

FIRST MID ILLINOIS BANCSHARES INC  
Form DEF 14A  
March 18, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. \_\_\_\_)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material pursuant to Rule 14a-12

FIRST MID-ILLINOIS BANCSHARES, INC.  
(Name of Registrant as Specified in its Charter)

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(Name of Person(s) Filing Proxy Statement; if other than the Registrant)

Payment of filing fee (check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11
- (4) Proposed maximum aggregate value of transaction:
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- (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
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March 18, 2016

Dear Fellow Stockholder:

On behalf of the Board of Directors and management of First Mid-Illinois Bancshares, Inc. (the "Company"), I cordially invite you to attend the Annual Meeting of Stockholders of First Mid-Illinois Bancshares, Inc. to be held at 4:00 p.m. on April 27, 2016, in the lobby of First Mid-Illinois Bank & Trust, 1515 Charleston Avenue, Mattoon, Illinois.

Pursuant to the Securities and Exchange Commission's "notice and access" rules, on or about March 18, 2016, you received in the mail our Notice of Internet Availability of Proxy Materials (the "Notice"), which provided you with instructions on how to access on an Internet website this Proxy Statement, the Company's 2015 annual report to stockholders and the Company's Annual Report on Form 10-K for the recently completed fiscal year. Details regarding the business to be conducted at the meeting are described in the Notice and in this Proxy Statement.

At the meeting, we will report on Company operations and the outlook for the year ahead. Directors and officers of the Company, as well as a representative of BKD, LLP, the Company's independent auditors, will be present to respond to any appropriate questions stockholders may have.

The 2016 annual meeting of stockholders is being held for the following purposes:

1. The election of Robert S. Cook, Ray Anthony Sparks and James E. Zimmer as directors of the Company (Proposal I); and
2. Such other matters as may properly come before the meeting or any adjournments thereof.

I encourage you to attend the meeting in person. Whether or not you plan to attend the meeting, please act promptly to vote your shares. You may vote your shares over the Internet or, if you receive or request to receive written proxy materials, by mailing, completing, signing and dating a proxy card and returning it in the accompanying postage paid envelope provided. You may also vote your shares by telephone or by following the instructions set forth on the proxy card. Please review the instructions for each of your voting options described in the Notice you received in the mail and in this Proxy Statement. If you attend the meeting, you may vote your shares in person, even if you have previously submitted a proxy in writing, by telephone or through the Internet. Submitting a proxy will ensure that your shares are represented at the meeting. If you have any questions concerning these matters, please contact me at (217) 258-9520 or Aaron Holt, Manager of Shareholder Services, at (217) 258-0463. We look forward with pleasure to seeing and visiting with you at the meeting.

Very truly yours,

FIRST MID-ILLINOIS BANCSHARES, INC.  
Joseph R. Dively  
Chairman, President and Chief Executive Officer

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1421 Charleston Avenue · P.O. Box 499 · Mattoon, IL 61938 · Phone: (217) 258-0493

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## PROXY STATEMENT

Annual Meeting of Stockholders  
To Be Held April 27, 2016

First Mid-Illinois Bancshares, Inc.  
1421 Charleston Avenue, P.O. Box 499  
Mattoon, Illinois 61938  
(217) 258-0493

## GENERAL INFORMATION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of First Mid-Illinois Bancshares, Inc. (the "Company") to be voted at the Annual Meeting of Stockholders to be held in the lobby of First Mid-Illinois Bank & Trust, 1515 Charleston Avenue, Mattoon, Illinois, on Wednesday, April 27, 2016 at 4:00 p.m. local time. The Board of Directors would like to have all stockholders represented at the meeting. This proxy statement and the enclosed form of proxy are being made available to the stockholders beginning on or about March 18, 2016.

Whether or not you plan to attend the Annual Meeting of Stockholders, we encourage you to read this Proxy Statement and submit your proxy as soon as possible. For specific instructions on how to vote your shares, please refer to the instructions on the Notice of Internet Availability of Proxy Materials you received in the mail and if you receive or request to receive printed proxy materials, the proxy card. The Company's annual report to stockholders and its Annual Report on Form 10-K for the recently completed fiscal year, which includes the consolidated financial statements of the Company, have been made available with this Proxy Statement.

The Company is a diversified financial services company which serves the financial needs of central Illinois. The Company owns all of the outstanding capital stock of First Mid-Illinois Bank & Trust, N.A., a national banking association (the "Bank"); Mid-Illinois Data Services, Inc., a data processing company ("Data Services"); and The Checkley Agency, Inc. doing business as First Mid Insurance Group, an insurance agency ("Insurance Group").

Only holders of record of the Company's common stock ("Common Stock") at the close of business on March 4, 2016 (the "Record Date") will be entitled to vote at the annual meeting or any adjournments or postponements of such meeting. On the Record Date, the Company had 8,456,302 shares of Common Stock issued and outstanding. In the election of directors, and for any other matters to be voted upon at the annual meeting, each issued and outstanding share of Common Stock is entitled to one vote.

You may revoke your proxy at any time before it is voted. Unless so revoked, the shares represented by such proxies will be voted at the annual meeting and all adjournments thereof. You may revoke your proxy at any time before it is voted by delivering written notice of revocation to the Secretary of the Company at 1421 Charleston Avenue, P.O. Box 499, Mattoon, Illinois 61938, by executing and delivering a subsequently dated proxy or by attending the annual meeting and voting in person. Proxies solicited by the Board of Directors of the Company will be voted in accordance with the directions given therein. Where no instructions are indicated, proxies will be voted in accordance with the recommendations of the Board of Directors with respect to the proposals described herein.

A quorum of stockholders is necessary to take action at the annual meeting. The presence, in person or by proxy, of the holders of a majority of the shares of Common Stock of the Company entitled to vote at the meeting will constitute a quorum. Votes cast by proxy or in person at the meeting will be tabulated by the inspector of election appointed for the meeting and will be counted as present for purposes of determining whether a quorum is present. The inspector of election will treat broker non-votes as present and entitled to vote for purposes of determining whether a quorum is present. "Broker non-votes" refers to a broker or other nominee holding shares for a beneficial owner not voting on a particular proposal because the broker or other nominee does not have discretionary voting power regarding that item and has not received instructions from the beneficial owner.

The expenses of solicitation, including the cost of printing and mailing, will be paid by the Company. Proxies are being solicited principally via the Internet and by mail. In addition, directors, officers and regular employees of the Company may solicit proxies personally, by telephone, by fax or by special letter. The Company may also reimburse brokers, nominees and other fiduciaries for their reasonable expenses in forwarding proxy materials to beneficial owners.

#### VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The following table sets forth, as of February 1, 2016, the number of shares of Common Stock beneficially owned by each person known by the Company to be the beneficial owner of more than five percent of the outstanding shares of Common Stock (who are not also directors), each director nominee of the Company, each director, the "named executive officers" (as defined below) and all director nominees, directors and executive officers of the Company as a group. For certain individuals listed below, the number of shares of Common Stock beneficially owned includes the shares of Common Stock into which such individuals may convert their shares of the Company's Series C 8% Non-Cumulative Perpetual Convertible Preferred Stock (the "Series C Preferred Stock"). The Series C Preferred Stock is non-voting stock except with respect to certain fundamental changes in the terms of the stock and with respect to certain matters following the Company's failure to pay dividends on the stock during four dividend payment periods. Please refer to the footnotes of the following table for details.

| Name and Address of Beneficial Owner (1)   | Title of Class     | Amount and Nature of Beneficial Ownership (2) | Percentage of Class Outstanding | Percentage of Voting Power |
|--|--------------------|---|---------------------------------|----------------------------|
| Principal Stockholders:  |                    |   |                                 |                            |
| David R. Hodgman<br>c/o Schiff Hardin LLP<br>233 S. Wacker Dr., Suite 6600<br>Chicago, Illinois 60606    | Common             | 613,913                                       | (3) 7.3                         | %(20) 7.3                  |
|  | Series C Preferred | —   | —                               | %                          |
| Benjamin I. Lumpkin c/o SKL<br>Investment Group, LLC<br>121 South 17th Street<br>Mattoon, Illinois 61938 | Common             | 345,106                                       | (4) 4.1                         | %(20) 5.5                  |
|  | Series C Preferred | 500   | (4) 9.1                         | %                          |
| Charles A. Adams<br>1020 North 13th Street<br>Mattoon, Illinois 61938                                    | Common             | 533,624                                       | (5) 6.3                         | %(20) 7.1                  |
|  | Series C Preferred | 300   | (5) 5.5                         | %                          |
| Elizabeth L. Celio<br>c/o SKL Investment Group,<br>LLC<br>121 South 17th Street                          | Common             | 701,856                                       | (6) 8.3                         | %(20) 9.9                  |
|  | Series C Preferred | 600   | (6) 10.9                        | %                          |

Mattoon, IL 61938

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| Name and Address of Beneficial Owner (1)   | Title of Class     | Amount and Nature of Beneficial Ownership (2) | Percentage of Class Outstanding | Percentage of Voting Power |
|--|--------------------|---|---------------------------------|----------------------------|
| Director Nominees, Directors and Named Executive Officers:   |                    |   |                                 |                            |
| Holly A. Bailey  | Common             | 99,355  | (7) 1.2                         | %(20) 1.5                  |
|  | Series C Preferred | 125   | (7) 2.3                         | %                          |
| Robert S. Cook   | Common             | 14,122  | (8) *%                          | (20) *%                    |
|  | Series C Preferred | —   | (8) —                           | %                          |
| Joseph R. Dively   | Common             | 60,501  | (9) *%                          | (20) * %                   |
|  | Series C Preferred | 20  | (9) *%                          |                            |
| Steven L. Grissom<br>121 South 17th Street<br>Mattoon, Illinois 61938  | Common             | 435,858                                       | (10) 5.2                        | %(20) 5.5                  |
|  | Series C Preferred | 130   | (10) 2.4                        | %                          |
| Gary W. Melvin<br>1134 CR 1650 E<br>Sullivan, IL 61951   | Common             | 491,057                                       | (11) 5.8                        | %(20) 7.1                  |
|  | Series C Preferred | 489   | (11) 8.9                        | %                          |
| William S. Rowland   | Common             | 78,377  | (12) *%                         | (20) 1.0                   |
|  | Series C Preferred | 20  | (12) *%                         |                            |
| Ray Anthony Sparks   | Common             | 363,150                                       | (13) 4.3                        | %(20) 4.9                  |
|  | Series C Preferred | 230   | (13) 4.2                        | %                          |
| James E. Zimmer  | Common             | 3,220   | (14) *%                         | (20) * %                   |
|  | Series C Preferred | —   | (14) —                          | %                          |
| Michael L. Taylor  | Common             | 15,057  | (15) *%                         | (20) * %                   |
|  | Series C Preferred | 4   | (15) *%                         |                            |
| John W. Hedges   | Common             | 29,401  | (16) *%                         | (20) * %                   |
|  | Series C Preferred | 5   | (16) *%                         |                            |
| Eric S. McRae  | Common             | 21,908  | (17) *%                         | (20) * %                   |
|  | Series C Preferred | 2   | (17) *%                         |                            |
| Laurel G. Allenbaugh   | Common             | 11,226  | (18) *%                         | (20) * %                   |
|  | Series C Preferred | —   | (18) —                          | %                          |
| All director nominees, directors,<br>named executive officers and<br>other executive officers as a<br>group (17 persons) | Common             | 1,638,032                                     | (19) 19.3                       | %(21) 21.6                 |
|  | Series C Preferred | 1,025   | (19) 18.6                       | %                          |

\* Less than 1%

(1) Addresses are provided for those beneficial owners owning more than 5% of the Company's Common Stock.

Unless otherwise indicated, the nature of beneficial ownership for shares shown in this column is sole voting and (2) investment power. The information contained in this column is based upon information furnished to the Company by the persons named above.

The above Common Stock amount includes 230,912 shares held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Benjamin Iverson Lumpkin dated April 20, 1990, over which Mr. Hodgman has shared voting and investment power. Mr. Hodgman holds sole voting and investment power over 382,397 shares (3) held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Richard Anthony Lumpkin; and 604 shares held by the Richard Adamson Lumpkin Trust dated February 5, 1976 for the benefit of Richard Anthony Lumpkin. Mr. Hodgman disclaims beneficial ownership of the 613,913 shares held by the foregoing trusts.

(4) The above Common Stock amount includes 345,106 shares held by Mr. Lumpkin individually. The above Series C Preferred Stock amount includes 500 shares held by Mr. Lumpkin individually.

The above Common Stock amount includes 204,996 shares held by Mr. Adams individually; 271,146 shares held by a corporation which Mr. Adams is deemed to control; 19,000 shares held by the Howell-Adams Foundation (5) over which Mr. Adams has shared voting and investment power; and 38,481 shares held for the account of Mr. Adams under the Company's Deferred Compensation Plan. The above Series C Preferred Stock amount includes 300 shares held by Mr. Adams individually.

The above Common Stock amount includes 566,263 shares held by Ms. Elizabeth Celio individually; and 135,593 shares held by The Lumpkin Family Foundation, under which Ms. Celio has shared voting and investment power, (6) and of which beneficial ownership is disclaimed. The above Series C Preferred Stock amount includes 500 shares held by Ms. Celio individually; and 100 shares held by The Lumpkin Family Foundation of which beneficial ownership is disclaimed.

(7) The above Common Stock amount includes 97,734 shares held by Ms. Bailey individually. The above Series C Preferred Stock amount includes 125 shares held by Ms. Bailey individually.

(8) The above Common Stock amount includes 14,122 shares held by Mr. Cook jointly with his spouse.

The above amount includes 33,197 shares held by Mr. Dively individually; and 27,304 shares held for the account (9) of Mr. Dively under the Company's Deferred Compensation Plan. The above Series C Preferred Stock amount includes 20 shares held by Mr. Dively individually.

(10) The above Common Stock amount includes 42,083 shares held by Mr. Grissom individually; 27,714 shares held jointly with his spouse; and 2,518 shares held for the account of Mr. Grissom under the Company's Deferred Compensation Plan. The above Common Stock amount also includes 230,912 shares held by the Richard Anthony Lumpkin 1990 Personal Income Trust for the benefit of Benjamin Iverson Lumpkin dated April 20, 1990. Mr. Grissom has shared voting and investment power over this trust. The above Common Stock amount also includes 600 shares held by the Elizabeth L. Celio 2000 Gift Trust dated December 20, 2000 for the benefit of Emma G. Celio; 600 shares held by the Elizabeth L. Celio 2000 Gift Trust dated December 20, 2000 for the benefit of Claudia M. Celio; 600 shares held by the Elizabeth L. Celio 2000 Gift Trust dated December 20, 2000 for the benefit of Gabriela C. Celio; 12,552 shares held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Mary Lee Sparks; 605 shares held by the Richard Adamson Lumpkin Trust dated February 5, 1976 for the benefit of Mary Lee Sparks; 5,874 shares held by the John W. Sparks 2001 Irrevocable Trust dated July 5, 2001; 110,896 shares held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Margaret Lumpkin Keon; 604 shares held by the Richard Adamson Lumpkin Trust dated February 5, 1976 for the benefit of Margaret Lumpkin Keon and 300 shares held by the Mary Lee Sparks 1978 Trust for the benefit of Mary Lee Sparks. Mr. Grissom has sole voting and investment power over these trusts. Mr. Grissom disclaims beneficial ownership of these 363,543 shares held by the foregoing trusts. The above Series C Preferred



Stock amount includes 50 shares held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Mary Lee Sparks and 80 shares held by the Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Margaret Lumpkin Keon. Mr. Grissom disclaims beneficial ownership of these shares.

(11) The above Common Stock amount includes 400,299 shares held by Mr. Melvin individually; 46,253 shares held jointly by Mr. Melvin and his spouse; and 44,504 shares held for the account of Mr. Melvin under the Company's Deferred Compensation Plan. The above Series C Preferred Stock amount includes 489 shares held by Mr. Melvin individually.

(12) The above Common Stock amount includes 27,054 shares held by Mr. Rowland individually; 12,993 shares held jointly by Mr. Rowland and his spouse; 24,844 shares held for the account of Mr. Rowland under an Individual Retirement Account; 4,487 shares held for the account of Mr. Rowland under the Company's Deferred Compensation Plan; and options to purchase 9,000 shares of Common Stock. The Series C Preferred Stock amount includes 20 shares held jointly by Mr. Rowland and his spouse.

(13) The above Common Stock amount includes 228,645 shares held by Mr. Sparks individually; 89,649 shares held by Sparks Investment Group, LP; 18,880 shares held by the Sparks Foundation over which Mr. Sparks shares voting and investment power; 1,822 shares by Mr. Sparks' child, over which Mr. Sparks has shared voting and investment power; and 24,154 shares held for the account of Mr. Sparks under the Company's Deferred Compensation Plan. The above Series C Preferred Stock amount includes 220 shares held by Mr. Sparks individually, and 10 shares held by Sparks Investment Group, LP.

(14) The above Common Stock amount includes 1,661 shares held by Mr. Zimmer individually.

(15) The above Common Stock amount includes 4,640 shares held by Mr. Taylor individually; 4,916 shares held for the account of Mr. Taylor under the Company's 401(k) Plan and options to purchase 5,500 shares of Common Stock. The above Series C Preferred Stock amount includes 4 shares held by Mr. Taylor individually.

(16) The above Common Stock amount includes 11,398 shares held by Mr. Hedges individually; 1,493 shares held jointly with his spouse; 1,617 shares held for the account of Mr. Hedges under the Company's 401(k) Plan; 8,237 shares held for the account of Mr. Hedges under the Company's Deferred Compensation Plan; 1,156 shares held for the account of Mr. Hedges under an Individual Retirement Account; and options to purchase 5,500 shares of Common Stock. The above Series C Preferred Stock amount includes 5 shares held for the account of Mr. Hedges under an Individual Retirement Account.

(17) The above Common Stock amount includes 9,852 shares held by Mr. McRae individually; 2,249 shares for the account of Mr. McRae under an Individual Retirement Account; 3,205 shares held for the account of Mr. McRae under the Company's 401(k) Plan; 2,601 shares held for the account of Mr. McRae under the Company's Deferred Compensation Plan; and options to purchase 4,000 shares of Common Stock. The above Series C Preferred Stock amount includes 2 shares held by Mr. McRae individually.

(18) The above Common Stock amount includes 2,174 shares held by Ms. Allenbaugh individually; 462 shares held jointly with her spouse; 3,090 shares held for the account of Ms. Allenbaugh under the Company's 401(k) Plan and options to purchase 5,500 shares of Common Stock.

(19) The above amounts include additional shares for five executive officers not included in above table. The above Common Stock amount includes an aggregate of 33,000 shares obtainable upon the exercise of options.

(20) Percentage is calculated on a partially diluted basis, assuming only the exercise of stock options which are exercisable within 60 days by each individual.

(21) Percentage is calculated on a partially diluted basis, assuming only the exercise of stock options which are exercisable within 60 days by all director nominees, directors, named executive officers and other executive officers.

(22) Percentage is calculated on a partially diluted basis, assuming only the exercise of stock options by such individual which are exercisable within 60 days, and the conversion of Series C Preferred Stock held by such individual. Each share of Series C Preferred Stock is convertible into approximately 246.43 shares of Common Stock. The Company intends to convert the Series C Preferred Stock in May 2016.

(23) Percentage is calculated on a partially diluted basis, assuming the exercise of all stock options which are exercisable within 60 days by all director nominees, directors, named executive officers and other executive officers and the conversion of 252,583 shares obtainable through the conversion of 1,025 shares of Series C

Preferred Stock held by such individuals. The Company intends to convert the Series C Preferred Stock in May 2016.

As of February 1, 2016, the Bank acted as sole or co-fiduciary with respect to trusts and other fiduciary accounts which own or hold 185,577 shares, or 2.2%, of the outstanding Common Stock of the Company, over which the Bank has sole voting and investment power with respect to 171,071 shares, or 2.0%, of the outstanding Common Stock and shared voting and investment power with respect to 14,506 shares, or 0.2%, of the outstanding Common Stock.

## PROPOSAL I - ELECTION OF DIRECTORS

The directors of the Company are divided into Classes I, II and III having staggered terms of three years. For this year's annual stockholders meeting, upon the recommendation of the Board of Director's independent directors, the Board of Directors has nominated for re-election as Class III directors, for a term expiring in 2019, Robert S. Cook, Ray Anthony Sparks and James E. Zimmer. Messrs. Cook, Sparks and Zimmer have served as directors of the Company since 2014, 1994 and 2014, respectively. The three individuals receiving the highest number of votes cast will be elected as directors of the Company and will serve as Class III directors for a three-year term. Broker non-votes, because they are not considered votes cast, will not be counted in the vote totals. The Company has no knowledge that any of the nominees will refuse or be unable to serve, but if any of the nominees becomes unavailable for election, the holders of the proxies reserve the right to substitute another person of their choice as a nominee when voting at the meeting.

The following table sets forth as to each nominee and director continuing in office, his or her name, age, principal occupation and the year he or she first became a director of the Company. Unless otherwise indicated, the principal occupation listed for each person below has been his or her occupation for the past five years.

| Name                     | Age at<br>March 18,<br>2016 | Principal Occupation   | Year First<br>Became<br>Director | Year<br>Term<br>Expires |
|--------------------------|-----------------------------|--|----------------------------------|-------------------------|
| <b>DIRECTOR NOMINEES</b> |                             |  |                                  |                         |
| Robert S. Cook           | 33                          | Managing Partner of TAR CO Investments LLC, a private investment company (since 2014); Vice President of FIG Partners LLC, an investment banking firm (from 2009-2014); Director of the Company, the Bank, Data Services and Insurance Group (since 2014).   | 2014                             | 2016                    |
| Ray Anthony Sparks       | 59                          | Senior Advisor of Mattoon Area Family YMCA (since May 2015); Chief Executive Officer of Mattoon Area Family YMCA (2009-April 2015); private investor, Sparks Investment Group, LP (since 1997); former President of Elasco Agency Sales, Inc. and Electric Laboratories and Sales Corporation, a distributor of electrical supplies (until 1997); Director of the Bank (since 1997) and of the Company (since 1994); Director of Data Services (since 1996); Director of Insurance Group (since 2002). | 1994                             | 2016                    |
| James E. Zimmer          | 52                          | Owner, Zimmer Real Estate Properties, a student housing provider (since 2010); Co-Founder, Bio-Enzyme, an agriculture business focused on innovative solutions for farmers (since 2010); Chief Executive Officer of Channel Bio, a corn/soybean seed company owned by Monsanto Corporation (2008-2010); Director of the Company, the Bank, Data Services and Insurance Group (since 2014).   | 2014                             | 2016                    |

The Board of Directors recommends a vote "FOR" the election of Directors Cook, Sparks and Zimmer for a term of three years.

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| Name                                  | Age at<br>March 18,<br>2016 | Principal Occupation  | Year First<br>Became<br>Director | Year<br>Term<br>Expires |
|---------------------------------------|-----------------------------|---|----------------------------------|-------------------------|
| <b>DIRECTORS CONTINUING IN OFFICE</b> |                             |   |                                  |                         |
| Steven L. Grissom                     | 63                          | Chief Executive Officer of SKL Investment Group, LLC (since December 2015); Administrative Officer of SKL Investment Group, LLC, a private investment company (1997-November 2015); Treasurer and Secretary of Consolidated Communications Holdings, Inc., and its predecessors, a telecommunications holding company (2003-2006); Director of the Bank and the Company (since 2000); Director of Data Services (since 2009); Director of Insurance Group (since 2009).   | 2000                             | 2017                    |
| Gary W. Melvin                        | 67                          | Consultant and director of Rural King Farm & Home Supplies stores, a retail farm and home supply store chain (since 2013); President and Co-Owner, Rural King Farm & Home Supplies stores (1979-2013); Director of the Bank (since 1984); Director of the Company (since 1990); Director of Data Services (since 1987); Director of Insurance Group (since 2009).   | 1990                             | 2017                    |
| Holly A. Bailey                       | 45                          | President of Howell Asphalt Company (since 2008) and Howell Paving, Inc. (since 2013), a road construction company; Executive Vice President of Howell Paving, Inc. (2008-2013); and Vice President of Howell Asphalt Company and Howell Paving (1997- 2008); Director of the Company, the Bank Data Services and Insurance Group (since 2012).   | 2012                             | 2018                    |
| Joseph R. Dively                      | 56                          | Chairman, President and Chief Executive Officer of the Company (since January 2014); Senior Executive Vice President of the Company (May 2011-December 2013); President of the Bank (since May 2011); Senior Vice President of Consolidated Communications Holdings, Inc., a telecommunications holding company (2003-2011), and President of Illinois Telephone Operations, a local telecommunications provider (until 2008); Director of the Company and the Bank (since 2004); Director of Data Services (since 2009); Director of Insurance Group (since 2009). | 2004                             | 2018                    |
| William S. Rowland                    | 69                          | Chairman, President and Chief Executive Officer of the Company (1999-2013); Executive Vice President  | 1991                             | 2018                    |

of the Bank (1997-1999) and Treasurer and Chief  
Financial Officer (1989-1999) of the Company;  
Director of the Company and of the Bank (since  
1999); Director of Data Services (since 1989);  
Director of Insurance Group (since 2002).

## CORPORATE GOVERNANCE MATTERS

### BOARD OF DIRECTORS

The Board of Directors has determined that, except for Mr. Dively and Mr. Rowland, each of the members of the Board of Directors, is "independent" in accordance with the independence standards of the NASDAQ Stock Market LLC ("NASDAQ"). The Board of Directors has established an audit committee and a compensation committee. The Board of Directors has concluded all current members of the audit committee and compensation committee, and all members of both committees during 2015, satisfy the independence, experience and other membership requirements of NASDAQ, as required by the audit committee charter and the compensation committee charter. The Board of Directors has also created other company-wide management committees composed of officers of the Company and its subsidiaries.

A total of 14 regularly scheduled and special meetings were held by the Board of Directors during 2015. During 2015, all directors attended at least 75 percent of the meetings of the Board of Directors and the committees on which they served. The Company expects directors to attend the annual meeting, absent special circumstances. Except for Mr. Rowland, all of the then current directors attended the Company's 2015 Annual Meeting of Stockholders.

### BOARD OF DIRECTOR QUALIFICATIONS

The Board of Directors seeks to be composed of a diverse group of persons with a variety of experience, qualifications, attributes and skills that enable it to meet the governance needs of the Company. The Board of Directors consists of a group of individuals who have a mix of skills and knowledge in the areas of banking, finance, accounting and business. All members of the Board of Directors have an understanding of finance and accounting, are able to understand fundamental financial statements and generally accepted accounting principles and their application to the accounting of the Company. In addition, members of the Board of Directors are active in, and knowledgeable about, the local communities in which the Company operates. A number of the members of the Company's Board of Directors are also among the largest of the Company's shareholders. Following is a description of each director's specific experience and qualifications that led the Board of Directors to conclude that the person should serve as a director for the Company.

Holly A. Bailey has served as a director of the Company since 2012. Ms. Bailey has a bachelor's degree in Economics from DePauw University and an MBA degree from Texas Christian University. She is the President of Howell Asphalt Company, Wabash Asphalt Company, Inc., General Contractors and Prosser Company, which are subsidiaries of Howell Paving, Inc., of which she is also President (since 2013). She served as Executive Vice President of Howell Paving, from 2008-2013 and Vice President of Howell Asphalt Company and Howell Paving from 1997 until 2008. Her leadership experience and the business knowledge gained in her work with these companies and her experiences within the communities served by the Company assist the Board of Directors in various areas of its oversight.

Robert S. Cook has served as a director of the Company since August 2014. Mr. Cook has a bachelor's degree in Finance from the University of Missouri. He is currently the managing partner of TAR CO Investments LLC, which primarily invests in community banks. From 2009 to 2014, Mr. Cook was Vice President of FIG Partners, LLC, an investment banking firm, where he led corporate development efforts with community banks and thrifts for the company's Midwest practice. He also serves on the board of directors of another bank. His experience analyzing financial statements and making assessments of community banks in the Midwest assists the Board of Directors in various aspects of oversight and decision making.

Joseph R. Dively has served as a director of the Company since 2004. Mr. Dively has a bachelor's degree in Business from Eastern Illinois University and has also completed a "Finance for Executives" program through the graduate school of business at the University of Chicago. Mr. Dively has held a variety of management positions in diverse business



units which included financial statement responsibilities since 1991. He served as Senior Executive Vice President of the Company and President of the Bank from May 2011 to December 2013. On January 1, 2014, Mr. Dively became the Chairman of the Board of Directors and CEO of the Company. He also retained his position as President of the Bank. Mr. Dively provides a wealth of institutional knowledge of the Company. Prior to his employment with the Company, Mr. Dively was Senior Vice President of Consolidated Communications Holdings, Inc., a publicly traded telecommunications holding company headquartered in Mattoon, Illinois. Mr. Dively has also served on the boards of directors of several other organizations where his duties included working with investors, executive teams and other board members. Mr. Dively's current and previous experiences also assist the Board of Directors in dealing with issues related to the Company's local communities and the Board of Directors also benefits from his perspective serving as a former executive officer of a publicly traded company.

Steven L. Grissom has served as a director of the Company since 2000 and has been determined by the Board of Directors to be an audit committee financial expert. Mr. Grissom has a bachelor's degree in Business with an Accounting major from Eastern Illinois University, and has passed the Certified Public Accountant ("CPA") and Personal Financial Specialist ("PFS") exams. He was employed by a regional CPA firm from 1974 to 1981 where his experience included review of internal control procedures and analysis of major financial transactions including evaluation of appropriate accounting treatment under generally accepted accounting principles. From 1981 to 2005, Mr. Grissom held various positions at Illinois Consolidated Telephone Company which included tax and treasury responsibilities. Mr. Grissom is currently the Chief Executive Officer of SKL Investment Group, LLC, a private investment company where his responsibilities include tax and accounting functions and evaluation of financial statements for various investment opportunities. These skills serve the Board of Directors in its assessment of complex financial and investment matters.

Gary W. Melvin has served as a director of the Company since 1990. Mr. Melvin has a bachelor's degree in Economics from Western Illinois University and for thirty-five years (1979-2013) served as president, CEO and majority owner of Rural King Farm & Home Supplies, Inc., a retail farm and home supply store chain where he was actively involved with management in all aspects of the business. He currently serves as consultant and director, as well as a major stockholder, of Rural King Farm & Home Supplies, Inc. Mr. Melvin's ownership and leadership role in an important local and regional retailer provides the Board of Directors with a knowledgeable and skilled local business outlook.

William S. Rowland has served as a director of the Company since 1991. Mr. Rowland has a bachelor's degree in Accounting from St. Ambrose University. He served as Chairman of the Board of Directors and Chief Executive Officer of the Company until his retirement on December 31, 2013 (1999-2013). Previously, he was Treasurer and Chief Financial Officer of the Company (1989-1999). Prior to employment with the Company, Mr. Rowland was a CPA with the accounting firm KPMG, LLP. Mr. Rowland is and has been a member of several community boards, as well as the Illinois Bankers Association. Mr. Rowland brings to the Board of Directors his substantial institutional knowledge regarding the Company, including its operations and strategies.

Ray Anthony Sparks has served as a director of the Company since 1994. Mr. Sparks has a bachelor's degree in Business Administration with an accounting major from Millikin University and an MBA degree from Eastern Illinois University. He is the Senior Advisor (since May 2015) and former Chief Executive Officer (2009-April 2015) of the Mattoon Area Family YMCA and a private investor (since 1997). He was President of Elasco Agency Sales, Inc. and Electric Laboratories and Sales Corporation, a distributor of electrical supplies until 1997. He has also served as a director and officer for various not-for-profit organizations in the community. Mr. Sparks has been a user of financial statements in these positions and has experience dealing with CPAs, investment bankers and attorneys. These experiences and his strong financial background assist the Board of Directors in all areas of its oversight.

James E. Zimmer has served as a director of the Company since August 2014. Mr. Zimmer has an MBA degree from Washington University. From 1992-2010, he held a variety of sales, marketing and executive positions throughout the agricultural industry with Monsanto Corporation. Mr. Zimmer is currently the owner and operator of Zimmer Real Estate Properties, a premier student housing provider and the co-founder of Bio-Enzyme, an agriculture business focused on innovative solutions for farmers (since 2010). His experience and knowledge gained from these agriculture-related businesses will assist the Board of Directors in the communities it serves and various areas of its oversight.

#### BOARD OF DIRECTORS LEADERSHIP

Mr. Dively has served as President and Chief Executive Officer and Chairman of the Board of Directors of the Company since January 1, 2014. The Board of Directors believes that having the Chief Executive Officer and Chairman positions held by the same individual allows that individual to have multiple perspectives about the

Company and its operations while optimizing the ability of the Board of Directors members to communicate with Company management. Also, because the members of the Board of Directors other than Mr. Rowland and Mr. Dively are independent, the knowledge of the Company that Mr. Dively brings to the Board of Directors helps to enhance the Board of Directors' leadership of the Company. The Board of Directors has no fixed policy with respect to combining or separating the roles of the Chief Executive Officer and the Chairman of the Board of Directors and will continue to review the Board of Directors' leadership structure from time to time in order to ensure that the leadership is optimal for the Company at that time.

At any time that the Chief Executive Officer and Chairman of the Board positions are held by the same individual, the Board of Directors may, in its discretion, appoint a lead independent director. At its meeting on January 28, 2014, the Board of Directors appointed Mr. Sparks as its lead independent director. Prior to Mr. Sparks' appointment, the Board of Directors did not have a lead independent director. The responsibilities of the lead independent director include the following: acting as a liaison between the Chairman and the independent members of the Board of Directors; advising the Chairman on the quality, quantity and timeliness of the flow of information from management; serving as a resource to the members of the Board of Directors on corporate governance practices and policies; and coordinating and moderating executive sessions of the independent members of the Board of Directors.

#### BOARD OF DIRECTORS ROLE IN RISK OVERSIGHT

The Board of Directors oversees the risk management of the Company through its committees, management committees and the Chief Executive Officer. The Board of Directors' audit committee monitors risks related to (1) the effectiveness of the Company's disclosure controls and internal controls over financial reporting, (2) the integrity of its Consolidated Financial Statements, (3) compliance with laws and regulations, (4) risks and exposures relating to financial reporting, particularly disclosure and SEC reporting, (5) internal and independent auditors and (6) tax, investment, credit and liquidity matters. In addition, the audit committee oversees the internal audit function and communicates with the independent registered public accountant. The compensation committee is also involved in risk management through its review of risks in the Company's compensation policies and practices for employees. The Board of Directors' recognition of the importance of risk management oversight and their role in representing the interests of stockholders is enhanced as a result of the Board of Directors members' collective beneficial ownership of approximately 21% of the outstanding shares of Common Stock of the Company.

At its monthly meetings, the Board of Directors receives the minutes from each of the Company's management committee meetings, as well as various reports from executive management, including the senior Risk Management officer. The Board of Directors reviews and discusses these reports with each of the executive managers. The Board of Directors reviews the status of all classified assets and trends in loan delinquency and reviews the allowance for loan losses each quarter. During 2015, three members of the Board of Directors served on the senior loan committee. The senior loan committee approves all loan underwriting decisions in excess of \$4 million and up to \$15 million. The Board of Directors approves all underwriting decisions in excess of \$15 million.

The Board of Directors also reviews the policies and practices of the Company on a regular basis. In addition, the Board of Directors reviews corporate strategies and objectives, evaluates business performance and reviews the annual business plan.

#### NOMINATIONS FOR DIRECTOR

The Company does not maintain a standing nominating committee but has adopted a Director Nomination Policy. The Board of Directors' independent directors (the "Independent Directors") perform the functions of a nominating committee, and considers and acts on all matters relating to the nomination of individuals for election as directors. Pursuant to the Director Nomination Policy, the Independent Directors review and make recommendations regarding the composition and size of the Board of Directors in order to ensure that it has the requisite expertise and that its membership consists of persons with sufficiently diverse backgrounds and satisfies NASDAQ's listing requirements regarding independent directors. The Company believes the diverse backgrounds and perspectives of its current directors, as described above under "Board Director Qualifications," are appropriate to the oversight of the Company's management team and performance. The Board of Directors does not believe it needs a separate nominating committee because the Independent Directors have the time and resources to perform the function of selecting director nominees. Also, all but two of the directors satisfy the independence requirements of the NASDAQ Stock Exchange. The Independent Directors act in accordance with the Company's Director Nomination Policy and the

Company's Certificate of Incorporation when performing their nominating function.

In the consideration of director nominees, the Independent Directors consider, at a minimum, the following factors for new directors, or the continued service of existing directors: (1) the ability of the prospective nominee to represent the interests of the stockholders of the Company; (2) the prospective nominee's standards of integrity, commitment and independence of thought and judgment; (3) the prospective nominee's ability to dedicate sufficient time, energy and attention to the diligent performance of his or her duties; (4) the extent to which the prospective nominee contributes to the diversity of talent, skill and expertise appropriate for the Board of Directors; and (5) the prospective nominee's contributions to the Board of Directors as a whole.

Any stockholder who wishes to recommend a director candidate for consideration by the Independent Directors should submit such recommendation in writing to the Board of Directors at the address set forth below under "Communications with Directors." A candidate recommended for consideration must be highly qualified and must be willing and able to serve as director. Director candidates recommended by stockholders will receive the same consideration given to other candidates and will be evaluated against the criteria above.

#### NOTICE PROVISIONS FOR STOCKHOLDER NOMINATIONS OF DIRECTORS

Any stockholder wishing to nominate an individual for election as a director at the Annual Meeting must comply with certain provisions in the Company's Certificate of Incorporation. The Company's Certificate of Incorporation establishes an advance notice procedure with regard to the nomination, other than by or at the direction of the Board of Directors, of candidates for election as directors. If the notice is not timely and in proper form, the proposed nomination will not be considered at the Annual Meeting. Generally, such notice must be delivered to or mailed to and received by the Secretary of the Company not fewer than 14 days nor more than 60 days before a meeting at which directors are to be elected. To be in proper form, each written nomination must set forth: (1) the name, age business address and, if known, the residence address of the nominee, (2) the principal occupation or employment of the nominee for the past five years, and (3) the number of shares of stock of the Company beneficially owned by the nominee and by the nominating stockholder. The stockholder must also comply with certain other provisions set forth in the Company's Certificate of Incorporation relating to the nomination of an individual for election as a director. For a copy of the Company's Certificate of Incorporation, which includes the provisions relating to the nomination of an individual for election as a director, an interested stockholder should contact the Secretary of the Company at 1421 Charleston Avenue, P.O. Box 499, Mattoon, Illinois 61938.

#### AUDIT COMMITTEE

The members of the audit committee of the Company during the fiscal year ended December 31, 2015 were, and on the date of this proxy statement are, Ms. Bailey and Messrs. Grissom, Melvin, Sparks, Cook and Zimmer. The audit committee met 5 times in 2015. The audit committee assists the Board of Directors with the review of the Company's financial statements and the Company's compliance with applicable legal and regulatory requirements. Additionally, the audit committee appoints, and is directly responsible for the oversight of, the independent auditor, pre-approves all services performed for the Company by the independent auditor and oversees the Company's internal audit function. The audit committee may also retain independent legal, accounting or other advisors as it may deem necessary in order to carry out its duties.

The Board of Directors determined that each member of the audit committee satisfies the independence, experience and other membership requirements of NASDAQ. The Securities and Exchange Commission requires that Boards of Directors disclose whether any audit committee member qualifies as an "audit committee financial expert" as defined under SEC guidelines. The Board of Directors determined that Steven L. Grissom is an audit committee financial expert. Accordingly, Mr. Grissom is presumed to qualify as a financially sophisticated audit committee member under the rules of NASDAQ.

The audit committee acts pursuant to a written charter that was reviewed and reassessed for adequacy and reaffirmed by the Board of Directors on January 26, 2016. A copy of the audit committee charter may be found on the Company's website at [www.firstmid.com](http://www.firstmid.com). The audit committee will continue to review and reassess the charter from time to time but not less than annually.

#### COMPENSATION COMMITTEE

The members of the compensation committee of the Company during the fiscal year ended December 31, 2015 were, and on the date of this proxy statement are, Ms. Bailey and Messrs. Grissom, Melvin, Sparks, Cook and Zimmer. The compensation committee met 3 times in 2015. The compensation committee reports to the Board of Directors and has responsibility for all matters related to compensation of executive officers of the Company, including reviewing and approving base salaries and annual bonuses, conducting a review of executive officers' salary, incentive compensation, retirement benefits and fringe benefits compared to other financial services companies in the region, and using its best judgment in determining that total executive compensation reflects the Company's mission, strategy and performance.

The Board of Directors determined that each member of the compensation committee satisfies the independence, experience and other membership requirements of NASDAQ. The compensation committee acts pursuant to a written charter that was adopted by the Board of Directors on December 17, 2013. A copy of the compensation committee charter may be found on the Company's website at [www.firstmid.com](http://www.firstmid.com). The compensation committee will review and reassess the charter from time to time but not less than annually.

Additionally, the Board of Directors, or if the Board of Directors so delegates, a sub-committee of the compensation committee, has responsibility for administering the stock incentive plans of the Company. For information about the role of the compensation committee with respect to executive compensation, see the "Compensation Discussion and Analysis" section of this proxy statement.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2015, Ms. Bailey and Messrs. Grissom, Melvin, Sparks, Cook and Zimmer served on the compensation committee. No member of the compensation committee was, during 2015, an officer or employee of the Company, was formerly an officer of the Company, or had any relationship requiring disclosure by the Company as a related party transaction under Item 404 of Regulation S-K, other than the relationships of Ms. Bailey and Messrs. Cook, Melvin and Sparks reported herein under "Certain Relationships and Related Transactions." During 2015, none of the Company's executive officers served on the board of directors or the compensation committee of any other entity, any officers of which served either on the Company's board of directors or its compensation committee.

#### COMMUNICATIONS WITH DIRECTORS

Any stockholder or other interested person may communicate with the Board of Directors or any individual director by sending written correspondence addressed to the Board of Directors or such individual director in care of the Secretary of the Company at First Mid-Illinois Bancshares, Inc., 1421 Charleston Avenue, P.O. Box 499, Mattoon, Illinois 61938. The Secretary or the designee thereof will forward such correspondence to the Board of Directors or the relevant director.

#### CODE OF CONDUCT

The Company has adopted a code of conduct for directors, officers, and employees of the Company. This code of conduct is posted on the Company's website at [www.firstmid.com](http://www.firstmid.com). The code of conduct sets forth guiding principles by which the Company and its directors, officers and employees conduct business with the Company's stockholders and customers.

#### SECTION 16(a) - BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon its review of reports on Forms 3, 4 and 5 and any amendments furnished to the Company under Section 16 of the Securities Exchange Act of 1934, and written representations from the executive officers and directors that no other reports were required, the Company believes that all such forms that were required to be filed by all of its officers, directors and beneficial owners of more than 10% of its Common Stock were filed on a timely basis by reporting persons during the fiscal year ended December 31, 2015.





## REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The audit committee reviewed and discussed with management the Company's audited financial statements as of and for the fiscal year ended December 31, 2015. The audit committee also discussed with the independent auditors, BKD, LLP, the matters required to be discussed under standards of the Public Company Accounting Oversight Board ("PCAOB"). The audit committee received the written disclosures and the letter from BKD, LLP required by applicable requirements of the PCAOB regarding BKD, LLP's communications with the audit committee concerning independence, and discussed with BKD, LLP the independence of that firm.

Based on the review and discussion referred to above, the audit committee recommended to the Board of Directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. This audit committee report is submitted by the audit committee of the Board of Directors:

Ray Anthony Sparks, Chairman  
Holly A. Bailey  
Robert S. Cook

Steven L. Grissom  
Gary W. Melvin  
James E. Zimmer

## FEES OF INDEPENDENT AUDITORS

**Audit Fees.** The aggregate fees billed for professional services rendered by BKD, LLP for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2015 and 2014, the audit of the Company's internal control over financial reporting as of December 31, 2015 and 2014, and the review of the financial statements included in the Company's Quarterly Reports on Form 10-Q for 2015 and 2014 were \$211,100 and \$207,850, respectively.

**Audit-Related Fees.** The aggregate fees billed for professional services rendered by BKD, LLP for audit-related services for the fiscal years ended December 31, 2015 and 2014 (namely employee benefit plan audit) were \$17,350 and \$16,800, respectively.

**Tax Fees.** The aggregate fees billed for professional services rendered by BKD, LLP for the fiscal years ended December 31, 2015 and 2014 (namely preparation of consolidated tax return and tax advice) were \$29,729 and \$17,700, respectively.

**All Other Fees.** The aggregate fees billed for other professional services rendered by BKD, LLP for the fiscal years ended December 31, 2015 and 2014 (namely special audit procedures required following the Company's acquisitions completed during the year) were \$14,000 and \$0, respectively.

The audit committee pre-approves all auditing services and permitted non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. The audit committee pre-approved all services performed by the independent auditors in 2015.

## INDEPENDENT PUBLIC ACCOUNTANTS

BKD, LLP acted as independent certified public accountants of the Company and its subsidiaries for the fiscal years ending December 31, 2015. BKD, LLP has served as the Company's independent certified public accountant since July 26, 2005.

A representative from BKD, LLP is expected to be present at the annual meeting, will have the opportunity to make a statement and will be available to respond to appropriate questions. The Company has not yet appointed its independent auditors for the fiscal year ending December 31, 2016. The Company expects to appoint its independent auditors for 2016 at its March meeting of the Board of Directors.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed with the Company's management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on such review and discussion, the compensation committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

This compensation committee report is submitted by the compensation committee of the Board of Directors:

Holly A. Bailey, Chairman  
Robert S. Cook  
Steven L. Grissom

Gary W. Melvin  
Ray Anthony Sparks  
James E. Zimmer

## EXECUTIVE COMPENSATION

### COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis explains the objectives and philosophy underlying the Company's executive compensation program and the material elements of the compensation paid to the Company's executive officers, including the executive officers named in the Summary Compensation Table of this proxy statement (the "named executive officers"). The named executive officers for 2015 were:

|                       |   |
|-----------------------|---|
| Joseph R. Dively:     | President, Chairman & Chief Executive Officer             |
| Michael L. Taylor:    | Senior Executive Vice President & Chief Financial Officer |
| John W. Hedges:       | Senior Executive Vice President & Chief Credit Officer    |
| Eric S. McRae:        | Executive Vice President & Senior Lender                  |
| Laurel G. Allenbaugh: | Executive Vice President & Chief Operations & IT Officer  |

#### Executive Compensation Objectives

It is the policy of the Company to compensate its executives in a manner that is equitable and competitive based on their responsibilities, performance and market conditions. The Company's compensation objectives with respect to its named executive officers are to:

- Provide incentive to maximize stockholder value by aligning the executives' interests with those of the stockholders.
- Enable the Company to attract and retain the best available executive talent.
- Reward individual performance and contributions to the Company.

#### Setting Executive Compensation

The compensation committee attempts to meet these objectives by providing a mix of key compensation elements that include base salary, annual cash incentives and equity-based compensation. In setting aggregate compensation for each of the named executive officers, the compensation committee first establishes appropriate levels of base salary for the executives, and then establishes the opportunity for the executives to earn additional compensation through annual cash incentives and longer-term equity compensation. The amount of such additional compensation varies with position and, in the case of annual and long-term incentives, is also conditioned on attainment of corporate or individual performance measures. The Company also provides retirement benefits, severance and change in control benefits, and a limited number of perquisites and other personal benefits in order to ensure a complete and competitive compensation plan.

The compensation committee uses the key elements of compensation to meet the objectives of its executive compensation program as follows:

Provide incentive to maximize stockholder value by aligning the executives' interests with those of the stockholders. In the past, the compensation committee has used stock options as a way to unify the interests of the executives and stockholders. Issuing options that have a 10 year term and incrementally vest over time, but only so long as the executive remains employed by the Company, encourages an executive to increase the Company's stock value over time. Since 2011, the compensation committee has granted annual and cumulative performance awards under its executive long term incentive plan that consist of restricted stock awards and restricted stock units. The compensation committee also bases a significant portion of an executive's cash incentive on attainment of certain corporate performance metrics, which encourages the executive to work to increase the Company's profitability and in

turn, its stock value.

The compensation committee believes that the components of the long term incentive plan align key executive compensation with the Company's performance goals. The long term incentive plan includes both single and multiple year goals which ensure that the executives are focused on longer term sustainability of earnings and growth in the book value of the Company. Lastly, the restricted stock and restricted stock units issued under the long term incentive plan awards offer less market risk for executives and less dilutive potential to the current owners of the Company's stock.

Enable the Company to attract and retain the best available talent. In order to achieve this objective, the compensation committee believes it must pay compensation that is competitive. As described below, the compensation committee reviews and monitors the compensation paid by companies that are comparable to the Company to ensure that compensation packages are competitive.

Reward individual performance and contributions to the Company. The compensation committee's evaluation of the individual performance of each executive affects his or her compensation. Individual performance is an important factor in determining base salary, which in turn affects the amount of cash incentive compensation that can be earned. Individual performance is also a component of the cash incentive compensation and, when awarded, equity compensation.

The compensation committee makes all compensation decisions for the CEO and all other executive officers of the Company. The CEO annually reviews the performance of each executive officer (other than himself) and makes recommendations to the compensation committee. The compensation committee considers the CEO's recommendations when making its final compensation decisions for all executives other than the CEO. Although the compensation committee has the discretion to make all final decisions, the recommendation of the CEO is an important factor. The compensation committee believes that its ability to exercise discretion in setting the elements of compensation for its executives provides flexibility to establish appropriate overall compensation levels and achieve the Company's objectives.

#### Key Elements of Compensation

Each year the compensation committee reviews compensation data of the most highly paid executives of other comparable banking institutions. For 2015, the data consisted of a compensation survey, prepared by the Company's human resources director, of publicly traded banks in non-urban markets in the upper Midwest who directly compete with the Company or who have market capitalization comparable to that of the Company. (The banks included in the 2015 analysis ranged in size from approximately \$1 billion to \$5 billion in assets). Because these institutions frequently recruit individuals for senior executive positions requiring similar skills and backgrounds to the individuals recruited by the Company, the compensation committee uses this information as a general guide in establishing the base salaries, cash incentives and equity compensation of the named executive officers. The compensation committee generally aligns compensation components with those used by the peer institutions and attempts to maintain a comparable level of total compensation (i.e., salary, annual cash incentives and equity compensation). However, the compensation committee does not rely solely on this information and does not benchmark its decisions regarding total compensation or elements of compensation to any particular percentile range of the comparator groups of companies.

In addition, the compensation committee considers each executive's current salary, his or her individual performance, the financial performance of the Company, the anticipated difficulty of replacing the executive with a person of comparable experience and skill and the recommendation of the CEO. The compensation committee also may periodically engage the services of independent consultants with knowledge and experience in such matters, although it did not do so for 2015 compensation decisions.

#### Base Salary

Executives are paid an annual salary. The compensation committee reviews salaries annually in the beginning part of each year. Based on the guidelines and factors described above, the compensation committee, in early 2015, concluded that adjustments to base salaries for certain named executive officers were necessary in order to keep compensation for named executive officers competitive. In addition to the factors noted above, the compensation committee considered the level of the executive's accomplishment of individual goals for the prior year, the number of individuals the executive supervises, the level of duties and responsibilities assumed by the executive and the strategic

implications of the decisions the executive is required to make.

The compensation committee established the 2015 base salary for the named executive officers as follows (salary increases were effective as of February 16, 2015):

| Executive      | 2015 Salary Rate | \$ Increase from 2014 Salary Rate |
|----------------|------------------|-----------------------------------|
| Mr. Dively     | \$343,200        | \$13,200                          |
| Mr. Taylor     | \$253,136        | \$9,736                           |
| Mr. Hedges     | \$257,508        | \$8,708                           |
| Mr. McRae      | \$229,491        | \$7,761                           |
| Ms. Allenbaugh | \$184,032        | \$5,792                           |



The actual salaries paid to the named executive officers in 2015 are set forth in the "Salary" column of the Summary Compensation Table of this proxy statement.

#### Annual Cash Incentives

The named executive officers are eligible to participate in the Company's Incentive Compensation Plan (the "Plan"), which is designed to reward executives in increasing Company profitability and achieving individual accomplishments which create stockholder value. The Company reserves the right to require its executives to return all or a portion of incentive cash compensation paid in the event of an earnings restatement of previously issued financial statements.

In January 2015, the compensation committee determined the target cash incentive opportunity each named executive officer was entitled to receive as a percentage of his or her base salary rate in effect for 2015. This amount was based on individual performance during the previous year, as well as the level of duties and responsibilities assumed by the executives in their respective positions. The percentage of salary payable as cash incentive was consistent with the amounts in each named executive officer's employment agreement and did not change from 2014.

Since successful execution of the Company's strategic plan requires that members of the executive management team work closely together (sometimes to the detriment of individual personal goals) and because senior management has the potential greatest influence on Company profitability, the compensation committee determined each executive's incentive opportunity for 2015 would continue to be based 70% on the Company's net income (exclusive of non-recurring costs associated with acquisitions) and 30% on the Company's asset quality (non-performing loans and repossessed assets as a percent of total loans). The Compensation Committee utilizes the asset quality goal, in addition to the net income goal, based on the premise that asset quality has a strong correlation to future loan losses and therefore, future profitability, while net income represents current profitability. The Compensation Committee believes the combination of these two metrics represents the best measures of shareholder value for the near term.

The target cash incentive opportunity for each named executive officer established for 2015 was based on a percentage of the executive's salary rate in effect beginning February 16, 2015, as follows:

| Executive      | % of Salary Payable as Cash Incentive | % of Cash Incentive Tied to Net Income | % of Cash Incentive Tied to Asset Quality |
|----------------|---------------------------------------|--|---|
| Mr. Dively     | 50%                                   | 70%                                    | 30%                                       |
| Mr. Taylor     | 35%                                   | 70%                                    | 30%                                       |
| Mr. Hedges     | 35%                                   | 70%                                    | 30%                                       |
| Mr. McRae      | 35%                                   | 70%                                    | 30%                                       |
| Ms. Allenbaugh | 35%                                   | 70%                                    | 30%                                       |

At the same time, the compensation committee established the criteria for measurement of the two goals. The net income target was determined using the prior year's net income (which was \$15.5 million) and current year budgeted net income. The asset quality target was determined to be based on a percentage of the balance of total loans outstanding (which was \$1.134 billion) at December 31, 2015. Using this as a base line, the compensation committee determined the following 2015 goal criteria:

|            | Performance  | Net Income     | Asset Quality (1) | % of Opportunity |
|------------|--|----------------|-------------------|------------------|
| Threshold: | 85% of previous year net income and nonperforming assets of 1.85% of current year loan balance | \$13.1 million | \$21.0 million    | 25%              |
| Target:    | Current year budgeted net income and nonperforming assets of                                   | \$16.2 million | \$19.1 million    | 60%              |

|           |                                    |                |                |      |
|-----------|------------------------------------|----------------|----------------|------|
| Superior: | 1.68% of current year loan balance |                |                |      |
|           | 110% of previous year net income   |                |                |      |
|           | and and nonperforming assets of    | \$17.8 million | \$12.5 million | 100% |
|           | 1.00% of current year loan balance |                |                |      |

The compensation committee has the discretion to pay a prorated portion of the cash incentive opportunity for attainment of levels between threshold, budget and superior, or for attainment of levels above superior. Operations for 2015, adjusted \$198,000 for the net impact of acquisitions, resulted in net income of \$16.71 million, which was between the budget and superior levels for 72% payout. Balances of total non-performing assets on December 31, 2015 totaled \$21 million, which was at the threshold level for 25% payout. The cash incentive award was based on corporate performance achievement of 58%:

|               | % of<br>Incentive | % of<br>attainment | % of<br>opportunity |   |
|---------------|-------------------|--------------------|---------------------|---|
| Net Income    | 70                | % 72               | % 50                | % |
| Asset Quality | 30                | % 25               | % 8                 | % |
|               |                   |                    | 58                  | % |

Based on the 58% level of attainment, the following bonuses were paid for 2015:

| Executive      | Cash Incentive |
|----------------|----------------|
| Mr. Dively     | \$99,300       |
| Mr. Taylor     | \$51,269       |
| Mr. Hedges     | \$52,155       |
| Mr. McRae      | \$46,480       |
| Ms. Allenbaugh | \$37,273       |

#### Equity Compensation

The compensation committee grants long-term equity compensation in order to motivate executives to increase stockholder value over the long term and more closely link the financial interests of the Company's executives with those of its stockholders. The Company reserves the right to require its executives to return all or a portion of compensation paid in the event of an earnings restatement of previously issued financial statements.

Since 2011, the compensation committee has made awards pursuant to the Executive Long-Term Incentive Program (LTIP), which provides a framework for granting awards of restricted stock and restricted stock units (RSUs) under the 2007 Stock Incentive Plan. The compensation committee believes that the components of the LTIP more closely align key executive compensation with the Company's performance goals than the stock options granted in prior years and ensures that the executives are focused on longer term sustainability of earnings and growth in the value of the Company. The LTIP also gives the compensation committee the ability to change the types and weightings of the metrics used for the performance goals to which the awards are subject. Prior to 2015, the LTIP included annual and three-year goals. In January 2015, the compensation committee restructured the LTIP to reduce its complexity while retaining the long-term component and the overall equity value awarded to participants. The LTIP grants are still performance-based and subject to the same performance criteria. However, (i) the awards are entirely in the form of RSUs (no restricted stock); (ii) the annual award component has been eliminated, so all of the RSUs (as adjusted for performance) will vest at the end of a three-year performance period; and (iii) at the end of the performance period the units are settled entirely in shares of stock (no 50% cash payment).

Under the LTIP for 2015, the compensation committee set an aggregate target value of the awards to be made to each executive. In determining these values, the compensation committee did not use a formulaic approach, but took into account historic grants, Company performance and individual levels of responsibility. The value of equity awarded to each executive is intended to be proportionate to the individual's responsibility to influence the strategic direction of the Company and create stockholder value. Each award was granted with a three-year performance period ending December 31, 2017 and consists entirely of RSUs. The number of RSUs subject to each Award is determined by

dividing the target value by the closing price of the common stock on the date of grant.

The compensation committee also set performance goals to which each award is subject. The target number of RSUs subject to each award is adjusted by the compensation committee at the end the performance period, and the adjusted number of RSUs vest as of such date. Vested awards are settled entirely in stock. Until an executive's award vests or is forfeited, it is credited with dividend equivalents which are paid to the executive only to the extent the award vests. The awards granted to named executive officers in 2015 were based on a percentage of the executive's salary in effect beginning February 16, 2015, as follows:

| Executive      | Percentage<br>of Salary (1) | Target<br>Value | Stock Unit<br>Award |
|----------------|-----------------------------|-----------------|---------------------|
| Mr. Dively     | 30%                         | \$102,960       | 5,195               |
| Mr. Taylor     | 20%                         | \$50,627        | 2,555               |
| Mr. Hedges     | 20%                         | \$51,502        | 2,599               |
| Mr. McRae      | 13%                         | \$29,834        | 1,506               |
| Ms. Allenbaugh | 13%                         | \$23,924        | 1,208               |

(1) The percentages in this column are the same as those used in 2014.

At the same time, the compensation committee established the 2015 performance goals for the performance period based on historical and expected performance. These goals were established using two performance metrics: return on assets (calculated as net income divided by year-to-date average assets) and tangible book value per share (calculated as total common equity less goodwill and other intangible assets divided by common shares outstanding). The compensation committee believes use of these metrics shifts the dependency of incentive compensation from the measure of net income used in cash incentives and encourages growth and increased value for the Company's stockholders. Based on historical and 2015 budgeted metrics, the compensation committee determined the following 2015 goals:

| Performance Level                                   |      | Performance<br>Award |
|---|------|----------------------|
| Return on Assets (50% goal weighting):              |      |                      |
| < Threshold   | 0%   |                      |
| Threshold   | 70%  | 0.90%                |
| Target  | 100% | 1.00%                |
| Maximum   | 125% | 1.05%                |
| Tangible Book Value per Share (50% goal weighting): |      |                      |
| < Threshold   | 0%   |                      |
| Threshold   | 70%  | \$18.50              |
| Target  | 100% | \$19.50              |
| Maximum   | 125% | \$21.00              |

The number of shares subject to each award is adjusted by the percentage multiplier that results from the actual achievement level of the performance goals. For achievement of levels between threshold and target and between target and maximum, the percentage multiplier is adjusted on the basis of straight line interpolation. Fractional shares are rounded up.

On December 31, 2015, the three-year performance period ended for restricted stock/RSU awards granted in 2013. The performance goals were return on assets and tangible book value. Results for the performance period for return on assets was 0.97% and for tangible book value per share was \$17.42. This resulted in executives receiving 118% of this award, which was fully vested.



## Retirement Plans

The Company sponsors various retirement plans that cover eligible employees, including certain named executive officers. The Company believes that these benefits are a valuable incentive for attracting and retaining top executives.

**401(k) Plan.** The Company's 401(k) plan is a tax-qualified retirement plan that covers all employees generally, including the named executive officers. An employee can elect to defer a percentage of his or her compensation on a pre-tax basis, up to a maximum in 2015 of \$18,000, or \$24,000 if age 50 or over, and the Company contributes a matching contribution of up to 4% of the employee's deferral contributions. The Company also provides a discretionary annual contribution up to 4% of each eligible employee's compensation, whether or not the employee makes elective deferral contributions. (Amounts paid to the plan reflect the Internal Revenue Code's limit on the amount of compensation that can be taken into account in determining contributions, which was \$265,000 in 2015). The Company's contributions under the Plan on behalf of each named executive officer are included in the "All Other Compensation" column of the Summary Compensation Table of this proxy statement.

**Deferred Compensation Plan.** The Deferred Compensation Plan is a non-qualified retirement plan that covers selected employees, including the named executive officers. The plan provides higher paid employees with the opportunity to defer compensation in addition to compensation that can be deferred under the 401(k) plan. For each calendar year, each executive can defer a portion of his or her salary and cash incentive opportunity. The deferred amounts are invested in Company common stock and are paid to the executive in shares of common stock after termination of employment. The Company does not contribute to this plan. The Deferred Compensation Plan is described in greater detail in the "Non-Qualified Deferred Compensation" section of this proxy statement.

## Employment Agreements

The Company has employment agreements with certain of its executives, including each named executive officer. The agreements, which are generally for three-year terms, provide for a minimum base salary which cannot be reduced, and a maximum cash incentive opportunity. The agreements also provide for severance benefits upon certain terminations of employment. If the named executive officer's employment is terminated by the Company without cause, he or she is entitled to continued payment of base salary for 12 months and continued health coverage for the severance period. If following a change in control of the Company, either the named executive officer's employment is terminated by the Company without cause, or the named executive officer terminates his or her employment for good reason, the named executive officer is entitled to continued payment of base salary for 12 months (24 months for Messrs. Dively, Taylor, and Hedges), a lump sum payment equal to the cash incentive paid for the prior year, and continued health coverage for 12 months. The agreements contain restrictive covenants that prohibit the named executive officers from disclosing confidential information and from competing with the Company. Mr. Hedges' employment agreement was amended on December 15, 2015 to renew the agreement through December 31, 2016 and shorten the term of the covenant not to compete to one year (from two years). The employment agreements are described in greater detail in the "Potential Payments Upon Termination or Change in Control of the Company" section of this proxy statement.

The compensation committee believes these severance benefits reflect market levels of benefits when they were negotiated and represent fair and appropriate consideration for the executive's agreement to the post-termination restrictive covenants. The Company believes that the protections afforded by the agreements are a valuable incentive for attracting and retaining top executives. The Company also believes that in the event of an extraordinary corporate transaction, the agreements could prove important to the Company's ability to retain top management through the transaction process and to provide motivation to the executives to act in the best interests of the Company and its stockholders before, during and after the transaction.

Perquisites and Other Benefits

The Company provides limited perquisites and other benefits to its executives. During 2015, Messrs. Dively, Taylor, Hedges and McRae received a monthly auto allowance. The determination as to whether an auto allowance is appropriate for an executive is based on the amount of business travel undertaken by the executive and the relative cost involved. The Company paid for annual country club membership dues for Messrs. Dively, Taylor and Hedges. All of the named executives received communication device allowances. These perquisites and other benefits are reported in the “All Other Compensation” column of the Summary Compensation Table of this proxy statement.



### Incentive Compensation Recoupment Policy

In January 2015, the compensation committee adopted an Incentive Compensation Recoupment Policy. The Policy permits the Board to recoup from an executive cash or equity-based compensation granted on or after January 1, 2015 in the event that there is a restatement of the Company's financial statements or the executive engages in misconduct that results in a material loss or damage to the Company. Recoupment covers any incentive compensation (including annual cash bonuses and awards under LTIP) that is awarded or paid or vests within 36 months preceding the restatement or 36 months following the occurrence of misconduct. Misconduct includes an act of fraud, dishonesty or gross negligence, the material breach of a fiduciary duty, a knowing violation of a Company policy, or a violation of a confidentiality, non-solicitation or non-competition covenant.

### Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code limits the deductibility of executive compensation paid to the CEO and to each of the three other most highly compensated officers (other than the chief financial officer) of a public company to \$1 million per year, but contains an exception for "performance-based compensation." Annual salary, by its nature, does not qualify as performance-based compensation under Section 162(m), and the Company's annual cash incentive payments and grants of restricted stock and restricted stock units do not qualify as performance-based compensation. Stock options previously granted by the Company do qualify as performance based compensation. Due to the amounts and forms of compensation currently paid to the Company's executive officers, the tax deductibility of such compensation under Section 162(m) is not an important factor at this time in making compensation decisions.

### Other Compensation Decisions

At the 2014 Annual Meeting of Stockholders, the "Advisory Vote on Executive Compensation" proposal (the "say on pay" vote) received support from approximately 96% of the votes cast. The Board of Directors considered these results and, based on the overwhelming support from stockholders, determined to not make any major changes to the executive compensation plans and programs already in place for 2015 or for 2016, except that the Company adopted an Incentive Compensation Recoupment Policy and the LTIP was streamlined for awards granted in 2015.

## SUMMARY COMPENSATION TABLE

This table shows the compensation of the Company's Chief Executive Officer, Chief Financial Officer and the three other most highly-compensated executive officers of the Company (the "named executive officers") during the years ended December 31, 2015, 2014 and 2013.

| Name and Principal Position   | Year | Salary  | Stock Awards | Non-Equity Incentive Plan Compensation | All Other Compensation | Total   |
|---|------|---------|--------------|--|------------------------|---------|
|   |      | (\$)    | \$(1)        | \$(2)                                  | \$(3)                  | (\$)    |
| Joseph R. Dively<br>Chairman,<br>President & Chief Executive Officer              | 2015 | 341,169 | 102,965      | 99,300                                 | 30,110                 | 573,544 |
|   | 2014 | 328,462 | 99,000       | 163,350                                | 41,128                 | 631,940 |
|   | 2013 | 320,844 | 96,040       | 160,000                                | 15,300                 | 592,184 |
| Michael L. Taylor<br>Senior Executive Vice<br>President & Chief Financial Officer | 2015 | 251,638 | 50,640       | 51,269                                 | 26,554                 | 380,101 |
|   | 2014 | 245,154 | 48,708       | 84,338                                 | 19,808                 | 398,008 |
| John W. Hedges<br>Senior Executive Vice<br>President                              | 2013 | 218,144 | 32,764       | 76,440                                 | 15,300                 | 342,648 |
|   | 2015 | 256,168 | 51,512       | 52,155                                 | 27,651                 | 387,486 |
| Eric S. McRae<br>Executive Vice President   | 2014 | 247,323 | 49,764       | 86,209                                 | 35,052                 | 418,348 |
|   | 2013 | 239,272 | 47,852       | 83,720                                 | 14,147                 | 384,991 |
|   | 2015 | 226,607 | 29,849       | 46,480                                 | 25,232                 | 328,168 |
| Laurel G. Allenbaugh (4)<br>Executive Vice President                              | 2014 | 219,713 | 28,864       | 76,830                                 | 28,055                 | 353,462 |
|   | 2013 | 212,619 | 27,734       | 74,620                                 | 13,225                 | 328,198 |
|   | 2015 | 183,141 | 23,943       | 37,273                                 | 17,218                 | 261,575 |
|   | 2014 | 177,440 | 23,188       | 61,760                                 | 17,000                 | 279,388 |

(1) Stock Awards. The amounts in this column represent the aggregate grant date fair value of stock awards and RSUs computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, based on the probable outcome of the performance conditions attached to the awards. The grant date fair value for 2015 awards granted assuming the maximum level of achievement is: Mr. Dively: \$128,706; Mr. Taylor: \$63,300; Mr. Hedges: \$64,390; Mr. McRae: \$37,311; and Ms. Allenbaugh: \$29,929. See Note 13 to the consolidated financial statements in the Company's 2015 Form 10-K for a description of the valuation.

(2) Non-Equity Incentive Plan Compensation. All amounts in this column are based on performance in 2015, 2014 and 2013 and reflect the amounts actually paid in February 2016, 2015 and 2014, respectively, under the Company's Incentive Compensation Plan. See "Cash Incentives" in the Compensation Discussion and Analysis section of the Proxy Statement for a discussion of this Plan.

(3) All Other Compensation. For 2015, these amounts include (i) the Company's contributions to its 401(k) Plan on behalf of each named executive (Mr. Dively: \$10,840; Mr. Taylor: \$14,633; Mr. Hedges: \$12,878; Mr. McRae: \$13,477; and Ms. Allenbaugh: \$15,528); (ii) for Messrs. Dively, Taylor and Hedges, country club dues; (iii) for Messrs. Dively, Taylor, Hedges and McRae, automobile allowances; and (iv) communication device allowances for each named executive officer.

(4) Ms. Allenbaugh was not a named executive officer for 2013.



Employment Agreements. The Company is a party to employment agreements with each of the named executive officers that provide for certain compensation and benefits during employment:

Mr. Dively: The employment agreement with Mr. Dively was renewed effective January 1, 2014 and has a term through December 31, 2016 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 50% of base salary, (iii) participation in the Company's Deferred Compensation Plan and 2007 Stock Incentive Plan, (iv) use of a Company owned or leased automobile and payment of annual country club membership dues, and (v) other benefits made available to Company executive or management employees.

Mr. Taylor: The employment agreement with Mr. Taylor was renewed in 2015 and has a term through May 22, 2018 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 35% of base salary, (iii) participation in the Company's Deferred Compensation Plan, and (iv) other benefits made available to Company executives or management employees.

Mr. Hedges: The employment agreement with Mr. Hedges was renewed in 2014 and had a term through December 31, 2015 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 35% of base salary, (iii) participation in the Company's Deferred Compensation Plan, (iv) payment of annual country club membership dues, and (v) other benefits made available to Company executive or management employees. Mr. Hedges' agreement was amended on December 15, 2015, to extend the term of the agreement through December 31, 2016 and reduce the term of the covenant not to compete from two years to one year.

Mr. McRae: The employment agreement with Mr. McRae was renewed in 2015 and has a term through February 15, 2018 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 35% of base salary, (iii) participation in the Company's Deferred Compensation Plan, and (iv) other benefits made available to Company executive or management employees.

Ms. Allenbaugh: The employment agreement with Ms. Allenbaugh was renewed in 2015 and has a term through May 22, 2018 that can be extended upon mutual agreement and provides for (i) an initial base salary that can be increased but not decreased, (ii) a bonus under the Company's Incentive Compensation Plan of up to 35% of base salary, (iii) participation in the Company's Deferred Compensation Plan, and (iv) other benefits made available to Company executives or management employees.

First Retirement and Savings Plan ("401(k) Plan"). The Company has a tax-qualified defined contribution retirement plan that covers all employees generally and provides for a discretionary contribution by the Company of 4% of compensation and a matching contribution by the Company of up to 100% of the first 3% and 50% of the next 2% of employee contributions.

## 2015 GRANTS OF PLAN-BASED AWARDS

This table sets forth information for each named executive officer with respect to estimated payouts under incentive plans during the year ended December 31, 2015.

| Name                 | Grant Date | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1) |             |              | Estimated Future Payouts Under Equity Incentive Plan Awards (3) |            |             | Grant Date Fair Value of Stock Awards (\$) |
|----------------------|------------|---|-------------|--------------|---|------------|-------------|--|
|                      |            | Threshold (\$)(2)   | Target (\$) | Maximum (\$) | Threshold (#)   | Target (#) | Maximum (#) |  |
| Joseph R. Dively     | 01/27/15   | 42,900  | 102,960     | 171,600      | 3,637   | 5,195      | 6,494       | 102,965                                    |
| Michael L. Taylor    | 01/27/15   | 22,149  | 53,159      | 88,598       | 1,789   | 2,555      | 3,194       | 50,640                                     |
| John W. Hedges       | 01/27/15   | 22,532  | 54,077      | 90,128       | 1,819   | 2,599      | 3,249       | 51,512                                     |
| Eric S. McRae        | 01/27/15   | 20,080  | 48,193      | 80,322       | 1,054   | 1,506      | 1,883       | 29,849                                     |
| Laurel G. Allenbaugh | 01/27/15   | 16,103  | 38,647      | 64,411       | 846   | 1,208      | 1,510       | 23,943                                     |

Estimated Possible Payouts Under Non-Equity Incentive Plan Awards. Payouts under the Company's Incentive Compensation Plan were based on performance in 2015, which has now occurred. Thus, the information in the "Threshold," "Target" and "Maximum" columns reflect the range of potential payouts when the performance goals were set in January 2015. The amounts actually paid under the Company's Incentive Compensation Plan for 2015 appear in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table. A description of the plan can be found in the "Compensation Discussion and Analysis" section of this Proxy Statement.

The Company's Incentive Compensation Plan contains two metrics: net income and asset quality. The Compensation Committee has the discretion to pay a prorated portion (based on straight-line interpolation) if performance is between the threshold, target or superior level, or if performance is above superior level.

Estimated Future Payouts Under Equity Incentive Plan Awards. The target amounts represent the number of RSUs granted in 2015 under the 2007 Stock Incentive Plan. The threshold and maximum amounts represent the potential adjustment to the target number of RSUs that can result based on the level of attainment of performance goals for the three-year performance period that ends on December 31, 2017. A description of the Plan can be found in the "Compensation Discussion and Analysis" section of this Proxy Statement.

The grant date fair value is based on the probable outcome of the performance conditions.

## 2015 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

This table sets forth the information for each named executive officer with respect to equity awards outstanding as of December 31, 2015.

| Name                    | Option Awards<br>Number of Securities Underlying<br>Unexercised Options |                      | Option<br>Exercise<br>Price<br>(\$) | Option<br>Expiration<br>Date | Stock Awards<br>Equity Incentive Plan Awards                               |   |
|-------------------------|---|----------------------|-------------------------------------|------------------------------|--|---|
|                         | Exercisable<br>(#)  | Unexercisable<br>(#) |                                     |                              | Number of<br>Unearned Shares<br>or Units that have<br>not Vested<br>(#)(1) | Market Value of<br>Unearned Shares<br>or Units that have<br>not Vested<br>\$(2) |
| Joseph R. Dively        | 0   | 0                    |                                     |                              | 9,053  | 235,378   |
| Michael L. Taylor       | 3,000   | 0                    | 26.10                               | 12/11/17                     | 4,409  | 114,634   |
|                         | 2,500   | 0                    | 23.00                               | 12/16/18                     |  |   |
| John W. Hedges          | 3,000   | 0                    | 26.10                               | 12/11/17                     | 4,537  | 117,962   |
|                         | 2,500   | 0                    | 23.00                               | 12/16/18                     |  |   |
| Eric S. McRae           | 1,500   | 0                    | 26.10                               | 12/11/17                     | 2,630  | 68,380  |
|                         | 2,500   | 0                    | 23.00                               | 12/16/18                     |  |   |
| Laurel G.<br>Allenbaugh | 3,000   | 0                    | 26.10                               | 12/11/17                     | 2,111  | 54,886  |
|                         | 2,500   | 0                    | 23.00                               | 12/16/18                     |  |   |

(1) The restricted stock and RSU awards that are subject to three-year performance will vest at the end of the three-year performance period (13,063 target units on December 31, 2017 for the 2015 awards and 5,671 target shares or units on December 31, 2016 for the 2014 awards). The restricted stock and RSU awards that were subject to annual performance periods were adjusted at the end of the performance period (December 31, 2014 and 2013) to reflect actual attainment of the performance goals, and 25% of the adjusted amount vested as of such date, with the remainder vesting 25% over three years (of the remaining unvested awards, 2,344 shares/RSUs will vest on December 31, 2016 and 1,662 will vest on December 31, 2017). If an executive terminates prior to the end of a three-year performance period, he will forfeit his award, unless such termination occurs on or after attaining age 66 (in which case he will vest in the target number) or termination is due to death or disability (in which case he will vest in a pro rata portion of the target number). In the case of annual awards that remain subject to time-based vesting, if an executive terminates prior to the end of the vesting period when he has attained age 66 or due to death or disability, he will vest in the remaining shares or RSUs.

(2) The market rate is based on the closing price of the Company's stock on December 31, 2015 (\$26.00).

## 2015 OPTION EXERCISES AND STOCK VESTED

This table sets forth information relating to the exercise of stock options and the vesting of restricted stock and restricted stock units during 2015 by each named executive officer and the amount realized upon such exercise or vesting.

| Name                 | Option Awards                                      |                                       | Stock Awards                      |   |
|----------------------|--|---------------------------------------|-----------------------------------|---|
|                      | Number of Shares<br>Acquired<br>On Exercise<br>(#) | Value Realized on<br>Exercise<br>(\$) | Number of Shares<br>Vested<br>(#) | Value Realized<br>when Shares<br>Vested (1)<br>(\$) |
| Joseph R. Dively     | 0  | —                                     | 3,443                             | 87,558  |
| Michael L. Taylor    | 0  | —                                     | 1,273                             | 32,434  |
| John W. Hedges       | 0  | —                                     | 1,717                             | 43,674  |
| Eric S. McRae        | 0  | —                                     | 995                               | 25,310  |
| Laurel G. Allenbaugh | 0  | —                                     | 809                               | 20,574  |

(1) Represents the number of shares vested on December 31, 2015 multiplied by the market value of the underlying shares on the vesting date.

## 2015 NONQUALIFIED DEFERRED COMPENSATION

This table shows information regarding each named executive officer's account balance at December 31, 2015 under the Company's Deferred Compensation Plan ("DCP"), including contributions and earnings credited to such account.

| Name                 | Executive Contributions In Last FY<br>(\$)(1) | Registrant Contributions in Last FY<br>(\$) | Aggregate Earnings in Last FY<br>\$(2) | Aggregate Withdrawals/ Distributions<br>(\$) | Aggregate Balance at Last FYE<br>\$(3) |
|----------------------|---|---|--|--|--|
| Joseph R. Dively     | 92,152  | —   | 208,472                                | —  | 715,843                                |
| Michael L. Taylor    | —   | —   | —                                      | —  | —                                      |
| John W. Hedges       | —   | —   | 65,511                                 | —  | 214,170                                |
| Eric S. McRae        | 11,455  | —   | 19,323                                 | —  | 68,966                                 |
| Laurel G. Allenbaugh | —   | —   | —                                      | —  | —                                      |

(1) The contributions reported in this column are reported in the Summary Compensation Table, in either the Salary or Non-Equity Incentive Compensation Plan columns.

(2) The earnings reported in this column are not reported on the Summary Compensation Table.

(3) The amounts in this column have previously been reported as compensation on the Summary Compensation Tables for prior years, except for the following amounts of earnings or deferrals included in the account balances: Mr. Dively: \$327,687 (includes earnings and losses and deferrals of director fees which were not previously reported on the Summary Compensation Table); Mr. Hedges: \$86,070 (includes earnings and losses which were not reported in the Summary Compensation Table); Mr. McRae: \$17,623 (includes earnings and losses that were not previously reported in the Summary Compensation Table).

**Non-Qualified Deferred Compensation.** The DCP is a nonqualified defined contribution plan that covers certain eligible employees and directors, including the named executive officers. For each calendar year, the named executive officers can defer 5%, 10% or 15% of their base salary and/or 25% increments of their cash incentive compensation, and non-employee directors can elect to defer their director fees. The deferred amounts are deposited into a rabbi trust and credited to a DCP account established for the participant as soon as practicable after the date they would otherwise have been paid to the participant. Such amounts are invested in the Northern Institutional Prime Obligation Fund #887 until the next quarterly window trading period established by the Company, at which point each participant's account balance is invested in shares of common stock of the Company. Dividends paid on Common Stock are credited to the participant's DCP account and invested in additional shares. The Northern Institutional Prime Obligation Fund #887 had an annual return for 2015 of 0.07%. The Company's common stock had an annual return for 2015 of 43.3%.

A participant is 100% vested in his or her DCP account at all times. A participant's DCP account is paid to him or her in five annual installments beginning on the March 15 following the date the participant terminates employment, provided that the Board of Directors in its sole discretion can decide to pay the portion of the DCP account earned as of December 31, 2004 in a lump sum payment. An participant may also request at any time a distribution from the DCP account of an amount necessary to satisfy an unforeseeable emergency. In the case of the death of a participant, the DCP account will be paid to his or her designated beneficiary in a single payment. Upon a Change in Control of the Company (as defined in the Plan), each participant's DCP account will be paid in an immediate lump sum. All distributions are in full shares of common stock, and cash for fractional shares.





## POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL OF THE COMPANY

The Company provides certain benefits to eligible employees, including the named executive officers, upon certain terminations of employment or a change in control of the Company. These benefits are in addition to the benefits to which the executive would be entitled upon a termination of employment generally (i.e., vested retirement benefits accrued as of the date of termination, stock-based awards that are vested as of the date of termination and the right to elect continued health coverage pursuant to COBRA).

### Employment Agreements

The employment agreements with the named executive officers provide benefits to them upon certain types of termination of employment during the term of the agreement. The incremental benefits payable to the named executive officers in effect at December 31, 2015 include the following:

If the executive's employment is terminated by the Company for other than "cause" (and a Change in Control of the Company, as defined in the 2007 Stock Incentive Plan, has not occurred), the executive is entitled to the following:

i. Continued payment of the executive's then current base salary for 12 months.

Continued coverage of the executive under the Company's health plan for the 12 month severance period at active  
ii. employee rates if the executive elects COBRA (the full COBRA rate applies for the remainder of the COBRA period and with respect to coverage for the executive's spouse and dependents).

If following a Change in Control of the Company (as defined in the 2007 Stock Incentive Plan), the executive's employment is terminated by the Company for other than "cause," or the executive terminates his or her employment due to good reason, the executive is entitled to the following:

i. For Messrs. Dively, Taylor, and Hedges, payment equal to two times the executive's then current base annual salary. For Mr. McRae and Ms. Allenbaugh, continued salary for one year.

ii. An immediate lump sum payment equal to the incentive compensation earned by or paid to the executive for the immediately preceding fiscal year.

Continued coverage of the executive under the Company's health plan for the first 12 months following termination  
iii. at active employee rates if the executive elects COBRA (the full COBRA rate applies for the remainder of the COBRA period and with respect to coverage for the executive's spouse and dependents).

"Cause" means the executive's (i) conviction (or guilty or no contest plea) for a felony or any crime involving fraud, dishonesty or breach of trust; (ii) performance that would materially and adversely affect the Company's business; (iii) act or omission that results in a regulatory body to demand the executive to be suspended or removed; (iv) substantial nonperformance of his or her duties; (v) misappropriation or intentional material damage to the Company's property or business; or (vi) violation of the agreement's restrictions with respect to confidential information, noncompetition and nonsolicitation.

"Good reason" means a decrease in the executive's then current salary or a substantial diminution in his or her position and responsibilities.

The agreements contain restrictive covenants that prohibit the executive from (i) disclosing confidential information; (ii) becoming involved with a business similar to that of the Company within any county in which the Company

conducts business; and (iii) soliciting for sale or selling competing products or services to any person or entity who was a customer or client of the Company during the last two years of the executive's employment (or during the last year in the case of Mr. Taylor and Ms. Allenbaugh). The restrictive covenants regarding confidential information are indefinite, and the restrictive covenants regarding noncompetition and nonsolicitation continue in effect until the later of two years following the executive's termination of employment or the end of the term of the agreement for Mr. Dively (or the later of one year or the end of the term of employment for Mr. Hedges and Mr. McRae and for one year following termination of employment for Mr. Taylor and Ms. Allenbaugh).

## 2007 Stock Incentive Plan

The stock option agreements that set forth the terms and conditions of stock options provide that upon a termination of employment for any reason other than death, disability or retirement, an executive's outstanding and then vested stock options can be exercised for three months following termination, and upon a termination of employment due to death, disability or retirement (as defined in the Plan) an executive's outstanding and then vested stock options can be exercised for 12 months following such termination.

The agreements that set forth the terms and conditions of the restricted stock and RSUs awards provide that an executive will not become vested in any restricted stock or RSUs if the executive does not remain continuously employed from the grant date until the last day of the applicable performance period, except that upon a voluntary termination of employment due to termination after attaining age 66, an executive will vest in the target number of outstanding shares or RSUs and upon a termination of employment due to death or disability (as defined in the Plan), an executive will vest in a pro rata portion of the target number of outstanding shares or RSUs. If an executive with time-based restricted stock or RSUs terminates after the end of the one-year performance period but prior to the end of the vesting period when he has attained age 66 or due to death or disability, he will vest in the remaining shares or units subject to the award.

Upon a Change in Control of the Company (as defined in the Plan), the Plan provides that all outstanding stock option awards will become fully vested and exercisable, all time-based restricted stock and RSUs will fully vest and all restricted performance-based stock and RSUs will fully vest at the target or higher level as determined by the compensation committee.

## 2015 Potential Severance Payments

The table set forth below quantifies the additional benefits as described above that would be paid to each named executive officer, assuming a Change in Control of the Company and/or termination of employment occurred on December 31, 2015.

| Name:  | Joseph R.<br>Dively | Michael L.<br>Taylor | John W.<br>Hedges | Eric S.<br>McRae | Laurel G.<br>Allenbaugh |
|--|---------------------|----------------------|-------------------|------------------|-------------------------|
| Change in Control:                             |                     |                      |                   |                  |                         |
| Base Salary:                                   | \$686,400           | \$506,272            | \$515,016         | \$229,491        | \$184,032               |
| Incentive Compensation (1):                    | 163,350             | 84,338               | 86,209            | 76,830           | 61,760                  |
| Continued Health Coverage (2):                 | 4,692               | 4,692                | 4,116             | 4,116            | 4,116                   |
| Value of Vesting of Unvested Stock Options:    | —                   | —                    | —                 | —                | —                       |
| Value of Vesting of Unvested Stock Awards (3): | 235,378             | 114,634              | 117,962           | 63,380           | 54,886                  |
| No Change in Control:                          |                     |                      |                   |                  |                         |
| One Time Base Salary:                          | \$343,200           | \$253,136            | \$257,508         | \$229,491        | \$184,032               |
| Continued Health Coverage (4):                 | 4,692               | 4,692                | 4,116             | 4,116            | 4,116                   |
| Retirement:                                    |                     |                      |                   |                  |                         |
| Value of Vesting of Unvested Stock Awards (5): | \$—                 | —                    | \$117,962         | \$—              | —                       |
| Death or Disability:                           |                     |                      |                   |                  |                         |
|  | 125,831             | 60,753               | 63,111            | 36,591           | 29,380                  |

Value of Vesting of Unvested Stock Awards

(6):

(1) Represents an amount equal to the cash incentive compensation earned by the executive for 2014 and paid in 2015.

(2) Represents the Company's portion of premiums paid for the executive's coverage during the applicable severance period.

(3) The value of the restricted stock and RSUs that vest upon a change in control is calculated based on the target number of outstanding shares and/or units subject to performance goals, plus the number of outstanding shares and/or units subject to time-based vesting, multiplied by the closing price of the Company's common stock on December 31, 2015 (\$26.00).

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- (4) Represents the Company's portion of premiums paid for the executive's coverage during the 12-month severance period.

- (5) The value of the stock and stock unit awards that vest upon retirement is calculated based on the target number of outstanding shares and/or units subject to performance goals, plus the number of outstanding shares and/or units subject to time-based vesting, multiplied by the closing price of the Company's common stock on December 31, 2015 (\$26.00).

- (6) The value of the stock and stock unit awards that vest upon death or disability is calculated based on the pro-rata target number of outstanding shares and/or units subject to performance goals, plus the number of outstanding shares and/or units subject to time-based vesting, multiplied by the closing price of the Company's common stock on December 31, 2015 (\$26.00).

## DIRECTOR COMPENSATION

Non-employee directors of the Company received a \$5,000 quarterly retainer, paid at the start of each calendar quarter, for their services in 2015. The lead independent director received an additional quarterly retainer of \$625 for his services in 2015. The non-employee directors of the Company were not granted any form of stock-based compensation in 2015. Non-employee directors can also elect to receive health coverage under the Company's group health plan, in which case the Company pays all of the required premiums. There were no such premiums paid in 2015. During 2015:

Audit committee members received a \$625 quarterly retainer for their audit committee meeting services. The audit committee chairman also received an additional \$625 quarterly retainer and the audit committee financial expert received an additional \$500 quarterly retainer.

Compensation committee members received a \$250 quarterly retainer for their compensation committee meeting services and the compensation committee chairman also received an additional \$375 quarterly retainer.

Non-employee directors who were members of the Company's senior loan committee received a \$1,500 quarterly retainer for their senior loan committee meeting services and non-employee directors who are members of the Company's trust investment committee received a \$250 quarterly retainer for their trust investment committee meeting services.

Non-employee directors who also served on the board of directors of the Bank received a \$1,500 quarterly retainer fee for such services. Non-employee directors who also served on the board of directors of Data Services or Insurance Group each received a \$250 and \$125 quarterly retainer, respectively, for such services.

This table shows all compensation provided to each non-employee director of the Company for the year ended December 31, 2015.

|                    | Fees Earned Or Paid in Cash<br>(\$) |     | Total<br>(\$) |
|--------------------|-------------------------------------|-----|---------------|
| Holly A. Bailey    | 32,500                              | (1) | 32,500        |
| Robert S. Cook     | 31,000                              | (2) | 31,000        |
| Steven L. Grissom  | 40,000                              | (3) | 40,000        |
| Gary W. Melvin     | 37,000                              | (4) | 37,000        |
| William S. Rowland | 34,500                              | (5) | 34,500        |
| Ray Anthony Sparks | 42,000                              | (6) | 42,000        |
| James E. Zimmer    | 32,000                              | (7) | 32,000        |

(1) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$20,000, \$6,000, \$1,000 and \$500, respectively, and for serving as a member of the audit committee and the compensation committee of \$2,500 and \$1,000 respectively. Ms. Bailey also received \$1,500 for serving as the compensation committee chairman.

(2) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$20,000, \$6,000, \$1,000 and \$500 respectively, and for serving as a member of the audit committee and the compensation committee of \$2,500 and \$1,000, respectively.

(3) This amount represents the compensation earned for serving, as a director of the Company and the Bank, Data Services and Insurance Group of \$20,000, \$6,000, \$1,000 and \$500 respectively, for serving as a member of the audit committee, the compensation committee and the senior loan committee of \$2,500, \$1,000 and \$6,000, respectively,

and for serving as the audit committee financial expert of \$2,000, as well as \$1,000 for serving as a member of the portfolio strategy committee.



(4) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$20,000, \$6,000, \$1,000 and \$500 respectively, for serving as a member of the audit committee, the compensation committee and the senior loan committee of \$2,500, \$1,000 and \$6,000, respectively.

(5) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$20,000, \$6,000, \$1,000 and \$500 respectively and for serving as a member of the senior loan committee and the trust investment committee of \$6,000 and \$1,000, respectively.

(6) This amount represents the compensation earned for serving as a director of the Company, the Bank, Data Services and Insurance Group of \$20,000, \$6,000, \$1,000 and \$500 respectively, for serving as a member of the audit committee, the compensation committee and the senior loan committee of \$2,500, \$1,000 and \$6,000, respectively and for serving as the audit committee chairman of \$2,500, as well as \$2,500 for serving as the lead independent director.

(7) This amount represents the compensation earned for serving, since August 2014, as a director of the Company, the Bank, Data Services and Insurance Group of \$20,000, \$6,000, \$1,000 and \$500 respectively, for serving as a member of the audit committee and the compensation committee of \$2,500 and \$1,000, respectively and for serving as a member of the trust investment committee of \$1,000.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On December 17, 2013, the audit committee adopted a written Related Person Transactions Policy, which provides for procedures for review and oversight of transactions involving the Company and “related persons.” The policy covers any related person transaction that would be required to be disclosed in our proxy statement under applicable Securities and Exchange Commission rules (generally, transactions in which the Company is a participant, the amount involved exceeds \$120,000 and in which a “related person” has a direct or indirect material interest). Certain transactions are not subject to specific review under the policy by virtue of being exempt from the set of related person transactions that must be disclosed pursuant to applicable Securities and Exchange Commission rules (“exempt transactions”). In addition, the audit committee has approved in the policy extensions of credit to a related person that are (1) made in the ordinary course of business, (2) are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated persons and (3) do not involve more than the normal risk of collectability or present other unfavorable feature.

The policy requires, prior to a party entering into any related person transaction (other than an exempt transaction), to provide, to the extent practicable, notice to the Company of the proposed related person transaction. The audit committee or its chair may approve only those related person transactions that are in, or are not inconsistent with, the best interests of the Company and its stockholders, as the audit committee or its chair, as applicable, determines in good faith. In the event the Company becomes aware of a related person transaction that has not been previously approved or previously ratified under the policy that is pending or ongoing, it will be submitted to the audit committee or its chair, as applicable, which shall evaluate all options, including but not limited to ratification, amendment or termination of the related person transaction, and (if appropriate) any disciplinary actions recommended. No member of the audit committee may participate in the consideration, approval or ratification of any related person transaction with respect to which such member or any of his or her immediate family members is the “related person” or in which he, she or they otherwise have an interest. All of the transactions described below were considered and approved or ratified by the audit committee or its chair.

Directors, executive officers, principal stockholders, members of their immediate families, and entities in which one or more of them have a material interest had extensions of credit from the Bank during 2015. All such extensions of credit were on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated persons, and did not involve more than the normal risk of collectability or present other unfavorable features. In addition, directors, executive officers, principal stockholders, members of their immediate families and entities in which one or more of them have a material interest obtained in 2015, and may in the future be expected to obtain, depositary or other banking services, trust, custody or investment management services, individual retirement account services or insurance brokerage services from the Company and its subsidiaries, on terms no less favorable to the Company and its subsidiaries than those prevailing at the time for comparable transactions involving persons unrelated to the Company.

Consolidated Communications Holdings, Inc. and its affiliates provided paging, mobile, long distance/800 and private line services, voice mail, customer premise equipment services and repair services to the Company during 2015 in the amount of approximately \$754,445. With regard to Consolidated Communications Holdings, Inc., the father of Ms. Elizabeth Celio, an individual whose beneficial ownership was deemed to be 10% or more during 2015, Richard A. Lumpkin, is a director and former Chairman of the Board of Directors of Consolidated Communications Holdings and also may be deemed to have beneficial ownership of approximately 2.8% and his immediately family, including Ms. Elizabeth Celio, has a beneficial ownership of approximately 2.1% of Consolidated Communications Holdings’ outstanding voting stock.

During 2015, the Company issued common stock through a private placement to institutional investors and certain other investors, including the following issuances to related parties in amounts exceeding \$120,000:

| Name of Individual or Entity and Relation to the Company | Shares Purchased |
|--|------------------|
|--|------------------|

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|  |        |
|--|--------|
| Holly Bailey, Director   | 23,410 |
| Robert and Jade Cook, Joint Ten, Director  | 7,143  |
| Ray A Sparks, Director   | 12,345 |
| Laura Voyles, Daughter of Director Gary Melvin   | 23,208 |
| Richard Adamson Lumpkin Trust dated February 6, 1970 for the benefit of Richard Anthony Lumpkin, of which David Hodgman has shared voting and investment power | 42,324 |

## INCLUSION OF STOCKHOLDER PROPOSALS IN PROXY MATERIALS

In order to be eligible for inclusion in the Company's proxy materials for next year's Annual Meeting of Stockholders, any stockholder proposal to take action at such meeting must be received at the Company's main office at 1421 Charleston Avenue, P.O. Box 499, Mattoon, Illinois 61938, no later than November 15, 2016. Any such proposal shall be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934.

In addition, if the Company does not receive notice of a stockholder proposal for the Annual Meeting of Stockholders at least 45 days before the one-year anniversary of the date that the Company's proxy statement was released to the stockholders for its previous year's annual meeting, proxies solicited by the management of the Company will confer discretionary authority upon the management of the Company to vote upon any such proposal.

## OTHER MATTERS

The Board of Directors of the Company does not intend to present any other matters for action at the annual meeting, and the Board of Directors has not been informed that other persons intend to present any other matters for action at the annual meeting. However, if any other matters should properly come before the annual meeting, the persons named in the accompanying proxy intend to vote thereon, pursuant to the proxy, in accordance with the recommendation of the Board of Directors of the Company.

## BY ORDER OF THE BOARD OF DIRECTORS

Joseph R. Dively  
Chairman, President and Chief Executive Officer

Mattoon, Illinois  
March 18, 2016



