapoquoit's investment portfolio considers more than 25 investments.
- More than a dozen market and macroeconomic factors are used to control the asset allocations to our investment set.
- Chapoquoit's three investment offerings each have an optimized asset allocation control function which is used to change the asset allocations in response to changes in the time-varying values of the market and macroeconomic factors.

Example of a Set of Simple Asset Allocation Control Functions

$\text{Alloc}_{\text{Stocks}} = 13+10\ \text{DivYield} - 8\ \text{BondYield}$
$\text{Alloc}_{\text{Bonds}} = 19 - 6\ \text{DivYield} + 7\ \text{BondYield}$
$\text{Alloc}_{\text{T-bills}} = 68 - 4\ \text{DivYield} + 1\ \text{BondYield}$

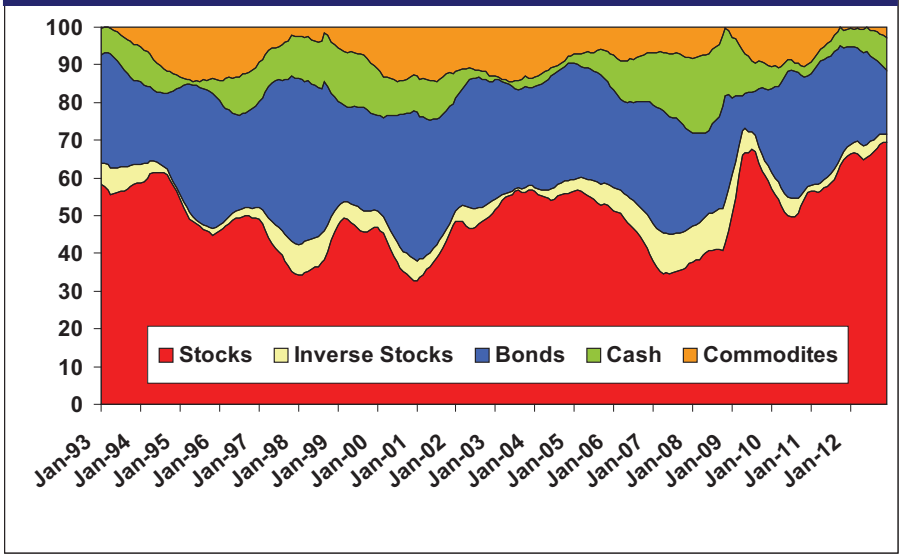
Interpretation of Example

When the Dividend Yield changes by 1 unit
The allocation to Stocks goes up 10%
The allocation to Bonds goes down 6%
The allocation to T-Bills goes down 4%

When the Bond Yield changes by 1 unit
The allocation to Stocks goes down 8%
The allocation to Bonds goes up 7%
The allocation to T-Bills goes up 1%

Allocations sum to 100 for any value of DivYield and BondYield

EXAMPLE OF A DYNAMIC ASSET ALLOCATION



Dynamic Asset Allocation Details

This dynamic asset allocation is the basis of the asset allocations used for the Chapoquoit Dynamic Portfolio Aggressive Account. Individual ETFs have been aggregated into broad asset classes for ease of demonstrating the underlying concepts.

Compounded Return for Notable Investment Market Crises from Out-of-Sample Simulation

Description	Date Range	Dynamic Conservative	Dynamic Moderate	Dynamic Aggressive	S&P500 Index	Months for S&P500 to Return to Even
October 1987 Crash	Sep 1987 - Nov 1987	-3.80	-5.04	-8.27	-29.58	21
First Gulf War	Jun 1990 - Oct 1990	-2.09	-2.66	0.79	-14.70	9
Russian Financial Default / LTCM	Jul 1998 - Aug 1998	-0.45	-1.38	-4.14	-15.38	5
Tech Collapse / Corp Bond Crisis	Sep 2000 - Sep 2002	1.03	4.05	1.20	-44.73	74
Subprime / Hedge Fund Liquidity	Nov 2007 - Feb 2009	-2.24	-1.18	1.48	-50.94	53
US Debt Ceiling / Euro Bond Crises	May 2011 - Sep 2011	-0.98	1.62	0.35	-16.26	10

All statistics shown are hypothetical, based on an out-of-sample dynamic asset allocation simulation.
These back-tests of Chapoquoit's technology may not represent future performance.
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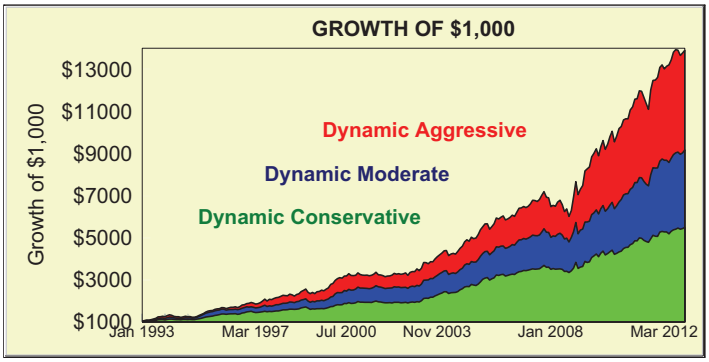
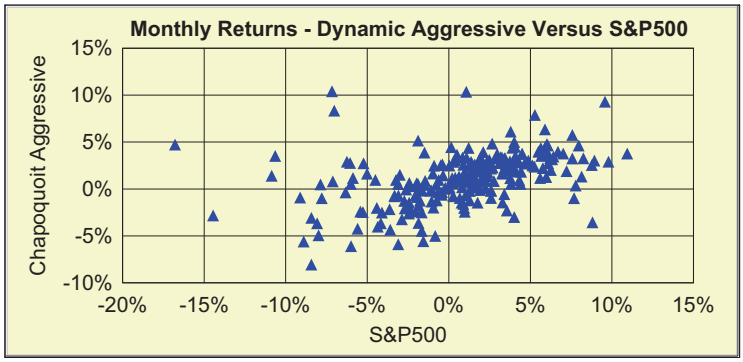
Statistics

think dynamic

Jan 1993 - Dec 2012	SUMMARY STATISTICS OF OUT-OF-SAMPLE SIMULATION					
Statistic	**Dynamic Conservative**	**Dynamic Moderate**	**Dynamic Aggressive**	**S&P500**	**Govt 10+ Year Bond Index**	**70% S&P500 30% Govt 10+Yr**
Average Annual Return	8.88	11.72	14.07	8.22	8.49	8.72
Annual Standard Deviation	6.36	7.81	9.56	15.12	9.63	10.51
Largest Peak-to-Valley Loss	9.36	11.64	16.38	50.94	12.19	35.72
Sharpe Ratio (Risk Free Rate=3.6)	0.83	1.04	1.09	0.31	0.51	0.49
Highest Monthly Return	7.54	8.32	10.39	10.93	11.78	7.83
Lowest Monthly Return	-7.59	-9.54	-8.07	-16.79	-8.93	-12.77
Percent of Past Months Less Than 0	31.25	31.67	29.58	35.83	37.50	34.17
Probability of Future Year Less Than 0	9.92	8.94	9.72	31.06	20.69	22.46
Up Capture Ratio vs S&P500	37.41	48.25	60.03	100.00	11.27	70.93
Down Capture Ratio vs S&P500	13.76	14.89	20.13	100.00	-38.42	65.62





ANNUAL RETURNS FROM OUT-OF-SAMPLE SIMULATION						
YEAR	**Dynamic Conservative**	**Dynamic Moderate**	**Dynamic Aggressive**	**S&P500**	**Govt 10+ Year Bond Index**	**70% S&P500 30% Govt 10+Yr**
1993	11.32	19.89	29.58	10.08	17.21	12.23
1994	-0.28	-1.17	-5.73	1.32	-7.36	-1.31
1995	23.82	35.67	37.14	37.59	30.55	35.52
1996	7.98	5.93	12.27	22.96	-0.87	15.43
1997	2.25	6.32	14.30	33.38	14.97	27.81
1998	10.74	13.81	15.83	28.57	13.38	24.68
1999	2.55	5.57	11.51	21.03	-8.59	11.50
2000	14.21	21.98	19.90	-9.09	20.17	-0.85
2001	-3.38	-2.60	-5.53	-11.88	4.37	-6.68
2002	2.18	4.21	7.78	-22.11	16.86	-11.17
2003	20.11	22.14	23.54	28.69	2.59	20.67
2004	14.75	14.27	17.10	10.87	7.82	10.07
2005	15.51	16.32	15.49	4.89	6.43	5.50
2006	9.63	12.00	13.24	15.81	2.14	11.62
2007	6.12	7.19	7.50	5.50	9.70	6.94
2008	6.32	9.07	11.15	-36.99	22.82	-22.22
2009	14.04	13.99	25.46	26.45	-12.19	13.94
2010	6.99	11.81	15.14	15.05	9.55	14.27
2011	8.45	13.93	14.00	2.12	28.37	10.21
2012	8.40	10.29	10.35	15.99	3.90	12.66

All statistics shown are hypothetical, based on an out-of-sample dynamic asset allocation simulation.
These back-tests of Chapoquoit's technology may not represent future performance.
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DISCLOSURE REGARDING THE CHAPOQUOIT OFFERINGS AND PERFORMANCE

Information contained in this report is for informational purposes only to provide an overview of the First National Corporation ("FNC") Chapoquoit Managed Accounts Strategies (herein "Chapoquoit"). FNC is a registered investment advisor ("RIA") registered with the U.S. Securities and Exchange Commission ("SEC"). As an RIA, investment advice can only be obtained through FNC after entering into a formal advisory agreement with FNC and providing all required information.

All performance herein is hypothetical and has been compiled solely by FNC. Results have not been independently audited or verified by a third-party accounting firm. Past hypothetical performance is no guarantee of future results and the actual performance of the portfolio may be lower or higher than the hypothetical performance of the strategy. Hypothetical strategy returns were the result of certain market factors and events which may not be replicated in the future. Investment return and principal value of the portfolio will fluctuate causing the portfolio, at any time, to be worth more or less than the original cost.

Strategy performance is hypothetical and not representative of the portfolio or any prior series since none existed during all of the periods shown. Hypothetical strategy returns assume a 0.50% cost per transaction and also include the maximum advisory fee of 0.90%. Returns assume that all dividends received during a year are reinvested daily. Actual portfolio performance will vary from that of investing in the strategy securities because it may not be invested equally in these securities and may not be fully invested at all times.

The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The index cannot be purchased directly by investors. The returns illustrated include daily dividend reinvestment. Standard Deviation is a measure of price variability (risk). The results displayed are annualized monthly return deviations over the designated periods. The actual performance of a client's account may differ from any performance presented based on the timing of securities transactions, actual asset allocations and advisor fees. Client accounts invested in a Chapoquoit strategy may differ materially from the composition and performance of the S&P 500 which has been used solely as a benchmark above. Because the S&P 500 is a widely known index it is shown simply as a reference and not intended to demonstrate that the Chapoquoit strategies are, or are likely to become, representative of past or expected S&P 500 performance.

The Chapoquoit strategies are separately managed accounts that are not guaranteed or FDIC insured. These accounts may lose value. An investment in a Chapoquoit strategy should be made with an understanding of the risks involved with owning exchange-traded funds and underlying common stock, fixed-income and other securities. Risks include, but are not limited to, a deterioration of either the financial condition of the issuers or the general condition of the economy.

Definitions:
Standard Deviation is a measure of price variability (risk). The standard deviations displayed are annualized monthly return deviations over the designated periods. Standard deviation compares the price variation of the Chapoquoit managed accounts with the market, as defined by the S&P 500 index.

Maximum drawdown is the percentage drop from the peak account value achieved during the selected time interval to the lowest subsequent account value, measured on a monthly basis.

Sharpe Ratio is a measure of risk-adjusted performance, which is calculated by subtracting the risk-free rate (such as that of the 10-year U.S. Treasury Bond) from the rate of return of a portfolio and dividing the result by the Standard Deviation of the portfolio returns. The Sharpe Ratio tells us whether a portfolio's returns are due to good investment decisions or a result of excess risk.

For additional information about
Chapoquoit Separately Managed Accounts, contact:

Phil Nehro
First National Corporation
300 Ledgewood Place
Suite 101
Rockland, MA 02370
Tel: 508-495-9555
Fax 508-495-5552
pnehro@chapoq.com
website: http://www.fncadvisor.com/pages/Chapoquoit.asp