

# **BANK OF THE JAMES FINANCIAL GROUP, INC.**

## **CORPORATE GOVERNANCE GUIDELINES**

The Board of Directors (the “Board”) of Bank of the James Financial Group, Inc. (the “Company”) has adopted the following Corporate Governance Guidelines (the “Guidelines”) to assist the Board in the exercise of its duties and responsibilities and to serve the best interests of the Company and its shareholders. The Guidelines should be applied in a manner consistent with all applicable laws and the Company’s charter and bylaws, each as amended and in effect from time to time. The Guidelines provide a framework for the conduct of the Board’s business. The Board may modify or make exceptions to the Guidelines from time to time in its discretion and consistent with its duties and responsibilities to the Company and its shareholders.

### **Director Responsibilities**

#### **1. Oversee Management of the Company.**

The principal responsibility of the directors is to oversee the management of the Company and, in so doing, serve the best interests of the Company and its shareholders.

This responsibility includes:

- Reviewing and approving fundamental operating, financial and other corporate plans, strategies and objectives.
- Evaluating the performance of the Company and its senior executives and taking appropriate action, including removal, when warranted.
- Requiring, approving and implementing senior executive succession plans.
- Establishing a corporate environment that promotes timely and effective disclosure (including robust and appropriate controls, procedures and incentives), fiscal accountability, high ethical standards and compliance with all applicable laws and regulations.
- Developing a corporate governance structure that allows and encourages the Board to fulfill its responsibilities.
- Providing advice and assistance to the Company’s senior executives.
- Evaluating the overall effectiveness of the Board and its committees.

#### **2. Exercise Business Judgment.**

In discharging their fiduciary duties of care, loyalty and candor, directors are expected to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its shareholders.

#### **3. Understand the Company and its Business.**

Directors have an obligation to become and remain informed about the Company and its business, including the following:

- The principal operational and financial objectives, strategies and plans of the Company.
- The results of operations and financial condition of the Company and of significant subsidiaries and business segments.

- The relative standing of the business segments within the Company and vis-à-vis competitors.
- The factors that determine the Company's success.
- The risks and problems that affect the Company's business and prospects.

#### **4. Establish Effective Systems.**

Directors are responsible for determining that effective systems are in place for the periodic and timely reporting to the Board on important matters concerning the Company, including the following:

- Current business and financial performance, the degree of achievement of approved objectives and the need to address forward-planning issues.
- Future business prospects and forecasts, including actions, facilities, personnel and financial resources required to achieve forecasted results.
- Financial statements, with appropriate segment or divisional breakdowns.
- Adoption, implementation and monitoring of effective compliance programs to assure the Company's compliance with law and corporate policies.
- Material litigation and governmental and regulatory matters.

Directors should also periodically review the integrity of the Company's internal control and management information systems.

#### **5. Board and Committee Meetings.**

Directors are responsible for attending Board meetings and meetings of committees on which they serve, and devoting the time needed, and meeting as frequently as necessary, to discharge their responsibilities properly.

#### **6. Reliance on Management and Advisors; Indemnification.**

The directors are entitled to rely on the Company's senior executives and its outside advisors, auditors and legal counsel, except to the extent that any such person's integrity, honesty or competence is in doubt. The directors are also entitled to Company provided indemnification, statutory exculpation and directors' and officers' liability insurance.

### **Director Qualification Standards**

#### **1. Independence.**

A majority of the members of the Board shall be independent directors. To be considered independent: (1) a director must be independent as determined under NASD Rule 4200(a)(15) and any successor thereto and (2) in the Board's judgment, the director must not have a relationship which would interfere with the exercise of the director's independent judgment in carrying out the director's duties as a member of the Board. In addition, ownership of a significant amount of the Company's stock, by itself, does not constitute a material relationship.

#### **2. Other Directorships.**

A director shall limit the number of other public company boards on which he or she serves so that he or she is able to devote adequate time to his or her duties to the Company, including preparing for and attending meetings. Directors should advise the Chairman of the Board and/or the Chairman of the Nominating Committee in advance of

accepting an invitation to serve on another public company board. Service on boards and/or committees of other organizations shall comply with the Company's code of ethics and conflict of interest policies.

### **3. Tenure.**

The Board does not believe it should establish term limits. Term limits could result in the loss of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and an institutional memory that benefit the entire membership of the Board as well as management. As an alternative to term limits, the Nominating Committee may review each director's continuation on the Board at least once every three (3) years. This will allow each director the opportunity to conveniently confirm his or her desire to continue as a member of the Board and allow the Company to conveniently replace directors who are no longer interested or effective.

### **4. Retirement.**

No director may be nominated for election or elected if on the date of his election he has or would have attained the age of 70 years.

### **5. Selection of New Director Candidates.**

The Nominating Committee shall be responsible for (i) identifying individuals qualified to become Board members, consistent with criteria approved by the Board, and (ii) recommending to the Board the persons to be nominated by the Board for election as directors at any meeting of shareholders and the persons to be elected by the Board to fill any vacancies on the Board.

### **6. Change of Responsibility of Director.**

The Board believes that any director who retires from his or her principal current employment, or who materially changes his or her current position, should offer to tender his or her resignation to the Board. The Nominating Committee shall then recommend to the Board whether the Board should accept the resignation based on a review of whether the individual continues to satisfy the Board's membership criteria in light of his or her new status.

## **Board Meetings**

### **1. Selection of Agenda Items.**

The Chief Executive Officer shall establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of agenda items and is free to raise at any Board meeting subjects that are not on the agenda for that meeting. During at least one meeting each year, the Board shall review the Company's strategic plans and the principal issues that the Company expects to confront in the future.

### **2. Frequency and Length of Meetings.**

The Chairman of the Board, in consultation with the members of the Board, shall determine the frequency and length of the Board meetings. Special meetings may be called from time to time as determined by the needs of the business and in accordance with the Company's bylaws.

### **3. Advance Distribution of Materials.**

Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting should generally be distributed in writing to the directors before the meeting, and directors should review these materials in advance of the meeting. The Board acknowledges that certain items to be discussed at a Board or committee meeting may be of an extremely confidential or time-sensitive nature and that the distribution of materials on these matters prior to meetings may not be appropriate or practicable.

### **4. Executive Sessions.**

The independent directors shall meet in executive session at least annually to discuss, among other matters, the performance of the executive management team. The independent directors may meet in executive session at other times at the request of any non-management director. Absent unusual circumstances, these sessions shall be held in conjunction with regular Board meetings.

## **Board Committees**

### **1. Key Committees.**

The Board shall have at all times an Audit Committee and a Nominating Committee. Each such committee shall have a charter that has been approved by the Board. The Board may, from time to time, establish or maintain additional committees as necessary or appropriate.

### **2. Committee Charters.**

In accordance with the applicable rules of the NASDAQ or similar organization or exchange, the charters of the Audit Committee, the Nominating Committee, and any other additional committee established or maintained by the Board, shall set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board. The Board shall, from time to time as it deems appropriate, review and reassess the adequacy of each charter and make appropriate changes. Such charters shall be posted, in their most current versions, on the Company's website

## **Director Access to Management and Independent Advisors**

### **1. Access to Officers and Employees.**

Directors have full and free access to officers and employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the Chief Executive Officer. The directors shall use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and shall, to the extent appropriate, copy the Chief Executive Officer on any written communications between a director and an officer or employee of the Company.

**2. Access to Independent Advisors.** The Board, and to the extent provided for in its charter, certain committees, have the power to hire and consult with independent legal,

financial or other advisors for the benefit of the Board or such committee, as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance. Such independent advisors may be the regular advisors to the Company. The Board or any such committee is empowered, without further action by the Company, to cause the Company to pay the compensation of such advisors as established by the Board or any such committee.

## **Director Compensation**

### **1. Role of Board and Compensation Committee.**

The form and amount of director compensation shall be determined by the Board as recommended by the Compensation Committee in accordance with the policies and principles set forth below. The Compensation Committee shall conduct an annual review of the compensation of the Company's directors. The Nominating Committee shall consider that questions as to directors' independence may be raised if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated or if the Company enters into consulting contracts or business arrangements with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

### **2. Amount of Consideration.**

The Company seeks to attract exceptional talent to its Board. Therefore, the Company's policy is to compensate directors at least competitively relative to comparable companies. The Company's management shall, from time to time, present a comparison report to the Board, comparing the Company's director compensation with that of comparable companies. The Board believes that it is appropriate for the Chairman of the Board and the chairmen and members of the committees to receive additional compensation for their services in those positions.

### **3. Employee Directors.**

Directors who are also employees of the Company shall receive no additional compensation for Board or committee service.

## **Director Orientation and Continuing Education**

### **1. Director Orientation.**

The Board and the Company's management shall conduct a mandatory orientation program for new directors. The orientation program shall include presentations by management to familiarize new directors with the Company's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its code of business conduct and ethics, its principal officers, its internal and independent auditors and its outside legal advisors. In addition, the orientation program shall include a review of the Company's expectations of its directors in terms of time and effort and a review of the directors' fiduciary duties. All other directors are also invited to attend the orientation program.

### **2. Continuing Education.**

Each director is expected to be involved in continuing director education on an ongoing basis to enable him or her to better perform his or her duties and to recognize and deal appropriately with issues that arise. The Company shall pay all reasonable expenses related to continuing director education.

## **Management Evaluation and Succession**

### **1. Selection of Chief Executive Officer.**

The Board selects the Company's Chief Executive Officer in the manner that it determines to be in the best interests of the Company's shareholders.

### **2. Evaluation of Senior Executives.**

The Executive Committee shall be responsible for overseeing the evaluation of the Company's senior executives. In conjunction with the Audit Committee, in the case of the evaluation of the senior financial executives, the Executive Committee shall determine the nature and frequency of the evaluation and the persons subject to the evaluation, supervise the conduct of the evaluation and prepare assessments of the performance of the Company's senior executives, to be discussed with the Board periodically. The Board shall review the assessments to ensure that the senior executives are providing the best leadership for the Company over both the long- and short-term.

**3. Succession of Senior Executives.** The Executive Committee shall present an annual report to the Board on succession planning, which shall include transitional Board leadership in the event of an unplanned vacancy. The entire Board shall assist the Committee in finding and evaluating potential successors to the Chief Executive Officer and the Chief Financial Officer. The Chief Executive Officer and the Chief Financial Officer should at all times make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals. The Committee shall identify, and periodically review and reassess, the qualities and characteristics necessary for an effective Chief Executive Officer and Chief Financial Officer. With these principles in mind, the Committee should periodically monitor and review the development and progression of potential internal candidates against these standards.

## **Annual Performance Evaluation of the Board**

The Executive Committee shall oversee an annual self-evaluation of the Board to determine whether it and its committees are functioning effectively. The Executive Committee shall determine the nature of the evaluation, supervise the conduct of the evaluation and prepare an assessment of the Board's performance, to be discussed with the Board. To assist in its self-assessment, the Board shall, at the beginning of each year, consider establishing an agreed-upon list of Board objectives and performance goals for the year, which shall be used as benchmarks in evaluating its performance at year end. The purpose of this process is to improve the effectiveness of the Board and its committees and not to target individual Board members.

## **Board Interaction with Institutional Investors, the Press, Customers, Etc.**

The Board believes that the Chief Executive Officer and his or her designees speak for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is, however, expected that Board members would do so with the knowledge of and, absent unusual circumstances or as contemplated by the committee charters, only at the request of the Company's senior executives.

**Periodic Review of the Corporate Governance Guidelines**

The Executive Committee shall, from time to time as it deems appropriate, review and reassess the adequacy of these Guidelines and recommend any proposed changes to the Board for approval.