

## **PURPOSE**

The purpose of the Compensation Committee (the “Committee”) of Bay National Corporation (the “Company”) is to assist the Board of Directors (the “Board”) of the Company in establishing the compensation of executive officers and administering management incentive compensation plans.

The Committee may meet simultaneously as a committee of the Company and any subsidiary of the Company that does not have its own compensation committee or which has its own compensation committee the members of which are the same as the members of the Committee, though the committees should hold separate sessions if necessary to address issues that are relevant to one entity but not the other(s) or to consider transactions between the entities or other matters where the Company and one or more subsidiaries may have different interests.

The Committee should consult with counsel, if, in the opinion of the Committee, any matter under consideration by the Committee has the potential for any conflict between the interests of the Company and those of the Company’s subsidiaries in order to ensure that appropriate procedures are established for addressing any such potential conflict and for ensuring compliance with the Company’s policies regarding any applicable laws, rules and regulations.

## **ORGANIZATION AND MEMBERSHIP**

This Charter governs the operations of the Committee. The Board shall annually appoint Committee members and the chairman of the Committee. The Board may remove Committee members at any time, with or without cause, by a majority vote, and will fill any vacancy on the Committee.

The Committee shall be comprised of at least three (3) directors, each of whom is independent as determined in accordance with all laws, rules, regulations and listing requirements applicable to the Company. Each member will also be (i) a “non-employee director” within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and (ii) an “outside director” for purposes of the regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended.

## **MEETINGS**

The Committee will hold regular meetings as may be necessary and such special meetings as may be called by the chairman of the Committee. A majority of the Committee members shall constitute a quorum for the transaction of business and the act of a majority of the members present at any meeting at which there is a quorum shall be the act of the Committee. Meetings may be held telephonically and the Committee may act by written consent of all Committee members. The Committee shall otherwise be governed by the same rules regarding meetings as are applicable to the Board.

The Committee has the authority to delegate any of its responsibilities to sub-committees comprised solely of Committee members, as the Committee may deem appropriate in its sole discretion.

The Committee shall maintain minutes of its meetings and report on its actions and activities at meetings of the Board.

## **RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Compensation Committee will:

- Review and approve the compensation of the Company's Chief Executive Officer and President and the Chief Financial Officer (collectively the "Executive Officers"). In determining the amount, form, and terms of such compensation, the Committee shall consider the Executive Officer's performance in light of the Company goals and objectives relevant to executive compensation, any performance evaluation conducted by the Board or the Committee, competitive market data pertaining to executive compensation at comparable companies, and such other factors as it shall deem relevant, and shall be guided by, and seek to promote, the best interest of the Company and its shareholders.
- Make recommendations to the Board regarding compensation arrangements for directors.
- Recommend to the Board the creation of any compensation or employee benefit plan or program for employees, officers or directors of the Company.
- With respect to the Executive Officers, approve the establishment and modification of executive compensation and benefit programs, such as ranges, deferred compensation, employment agreements, severance arrangements, and if appropriate, any special supplemental benefits.
- Administer the Company's equity incentive plans and deferred compensation plans (if any) and perform all duties delegated to the Committee by such plans.
- Have the sole authority to retain and terminate any compensation consultant engaged to assist in the evaluation of director or Executive Officer compensation or any other outside advisors it deems appropriate to carry out its duties, and the sole authority to approve such firm's or other advisor's fees and other retention terms.
- Assist in preparing and/or review certain portions of the Company's annual proxy statement with respect to executive and director compensation including, if required by the Exchange Act, produce the annual committee report on executive compensation for inclusion in the Company's proxy statement.
- Report regularly to the Board any issues that arise with respect to the Committee's responsibilities.
- Conduct an annual review of the Committee's performance, periodically assess the adequacy of this Charter and recommend changes to the Board, as needed.
- Perform any other duties or responsibilities consistent with this Charter, the Company's charter, bylaws and governing law, or as may be delegated to the Committee by the Board from time to time.