

AMERICAN NATIONAL BANKSHARES INC.
Form DEF 14A
April 12, 2018

AMERICAN NATIONAL BANKSHARES INC.
628 Main Street, Danville, Virginia 24541

Notice of Annual Meeting

and

Proxy Statement

Annual Meeting of Shareholders
To Be Held
May 15, 2018

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AMERICAN NATIONAL BANKSHARES INC.
628 Main Street, Danville, Virginia 24541
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held May 15, 2018

Notice is hereby given that the Annual Meeting of Shareholders of American National Bankshares Inc. (the "Company") will be held as follows:

Place: The Wednesday Club
1002 Main Street
Danville, Virginia 24541
Date: May 15, 2018 at 9:00 a.m.

The Annual Meeting is being held for the following purposes:

1. To elect four Class I directors of the Company to serve three-year terms expiring at the 2021 Annual Meeting.
2. To elect one Class III director of the Company to serve a two-year term expiring at the 2020 Annual Meeting.
3. To ratify the appointment of Yount, Hyde & Barbour P.C., independent registered public accounting firm, as auditors of the Company for the year ending December 31, 2018.
4. To hold an advisory vote on executive compensation of the Company's named executive officers as disclosed in the accompanying proxy statement.
5. To approve the American National Bankshares Inc. 2018 Equity Compensation Plan.
6. To transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on April 2, 2018 are entitled to notice of and to vote at the Annual Meeting.

It is important that your shares are represented at the meeting. Accordingly, please sign, date, and mail the enclosed proxy in the enclosed postage-paid envelope, whether or not you plan to attend. If you do attend the Annual Meeting, you may revoke your proxy and vote your shares in person.

By Order of the Board of Directors,
William W. Traynham
Secretary
April 6, 2018

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AMERICAN NATIONAL BANKSHARES INC.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
MAY 15, 2018

INTRODUCTION

This proxy statement is furnished in conjunction with the solicitation by the Board of Directors (the “Board”) of American National Bankshares Inc. (the “Company”) of the accompanying proxy to be used at the Annual Meeting of Shareholders of the Company (the “Annual Meeting”) and at any adjournment thereof. The meeting will be held on Tuesday, May 15, 2018, 9:00 a.m., at The Wednesday Club, 1002 Main Street, Danville, Virginia 24541, for the purposes set forth below and in the Notice of Annual Meeting of Shareholders. The date of this proxy statement is April 6, 2018 and the approximate mailing date of this proxy statement and the enclosed proxy is April 12, 2018.

Voting Rights of Shareholders

Only shareholders of record at the close of business on April 2, 2018, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on April 2, 2018, there were 8,675,029 shares of the Company’s common stock outstanding, of which 8,497,868 shares were entitled to vote at the Annual Meeting. For the reasons explained below, the number of shares entitled to vote is less than the number of shares of the Company’s common stock outstanding on such date. The Company has no other class of stock outstanding. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

A majority of the votes entitled to be cast, represented in person or by proxy, will constitute a quorum for the transaction of business. Shares for which the holder has elected to abstain or to withhold the proxy’s authority to vote on a matter will count toward a quorum but will not be included in determining the number of votes cast with respect to such matter.

Shares held by brokers or banks in street name (“broker shares”) that are voted on any matter are included in the quorum. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present.

Ambro and Company, the nominee name that the Company's banking subsidiary, American National Bank and Trust Company (the "Bank"), uses to register the securities it holds in a fiduciary capacity for customers, held 177,161 shares of the Company's common stock as sole fiduciary (with no qualifying co-fiduciary having been appointed) as of April 2, 2018, which constituted 2.04% of the issued and outstanding shares of the Company's common stock on that date. Under Virginia law, such shares cannot be voted at the Annual Meeting and are not deemed to be outstanding and entitled to vote for purposes of determining a quorum.

Voting of Broker Shares

If a beneficial owner of broker shares does not provide the broker or other nominee that holds the shares with specific voting instructions, then under applicable rules, such organization may generally vote on "routine" matters but cannot vote on "non-routine" matters. If the broker or other nominee that holds such shares does not receive instructions from the beneficial owner on how to vote shares on a non-routine matter, that organization will inform the inspector of election that it does not have the authority to vote on this matter with respect to the shares. This is generally referred to as a "broker non-vote."

The ratification of the appointment of Yount, Hyde & Barbour, P.C. as the Company's independent registered public accounting firm for 2018 (Proposal Three) is a matter considered routine under applicable rules. A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal Three. The election of directors (Proposals One and Two), the advisory vote on the Company's executive compensation (Proposal Four), and the approval of the 2018 Equity Compensation Plan (Proposal Five) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore broker non-votes may exist in connection with Proposals One, Two, Four, and Five.

Revocation and Voting of Proxies

Execution of a proxy will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Any shareholder who has executed and returned a proxy may revoke it by attending the Annual Meeting and requesting to vote in person. A shareholder may also revoke his or her proxy at any time before it is exercised by filing a written notice with the Company or by submitting a proxy bearing a later date. Proxies will extend to, and will be voted at, any adjourned session of the Annual Meeting.

Solicitation of Proxies

The cost of solicitation of proxies will be borne by the Company. Solicitation is being made by mail, and if necessary, may be made in person, by telephone or Internet or special letter by officers and employees of the Company or the Bank, acting on a part-time basis and for no additional compensation.

PROPOSALS ONE AND TWO – ELECTION OF DIRECTORS

The Company's Board of Directors currently consists of 14 persons. Pursuant to the Company's Articles of Incorporation, the Board is to be divided into three classes (I, II and III), with each class as nearly equal in number as possible. The term of office for current Class I directors will expire at the Annual Meeting. Nominees to serve as Class I directors and one nominee to serve as a Class III director are set forth below. All of the nominees currently serve as directors of the Company. Continuing members of the Board of Directors also are set forth below.

Mrs. Tammy Moss Finley was appointed to the Board effective September 19, 2017. She is being nominated as a Class III director and is subject to election by the shareholders at the Annual Meeting in accordance with Virginia law. The term of office for current Class III directors will expire at the 2020 Annual Meeting, and if elected, Mrs. Finley will serve in such class for a two-year term expiring at the 2020 Annual Meeting.

The persons named in the accompanying proxy will vote for the election of the nominees named below unless authority is withheld. If for any reason the persons named as nominees below should become unavailable to serve, an event that management does not anticipate, proxies will be voted for such other persons as the Board of Directors may designate.

The Board of Directors recommends the nominees, as set forth below, for election. The Board of Directors recommends that shareholders vote FOR these nominees. The election of each nominee requires the affirmative vote of a plurality of the shares of the Company's common stock cast in the election of directors.

The names of the nominees for election and the other continuing members of the Board of Directors, their principal occupations and qualifications to serve as directors, their ages as of December 31, 2017, and certain other information with respect to such persons are as follows:

| Name | Principal Occupation | Director AgeSince |
|--|--|----------------------|
| Nominees for election as Class I directors to continue in office until 2021 (Proposal One) | | |
| | Retired Adviser, Fenway Partners, LLC (private equity investments), New York, NY. Retired Managing Director, Fenway Resources since June 2015. Adviser to Fenway Partners, LLC from April 2006 and Managing Director of its affiliate, Fenway Resources from March 2008, respectively, to June 2015. | |
| Michael P. Haley | Mr. Michael Haley brings high level financial expertise as a former Chief Executive Officer of a publicly traded manufacturing company and as a former adviser to a private equity firm. He also brings experience in operations and risk management and public company corporate governance. His background helps him fill the role of financial expert on the Company's Audit Committee. | 67 2002 |
| | Executive Vice President, Averett University, Danville, VA. | |
| Charles S. Harris | Mr. Harris brings significant operational and financial management experience, including as the Director of Athletics for several universities of various sizes, both public and private. He brings diversity and a different perspective from his work with college students, the future customers for the Bank. | 66 2008 |

| Name | Principal Occupation | Director Age Since |
|-------------------------------|---|-----------------------|
| Franklin W. Maddux, M.D. FACP | <p>Chief Medical Officer and Executive Vice President, Clinical and Scientific Affairs, Fresenius Medical Care North America (healthcare services), Waltham, MA. Chairman, Gamewood Technology Group, Inc. (information technology service), Danville, VA.</p> <p>Dr. Maddux has significant and varied experience as a practicing physician, the chief executive of a medical clinic, the founder of an internet service provider and health information technology company and a senior executive of a large publicly traded corporation. He brings an entrepreneurial perspective, as well as risk management and strategic planning experience.</p> <p>President and Chief Executive Officer, Knit Wear Fabrics, Inc. (circular knit manufacturer), Burlington, NC.</p> | 60 2002 |
| F. D. Hornaday, III | <p>A former director and vice chairman of MidCarolina Financial Corporation, Mr. Hornaday brings his multifaceted experience as President of a textile company, adding to the Board's understanding of the challenges and opportunities facing manufacturing. In addition, his board service in the health industry and his former board service in the trust industry bring value to the Board.</p> | 67 2011 |

| Name | Principal Occupation | Director Age Since |
|--|--|-----------------------|
| Nominee | for election as Class III director to continue in office until 2020 (Proposal Two) | |
| Tammy Moss Finley | Executive Vice President, General Counsel and Corporate Secretary, Advance Auto Parts, Inc. (automotive aftermarket parts), Roanoke, VA since May 2016. Executive Vice President, Human Resources, General Counsel and Corporate Secretary, Advance Auto Parts, Inc. from January 2015 to May 2016. Senior Vice President, Human Resources, Advance Auto Parts, Inc. from March 2013 to January 2015. Vice President, Employment Counsel and Government Affairs, Advance Auto Parts, Inc. from March 2010 to March 2013. Mrs. Finley brings significant legal, human resource, risk management, and public company corporate governance expertise from her multiple leadership roles at Advance Auto Parts. In addition, her close ties to the communities we serve will benefit the entire organization. | 51 2017 |
| Directors of Class II to continue in office until 2019 | | |
| Fred A. Blair | Chief Executive Officer, Blair Construction, Inc. (general contractor), Gretna, VA since May 2016. President, Blair Construction, Inc., Gretna, VA from May 1980 to May 2016. Mr. Blair brings experience as a small business owner, including his knowledge of and experience in commercial construction and development in the Company's market areas. President, Brady & Crist Dentists, Inc., Lynchburg, VA. | 71 1992 |
| Frank C. Crist, Jr., D.D.S. | Dr. Crist brings knowledge about the Lynchburg market area where he has built a successful dental practice, as well as investments in other businesses and real estate properties in the area. He also brings his prior experience as a director and, ultimately, Chairman of the board of directors of a community bank. | 72 2006 |

| Name | Principal Occupation | Director Age Since |
|------------------|---|-----------------------|
| Jeffrey V. Haley | President and Chief Executive Officer of the Company and the Bank since January 2013. President of the Company and President and Chief Executive Officer of the Bank from January 2012 to January 2013. Executive Vice President of the Company and President of the Bank from June 2010 to January 2012. President of Trust and Financial Services and Executive Vice President of the Bank from July 2008 to June 2010. Mr. Jeffrey Haley brings expertise based on more than 20 years in community banking and 16 years in the retail industry. His varied operational and management responsibilities during his banking tenure enable him to contribute a uniquely relevant perspective to the Board's deliberations. | 57 2012 |
| John H. Love | President and Chief Executive Officer, W.E. Love & Associates, Inc. (insurance brokerage), Burlington, NC. A former director of MidCarolina Financial Corporation, Mr. Love brings an expert perspective on risk management, mitigation and governmental regulation based on his experience as President of a large commercial insurance brokerage firm. | 58 2011 |
| Ronda M. Penn | Chief Financial Officer, Plexus Capital LLC (small business investments), Raleigh, NC since September 2012. Partner, Dixon Hughes Goodman LLP (public accounting), Greensboro, NC from 2006 to September 2012. Mrs. Penn brings significant financial, accounting, internal control, investment and management expertise as a Chief Financial Officer, Certified Public Accountant and former partner with a national accounting firm. Her background helps her fill the role of financial expert on the Company's Audit Committee. | 55 2015 |

| Name | Principal Occupation | Director Age Since |
|---|---|-----------------------|
| Directors of Class III to continue in office until 2020 | Chairman of the Board of Directors of the Company and the Bank since January 2015. Executive Chairman of the Company and the Bank from January 2013 to January 2015. Chairman and Chief Executive Officer of the Company and Chairman of the Bank from January 2012 to January 2013. President and Chief Executive Officer of the Company and | |
| Charles H. Majors | Chairman and Chief Executive Officer of the Bank from June 2010 to January 2012. President and Chief Executive Officer of the Company and the Bank from 1994 to June 2010. | 72 1981 |
| | Mr. Majors brings his long tenure and experience as the Chief Executive Officer of the Company. His prior experience as a practicing corporate attorney provides significant expertise in risk management, regulatory, and legal issues. | |
| | Retired Chairman and Chief Executive Officer of DIMON Incorporated (leaf tobacco dealer), Danville, VA. | |
| Claude B. Owen, Jr. | Mr. Owen brings broad experience in the management and oversight of public companies, including past service as Chairman and Chief Executive Officer of a publicly traded leaf tobacco dealer and as Chairman of a publicly traded grocery wholesaler. He also has significant experience in finance, strategic planning and corporate governance, which provides the Board with a substantial resource. | 72 1984 |
| | Chief Operating Officer, The Dewberry Companies, Inc. (engineering, architectural and consulting), Fairfax, VA. | |
| Dan M. Pleasant | Mr. Pleasant brings significant experience as a professional engineer working in the Company's market areas in Virginia and North Carolina. In addition, he is the Chief Operating Officer of a large national architectural, engineering and consulting firm. He is a past chairman of the Danville Utility Commission and is currently a board member of the Virginia Economic Development Partnership. | 67 2011 |

| Name | Principal Occupation | Director Age Since |
|---------------------|--|-----------------------|
| | President, Virginia Home Furnishings, Inc. (furniture retailer) and 220 Self Storage, Inc. (self-storage provider), Rocky Mount, VA. | |
| Joel R. Shepherd | A former chairman of MainStreet BankShares, Inc. and Franklin Community Bank, N.A., Mr. Shepherd brings substantial entrepreneurial, construction, finance and management skills gained through his various enterprises. He also brings banking and investment experience. He was Vice President and Portfolio Manager in the Funds Management Division of Dominion Bankshares, Inc. (acquired by First Union Corporation, now part of Wells Fargo & Company) from 1986 to 1993. | 54 2015 |

Executive Officers

Information on the Company's executive officers as of December 31, 2017 who are not directors is disclosed in Part I, Item 1, of the Company's Annual Report on Form 10-K for the year ended December 31, 2017, which was mailed with this proxy statement.

Board Independence

The Company's Board of Directors has determined that, except for Mr. Majors and Mr. Jeffrey Haley, each director is independent within the director independence standard of the Nasdaq Stock Market LLC ("Nasdaq"), as currently in effect, and within the Company's director independence standards, as established and monitored by the Company's Corporate Governance and Nominating Committee.

Michael P. Haley is not related to Jeffrey V. Haley, President and Chief Executive Officer of the Company and the Bank. In order to avoid any confusion, Michael P. Haley will be referred to as Michael Haley and Jeffrey V. Haley will be referred to as Jeffrey Haley in this proxy statement.

Board Members Serving on Other Publicly Traded Company Boards of Directors

Michael Haley has been a director of Stanley Furniture Company, Inc. since 2003, LifePoint Health, Inc. since 2005, and Ply Gem Holdings, Inc. since 2006.

Board of Directors and Committees

Directors are expected to devote sufficient time, energy, and attention to ensure diligent performance of their duties, including attendance at board, committee, and shareholder meetings. The Board of Directors of the Company met 10 times during 2017. The non-management directors held eight executive sessions during 2017, exclusive of the Chief Executive Officer and any other management. The Chairman of the Board presides at such sessions. In accordance with the Company's Corporate Governance Guidelines, the independent directors, exclusive of the Chairman of the Board and Chief Executive Officer, also held quarterly executive sessions during 2017. The Chairman of the Corporate Governance and Nominating Committee presides at such sessions. The Board of Directors of the Bank, which consists of all members of the Company's Board, met 11 times during 2017.

All incumbent directors and director nominees attended at least 86% of the aggregate total number of meetings of the Company's Boards of Directors and committees on which they served in 2017. All directors attended the 2017 Annual Meeting of Shareholders.

The Boards of Directors of the Company and the Bank have established various committees, including the Audit Committee, the Capital Management Committee, the Corporate Governance and Nominating Committee, the Human Resources and Compensation Committee, and the Risk and Compliance Committee. Membership and other information on these committees are detailed below.

The Audit Committee met four times in 2017. This Committee currently consists of Mrs. Penn and Messrs. Blair, Michael Haley, Harris, and Maddux. Dr. Maddux serves as the Chairman. The Committee reviews significant audit, accounting and financial reporting principles, policies and practices; is directly responsible for engaging and monitoring the independent auditors of the Company; and provides oversight of the financial reporting and internal auditing functions. A more detailed description of the functions of this Committee is contained under the heading "Report of the Audit Committee." All of the members of this Committee are considered independent within the meaning of Securities and Exchange Commission ("SEC") regulations, the listing standards of Nasdaq, and the Company's Corporate Governance Guidelines. Mr. Michael Haley and Mrs. Penn, members of the Committee, are qualified as audit committee financial experts within the meaning of SEC regulations and the Board has determined that each has accounting and related financial management expertise within the meaning of the listing standards of Nasdaq.

The Capital Management Committee met four times in 2017. This Committee currently consists of Messrs. Michael Haley, Owen, Pleasant, and Shepherd. Mr. Pleasant serves as the Chairman. This Committee assists the Board in the following areas: market, interest rate, liquidity and investment risk; capital management; and dividend and securities related matters.

The Corporate Governance and Nominating Committee met four times in 2017. This Committee currently consists of Messrs. Crist, Hornaday, Maddux, Owen, and Shepherd. Mr. Owen serves as the Chairman. The Committee is responsible for developing and implementing policies and

practices relating to corporate governance, including reviewing and monitoring implementation of the Company's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also supervises the Board's annual review of director independence, oversees the Board's performance self-evaluation and makes recommendations to the Board of Directors regarding director compensation. All the members of this Committee are considered independent within the meaning of SEC regulations, the listing standards of Nasdaq, and the Company's Corporate Governance Guidelines.

The Human Resources and Compensation Committee met four times in 2017. The Committee currently consists of Mrs. Penn and Messrs. Michael Haley, Love, and Pleasant. Mr. Michael Haley serves as the Chairman. This Committee is responsible for establishing and approving the compensation of executive officers of the Company, except for the compensation of the Chief Executive Officer. The compensation of the Chief Executive Officer is reviewed, discussed, and approved by the independent members of the Board of Directors, upon recommendation of the Committee. The Committee also makes recommendations to the Board of Directors regarding promotions and related personnel matters. The Committee oversees succession planning for the Chief Executive Officer and makes recommendations to the Board of Directors regarding succession. The Committee also reviews and approves the travel related expenses of the Chief Executive Officer. Reference is made to the "Compensation Discussion and Analysis" section of this proxy statement for further information on the duties and responsibilities of this Committee. No member of the Human Resources and Compensation Committee is a current officer or employee of the Company. All members of this Committee are considered independent within the meaning of SEC regulations, the standards of Nasdaq, and the Company's Corporate Governance Guidelines.

The Risk and Compliance Committee met four times in 2017. This Committee currently consists of Messrs. Blair, Crist, Harris, and Love. Mr. Harris serves as the Chairman. The Committee reviews all aspects of regulatory compliance and significant operational risk and security related matters. These risks include, but are not limited to, credit, information security, fraud, physical security, insurance, and vendor management. The Committee also provides oversight for the Board in the following areas: review of trends affecting the loan portfolio; oversight of the loan review function and credit policy; and review of the adequacy of the allowance for loan losses. This Committee also is focused on the development and evolution of enterprise risk management oversight.

The charters of the Board Committees are available on the Company's website, www.amnb.com. For access to the charters, select the "Investors" icon, then select "Governance Documents."

Compensation Committee Interlocks and Insider Participation

No member of the Human Resources and Compensation Committee or executive officer of the Company has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

Director Nominations Process

The Company's Board of Directors has adopted, as a component of its Corporate Governance Guidelines, a process related to director nominations (the "Nominations Process"). The purpose of the Nominations Process is to describe the manner by which candidates for possible inclusion in the Company's recommended slate of director nominees are selected. The Nominations Process is administered by the Corporate Governance and Nominating Committee of the Board.

The Committee considers candidates for Board membership suggested by its members, other Board members, management, and shareholders. A shareholder who wishes to recommend a prospective nominee for the Board may, at any time, notify the Company's Chairman, President or any member of the Committee in writing with supporting material the shareholder considers appropriate. The Committee will consider the shareholder's recommendation and will decide whether to recommend to the Board the nomination of any person recommended by a shareholder pursuant to the provisions of the Company's bylaws relating to shareholder proposals, as described in the "Shareholder Communications and Proposals" section of this proxy statement.

Once the Committee has identified a candidate, it makes an initial determination whether to conduct a full evaluation of the candidate based on information accompanying the recommendation and the Committee members' knowledge of the candidate, which may be supplemented by inquiries to the person making such recommendation or to others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the candidate can satisfy the evaluation factors established in the Corporate Governance Guidelines. The Committee may seek additional information about the candidate's background and experience. The Committee then evaluates the candidate against the criteria in the Company's Corporate Governance Guidelines, including, but not limited to, independence, availability for time commitment, skills such as an understanding of the financial services industry, general business knowledge and experience, all in the context of an assessment of the perceived needs of the Board at that point in time. The Committee does not have a formal policy with respect to diversity on the Board. However, it considers diversity as a prerequisite for adequately representing the interests of the various stakeholders in the Company – shareholders, customers, and employees. The Committee seeks diversity in overall board composition. In the Committee's nominee considerations, diversity is a much broader concept than just the traditional racial and gender dimensions, as it also includes education, geography, business and professional experience and expertise, and civic involvement and responsibility, especially within the Company's market area. In connection with this evaluation process, the Committee determines whether to interview the candidate, and if warranted, one or more members of the Committee will conduct such interview. After completing the evaluation, the Committee makes a recommendation to the Board of Directors as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation of the Committee.

Corporate Governance and Risk Oversight Practices

In a financial institution, the role of the Board is critical to the success or failure of the enterprise. The Board of Directors is led by the Company's Chairman, Mr. Majors. The Chairman of the Corporate Governance and Nominating Committee, Mr. Owen, functions as the lead independent director. He chairs the Board in the absence of the Chairman and the Chief Executive Officer or when the Board's independent directors meet in executive session. Mr. Owen is a retired Chairman and Chief Executive Officer of a publicly traded tobacco company and a former non-executive board chairman of another public company, and his background and experience prepare him well for this role. Meetings of the independent directors are held at least quarterly.

This structure has evolved incrementally over more than 20 years, during the respective tenures of Mr. Majors and Mr. Jeffrey Haley as Chief Executive Officer. In the opinion of the Board, it has served the interests of the shareholders, customers, employees and regulators well, as vouched by the Company's consistently strong asset quality, earnings, and total return to shareholders.

The Board of Directors of a financial institution is the strategic linchpin in the risk oversight process. Financial institutions deal with credit risk, liquidity risk, interest rate risk, investment risk, operational risk, reputation risk, and regulatory risk in the day to day conduct of banking business. In order to better manage the risk oversight process, over the past few years the Board has evolved and enhanced its supervision oversight process.

As part of that evolution, there are three standing Board committees whose focus is specifically risk management and oversight: the Audit Committee, the Capital Management Committee, and the Risk and Compliance Committee. The Audit Committee is primarily concerned with financial reporting and internal control related risks. The Capital Management Committee is primarily concerned with market risk, interest rate risk, liquidity risk, investment risk, and capital management. The Risk and Compliance Committee is primarily concerned with developing an enterprise wide risk management strategy. Its focus is mainly operational, credit, and regulatory compliance risk. The Board's Committee efforts are supplemented and supported by the Executive Risk Committee, which is comprised of members of senior management and the Chairman of the Board.

In the opinion of the Board, this structure provides for a constantly evolving and improving approach to risk management and oversight.

Board Tenure Policy

The Board of the Company has a long-standing policy for the Company and the Bank with respect to the tenure of directors. In summary, it provides for the following:

No director will allow himself to be nominated for reelection to the Board of the Company after reaching the age of 72;

• No director will allow himself to be nominated for reelection to the Board of the Bank, unless at the time of such reelection he was eligible to serve as a director of the Company;

• Any director who retires or resigns from or severs his current employment, or relocates outside the market area of the Bank, will tender his resignation. The Board may accept the resignation, delay acceptance, or decline to accept it;

No inside director will continue to serve as a director after his retirement, resignation or other severance of employment status. However, the Board may waive this requirement if it is deemed in the best interests of the Company or the Bank;

• No director will be eligible for reelection if he is absent from all meetings for the 12-month period preceding the Annual Meeting of Shareholders at which such election would be held; and

Any former director may be elected as a Director Emeritus for a one year term, but may not serve more than three

years or be elected after reaching age 75. A Director Emeritus will be entitled to attend and participate in Board meetings, but will not be eligible to vote and their presence will not be considered in the determination of a quorum.

A reference in this proxy statement to one gender, masculine or feminine, includes the other; and the singular includes the plural and vice versa unless the context otherwise requires.

SECURITY OWNERSHIP

The table below includes information on all shareholders of the Company known to management to beneficially own 5% or more of the Company's common stock.

| Name and Address of Beneficial Owner | Shares of Common Stock Beneficially Owned (#) (1) | Investment Power (1) | Voting Power (1) | Percent of Class |
|---|--|-------------------------|---------------------|------------------|
| | | Shared | None | |