AMERICAN NATIONAL BANKSHARES INC.
Form DEF 14A
April 12, 2016

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

Notice of Annual Meeting

and

Proxy Statement

Annual Meeting of Shareholders
To Be Held
May 17, 2016

THIS PAGE INTENTIONALLY LEFT BLANK

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To be held May 17, 2016

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

Place: The Wednesday Club
1002 Main Street
Danville, Virginia 24541

Date: May 17, 2016 at 9:00 a.m.

The Annual Meeting is being held for the following purposes:

1. To elect five Class II directors of the Company to serve three-year terms expiring at the 2019 Annual Meeting.

2. To elect one Class III director of the Company to serve a one-year term expiring at the 2017 Annual Meeting.

3. To ratify the appointment of Yount, Hyde & Barbour P.C., independent registered public accounting firm, as auditors of the Company for the year ending December 31, 2016.

4. To hold an advisory vote on executive compensation of the Company's named executive officers as disclosed in the accompanying proxy statement.

5. To transact any other business that may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on April 1, 2016 are entitled to notice of and to vote at the Annual Meeting.

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

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

April 7, 2016

THIS PAGE INTENTIONALLY LEFT BLANK

AMERICAN NATIONAL BANKSHARES INC.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS
MAY 17, 2016

INTRODUCTION

This proxy statement is furnished in conjunction with the solicitation by the Board of Directors (the “Board”) of American National Bankshares Inc. (the “Company”) of the accompanying proxy to be used at the Annual Meeting of Shareholders of the Company (the “Annual Meeting”) and at any adjournment thereof. The meeting will be held on Tuesday, May 17, 2016, 9:00 a.m., at The Wednesday Club, 1002 Main Street, Danville, Virginia, 24541, for the purposes set forth below and in the Notice of Annual Meeting of Shareholders. The date of this proxy statement is April 7, 2016 and the approximate mailing date of this proxy statement and the enclosed proxy is April 12, 2016.

Voting Rights of Shareholders

Only shareholders of record at the close of business on April 1, 2016, are entitled to notice of and to vote at the Annual Meeting or any adjournment thereof. As of the close of business on April 1, 2016, there were 8,612,658 shares of the Company’s common stock outstanding, of which 8,431,539 shares were entitled to vote at the Annual Meeting. For the reasons explained below, the number of shares entitled to vote is less than the number of shares of the Company’s common stock outstanding on such date. The Company has no other class of stock outstanding. Each share of common stock entitles the record holder thereof to one vote upon each matter to be voted upon at the Annual Meeting.

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

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

Ambro and Company, the nominee name that the Company’s banking subsidiary, American National Bank and Trust Company (the “Bank”), uses to register the securities it holds in a fiduciary capacity for customers, held 181,119 shares of the Company’s common stock as sole fiduciary (with no qualifying co-fiduciary having been appointed) as of April 1, 2016, which constituted 2.10% of the issued and outstanding shares of the Company’s common stock on that date. Under Virginia law, such shares cannot be voted at the Annual Meeting and are not deemed to be outstanding and entitled to vote for purposes of determining a quorum.

1

Voting of Broker Shares

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

The ratification of the appointment of Yount, Hyde & Barbour, P.C. as the Company's independent registered public accounting firm for 2016 (Proposal Three) is a matter considered routine under applicable rules. A broker or other nominee may generally vote on routine matters, and therefore no broker non-votes are expected to exist in connection with Proposal Three. The election of directors (Proposals One and Two) and the advisory vote on the Company's executive compensation (Proposal Four) are matters considered non-routine under applicable rules. A broker or other nominee cannot vote without instructions on non-routine matters, and therefore broker non-votes may exist in connection with Proposals One, Two and Four.

Revocation and Voting of Proxies

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

Solicitation of Proxies

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

PROPOSALS ONE AND TWO – ELECTION OF DIRECTORS

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

Mrs. Ronda M. Penn was appointed to the Board effective July 21, 2015. She is being nominated as a Class II director and is subject to election by the shareholders at the Annual Meeting in accordance with Virginia law. The term of office for current Class II directors will expire at the 2016 Annual Meeting, and, if elected, Mrs. Penn will serve in such class for a three-year term expiring at the 2019 Annual Meeting.

Mr. Claude B. Owen, Jr. has served as a director since 1984 and is currently a Class II director with a term expiring at the Annual Meeting. He is being nominated as a Class III director to divide the classes of directors as nearly equal in number as possible in accordance with the Company's Articles of

2

Incorporation. The term of office for current Class III directors will expire at the 2017 Annual Meeting, and, if elected, Mr. Owen will serve in such class for a one-year term expiring at the 2017 Annual Meeting.

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

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

The names of the nominees for election and the other continuing members of the Board of Directors, their principal occupations and qualifications to serve as directors, their ages as of December 31, 2015, and certain other information with respect to such persons are as follows:

Name	Principal Occupation	Age	Director Since
Nominees for election as Class II directors to continue in office until 2019 (Proposal One)			
Fred A. Blair	President of Blair Construction, Inc. (general contractor), Gretna, VA. Mr. Blair brings experience as a small business owner, including his knowledge of and experience in commercial construction and development in the Company's market areas.	69	1992
Frank C. Crist, Jr., D.D.S.	President of Brady & Crist Dentists, Inc. Lynchburg, VA. Dr. Crist brings knowledge about the Lynchburg market area where he has built a successful dental practice, as well as investments in other businesses and real estate properties in the area. He also brings his prior experience as a director and, ultimately, Chairman of the board of directors of a community bank.	70	2006

Name	Principal Occupation	Age	Director Since
Jeffrey V. Haley	President and Chief Executive Officer of the Company and the Bank since January 2013. President of the Company and President and Chief Executive Officer of the Bank from January 2012 to January 2013. Executive Vice President of the Company and President of the Bank from June 2010 to January 2012. President of Trust and Financial Services and Executive Vice President of the Bank from July 2008 to June 2010. Mr. Jeffrey Haley brings expertise based on more than 18 years in community banking and 15 years in the retail industry. His varied operational and management responsibilities during his banking tenure enable him to contribute a uniquely relevant perspective to the Board’s deliberations.	55	2012
John H. Love	President and Chief Executive Officer, W.E. Love & Associates, Inc. (insurance brokerage), Burlington, NC, since December 2011. President and Chief Operating Officer, W.E. Love & Associates, Inc., Burlington, NC from 1989 to December 2011. A former director of MidCarolina Financial Corporation, Mr. Love brings an expert perspective on risk management, mitigation and governmental regulation based on his experience as President of a large commercial insurance brokerage firm.	56	2011
Ronda M. Penn	Chief Financial Officer, Plexus Capital LLC (small business investments), Raleigh, NC since September 2012. Partner, Dixon Hughes Goodman LLP (public accounting), Greensboro, NC, from 2006 to September 2012. Ms. Penn brings significant financial, accounting, internal control, investment and management expertise as a Chief Financial Officer, Certified Public Accountant and former partner with a national accounting firm. Her background helps her fill the role of financial expert on the Company's Audit Committee.	53	2015

Name	Principal Occupation	Age	Director Since
Nominee for election as Class III director to continue in office until 2017 (Proposal Two)			
Claude B. Owen, Jr.	Retired Chairman and Chief Executive Officer of DIMON Incorporated (leaf tobacco dealer), Danville, VA. Mr. Owen brings broad experience in the management and oversight of public companies, including past service as Chairman and Chief Executive Officer of a publicly traded leaf tobacco dealer and as Chairman of a publicly traded grocery wholesaler. He also has significant experience in finance, strategic planning and corporate governance, which provides the Board with a substantial resource.	70	1984
Directors of Class I to continue in office until 2018			
Michael P. Haley	Retired Adviser to Fenway Partners, LLC (private equity investments), New York, NY. Retired Managing Director, Fenway Resources since June 2015. Adviser to Fenway Partners, LLC from April 2006 and Managing Director of its affiliate, Fenway Resources from March 2008, respectively, to June 2015. Mr. Michael Haley brings high level financial expertise as a former Chief Executive Officer of a publicly traded manufacturing company and as a former adviser to a private equity firm. He also brings experience in operations and risk management and public company corporate governance. His background helps him fill the role of financial expert on the Company's Audit Committee.	65	2002
Charles S. Harris	Executive Vice President, Averett University, Danville, VA. Mr. Harris brings significant operational and financial management experience, including as the Director of Athletics for several universities of various sizes, both public and private. He brings diversity and a different perspective from his work with college students, the future customers for the Bank.	64	2008

5

Name	Principal Occupation	Age	Director Since
Franklin W. Maddux, M.D. FACP	Chief Medical Officer and Executive Vice President for Clinical and Scientific Affairs, Fresenius Medical Care North America (healthcare services), Waltham, MA, since December 2011. Senior Vice President and Chief Medical Information Officer, Fresenius Medical Care North America, from November 2009 to December 2011. Chairman, Gamewood Technology Group, Inc. (information technology service), Danville, VA. Dr. Maddux has significant and varied experience as a practicing physician, the chief executive of a medical clinic, the founder of an internet service provider, health information technology company and senior executive of a large publicly traded corporation. He brings an entrepreneurial perspective, as well as risk management and strategic planning experience.	58	2002
F.D. Hornaday, III	President and Chief Executive Officer, Knit Wear Fabrics, Inc. (circular knit manufacturer), Burlington, NC. A former director and vice chairman of MidCarolina Financial Corporation, which merged with the Company in July 2011. Mr. Hornaday brings his multifaceted experience as President of a textile company, adding to the Board's understanding of the challenges and opportunities facing manufacturing. In addition, his board service in the health industry and his former board service in the trust industry bring value to the Board.	65	2011
Directors of Class III to continue in office until 2017			
Ben J. Davenport, Jr.	Chairman, First Piedmont Corporation (waste management), Chatham, VA. Chairman, Davenport Energy Inc. (petroleum distribution), Chatham, VA. Mr. Davenport brings his broad experience and perspective as an entrepreneur, owning and operating several highly successful businesses within the Company's market area. Having chaired the board of a major state university and the state chamber of commerce, he also brings strong experience in public policy.	73	1992

Name	Principal Occupation	Age	Director Since
Charles H. Majors	Chairman of the Board of Directors of the Company and the Bank since January 2015. Executive Chairman of the Company and the Bank from January 2013 to January 2015. Chairman and Chief Executive Officer of the Company and Chairman of the Bank from January 2012 to January 2013. President and Chief Executive Officer of the Company and Chairman and Chief Executive Officer of the Bank from June 2010 to January 2012. President and Chief Executive Officer of the Company and the Bank from 1994 to June 2010. Mr. Majors brings his long tenure and experience as the Chief Executive Officer of the Company. His prior experience as a practicing corporate attorney provides significant expertise in risk management, regulatory, and legal issues.	70	1981
Dan M. Pleasant	Chief Operating Officer, The Dewberry Companies, Inc. (engineering, architectural and consulting), Fairfax, VA. Mr. Pleasant brings significant experience as a professional engineer working in the Company's market areas in Virginia and North Carolina. In addition, he is the Chief Operating Officer of a large national architectural, engineering and consulting firm. He is a past chairman of the Danville Utility Commission and is currently a board member of the Virginia Economic Development Partnership.	65	2011
Joel R. Shepherd	President, Virginia Home Furnishings, Inc. (furniture retailer) and 220 Self Storage, Inc. (self-storage provider), Rocky Mount, VA. A former chairman of MainStreet BankShares, Inc. and Franklin Community Bank, N.A., Mr. Shepherd brings substantial entrepreneurial, construction, finance and management skills gained through his various enterprises. He also brings banking and investment experience. He was Vice President and Portfolio Manager in the Funds Management Division of Dominion Bankshares, Inc. (acquired by First Union Corporation) from 1986 to 1993.	52	2015

7

Executive Officers

Information on the Company's four executive officers who are not directors is disclosed in Part I, Item 1, of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, which was mailed with this proxy statement.

Board Independence

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

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

Board Members Serving on Other Publicly Traded Company Boards of Directors

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

Board of Directors and Committees

Directors are expected to devote sufficient time, energy, and attention to ensure diligent performance of their duties, including attendance at board, committee, and shareholder meetings. The Board of Directors of the Company met 10 times during 2015. In accordance with the Company's Corporate Governance Guidelines, the independent directors held 10 executive sessions during 2015. The Chairman of the Corporate Governance and Nominating Committee presides at such sessions. The Board of Directors of the Bank, which consists of all members of the Company's Board, met 11 times during 2015.

All incumbent directors and director nominees attended at least 75% of the aggregate total number of meetings of the boards of directors and committees on which they served in 2015. Thirteen directors attended the 2015 Annual Meeting of Shareholders.

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

The Audit Committee met four times in 2015. This Committee currently consists of Mrs. Penn and Messrs. Blair, Maddux, and Michael Haley. Dr. Maddux serves as the Chairman. The Committee reviews significant audit, accounting and financial reporting principles, policies and practices; is directly responsible for engaging and monitoring the independent auditors of the Company; and provides oversight of the financial reporting and internal auditing functions. A more detailed description of the functions of this Committee is contained under the heading "Report of the Audit Committee." All of the members of this Committee are considered independent within the meaning of Securities and Exchange Commission ("SEC") regulations, the listing standards of NASDAQ, and the Company's Corporate

8

Governance Guidelines. Michael Haley and Mrs. Penn, members of the Committee, are qualified as audit committee financial experts within the meaning of SEC regulations and the Board has determined that each has accounting and related financial management expertise within the meaning of the listing standards of NASDAQ.

The Capital Management Committee met five times in 2015. This Committee currently consists of Messrs. Michael Haley, Owen, Pleasant, and Shepherd. Mr. Pleasant serves as the Chairman. This Committee assists the Board in the following areas: market, interest rate, liquidity and investment risk; capital management; review of trends affecting the loan portfolio; oversight of the loan review function and credit policy; review of the adequacy of the allowance of loan losses; and dividend and securities related matters.

The Corporate Governance and Nominating Committee met three times in 2015. This Committee currently consists of Messrs. Crist, Hornaday, Maddux, and Owen. Mr. Owen serves as the Chairman. The Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of the Company's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also supervises the Board's annual review of director independence, oversees the Board's performance self-evaluation and makes recommendations to the Board of Directors regarding director compensation. All the members of this Committee are considered independent within the meaning of SEC regulations, the listing standards of NASDAQ, and the Company's Corporate Governance Guidelines.

The Human Resources and Compensation Committee met three times in 2015. The Committee currently consists of Messrs. Davenport, Michael Haley, Love, and Pleasant. Mr. Michael Haley serves as the Chairman. This Committee is responsible for establishing and approving the compensation of executive officers of the Company, except for the compensation of the Chief Executive Officer. The compensation of the Chief Executive Officer is reviewed, discussed, and approved by the independent members of the Board of Directors, upon recommendation of the Committee. The Committee also makes recommendations to the Board of Directors regarding promotions and related personnel matters. The Committee oversees succession planning for the Chief Executive Officer and makes recommendations to the Board of Directors regarding succession. The Committee also reviews and approves the travel related expenses of the Chief Executive Officer. Reference is made to the “Compensation Discussion and Analysis” section of this proxy statement for further information on the duties and responsibilities of this Committee. No member of the Human Resources and Compensation Committee is a current officer or employee of the Company. All members of this Committee are considered independent within the meaning of SEC regulations, the standards of NASDAQ, and the Company's Corporate Governance Guidelines.

The Risk and Compliance Committee met four times in 2015. This Committee currently consists of Messrs. Blair, Crist, Harris, and Love. Mr. Harris serves as the Chairman. The Committee reviews all aspects of regulatory compliance and significant operational risk and security related matters. These risks include, but are not limited to, information security, fraud, physical security, insurance, and vendor management. This Committee is focused on the development and evolution of enterprise risk management oversight.

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

Compensation Committee Interlocks and Insider Participation

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

Director Nominations Process

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

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

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

Corporate Governance and Risk Oversight Practices

In a financial institution, the role of the Board is critical to the success or failure of the enterprise. The Board of Directors is led by the Company's Chairman, Mr. Majors. The Chairman of the Corporate

Governance and Nominating Committee, Mr. Owen, functions as the lead independent director. He chairs the Board in the absence of the Chairman and the Chief Executive Officer or when the Board's independent directors meet in executive session. Mr. Owen is a retired Chairman and Chief Executive Officer of a publicly traded tobacco company and a former non-executive board chairman of another public company, and his background and experience prepare him well for this role. Meetings of the independent directors are held numerous times throughout the year.

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

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

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

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

Board Tenure Policy

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

- No director will allow himself to be nominated for reelection to the Board of the Company after reaching the age of 72;
- No director will allow himself to be nominated for reelection to the Board of the Bank, unless at the time of such reelection he was eligible to serve as a director of the Company;
- Any director who retires or resigns from or severs his current employment, or relocates outside the market area of the Bank, will tender his resignation. The Board may accept the resignation, delay acceptance, or decline to accept it;
- No inside director will continue to serve as a director after his retirement, resignation or other severance of employment status. However, the Board may waive this requirement if it is deemed in the best interests of the Company or the Bank;
- No director will be eligible for reelection if he is absent from all meetings for the 12-month period preceding the Annual Meeting of Shareholders at which such election would be held; and

• Any former director may be elected as a Director Emeritus for a one year term, but may not serve more than three years or be elected after reaching age 75. A Director Emeritus will be entitled to attend and participate in Board meetings, but will not be eligible to vote and his presence will not be considered in the determination of a quorum.

SECURITY OWNERSHIP

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

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned (#) (1)	Investment Power (1)			Voting Power (1)			Percent of Class (%)
		Shared	Sole	None	Shared	Sole	None	
BlackRock, Inc. 55 East 52nd Street New York, New York 10022 (2)	545,474	—	545,474	—	—	524,641	—	6%

---

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within 60 days.

(2) Other than percent of class, this information is based solely upon information as of December 31, 2015 contained in a Schedule 13G/A filed by BlackRock, Inc. with the Securities and Exchange Commission on January 25, 2016 relating to the beneficial ownership of the Company's common stock by BlackRock, Inc. and entities affiliated with BlackRock, Inc.

The following table sets forth, as of April 1, 2016, the Annual Meeting record date, the beneficial ownership of the Company's common stock by all directors and nominees for director, all executive officers of the Company named in the Summary Compensation Table on page 22 of this proxy statement, and all directors and executive officers of the Company as a group.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned (#) (1)			Percent of Class (%)
Fred A. Blair	17,082	(2)		*
Frank C. Crist, Jr., D.D.S.	107,919	(2)		1.25
Ben J. Davenport, Jr.	49,494			*
R. Helm Dobbins	19,087	(3)		*
Jeffrey V. Haley	45,082	(2)	(3)	*
Michael P. Haley	5,925	(2)		*
Charles S. Harris	5,187			*
F. D. Hornaday, III	25,727	(2)		*
John H. Love	19,053			*
Franklin W. Maddux, M.D. FACP	14,215	(2)		*
Charles H. Majors	62,140	(2)		*
Claude B. Owen, Jr.	25,895	(2)		*
Ronda M. Penn	1,065			*
Dan M. Pleasant	6,661			*
Joel R. Shepherd	63,234	(2)		*
H. Gregg Strader	10,297	(3)		*
William W. Traynham	21,492	(3)		*
All directors and executive officers as a group (17)	499,555	(4)		5.80

*Represents less than 1% ownership.

(1) For purposes of this table, beneficial ownership has been determined in accordance with the provisions of Rule 13d-3 of the Securities Exchange Act of 1934 under which, in general, a person is deemed to be the beneficial owner of a security if he has or shares the power to vote or direct the voting of the security or the power to dispose of or direct the disposition of the security, or if he has the right to acquire beneficial ownership of the security within 60 days.

(2) Includes shares held by affiliated companies, close relatives, minor children, and shares held jointly with spouses or as custodians or trustees, as follows: Mr. Blair, 261 shares; Dr. Crist, 997 shares; Mr. Jeffrey Haley, 863 shares; Mr. Michael Haley, 1,590 shares; Mr. Hornaday, 2,072 shares;
Dr. Maddux, 300 shares; Mr. Majors, 4,454 shares; Mr. Owen, 4,200 shares; and Mr. Shepherd, 100 shares.

(3) Includes shares of restricted stock awarded: Mr. Dobbins, 11,700 shares; Mr. Jeffrey Haley, 21,711 shares; Mr. Strader, 6,232 shares; and Mr. Traynham, 13,492 shares; all executive officers as a group, 53,135 shares. The shares are subject to a vesting schedule, forfeiture risk and other restrictions. These shares can be voted at the Annual Meeting.

(4) None of the individuals named in the table have pledged their shares as collateral.

COMPENSATION COMMITTEE REPORT

The Human Resources and Compensation Committee of the Board of Directors has reviewed and discussed with the Board and management the Company's Compensation Discussion and Analysis. Based upon this review and discussion, the Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's definitive proxy statement on Schedule 14A for the Annual Meeting, portions of which are incorporated by reference in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the Securities and Exchange Commission.

Respectfully submitted,

Michael P. Haley, Chairman
Ben J. Davenport, Jr.
John H. Love
Dan M. Pleasant

COMPENSATION DISCUSSION AND ANALYSIS

The Company's Executive Compensation Philosophy

The purpose of the Company's compensation philosophy is to treat employees fairly and to pay compensation at a level commensurate with the market, given individual and Company factors and performance. The Company's compensation programs, levels, practices, and policies are consistent with the Company's values, culture and mission. The Company supports a pay-for-performance culture, creation of an environment where employees can succeed, and values, long-standing, productive employee service.

The Human Resources and Compensation Committee of the Board of Directors is responsible for establishing and approving the compensation of the executive officers of the Company, except for the compensation of the Chief Executive Officer, which is approved by the independent members of the Board of Directors. The Committee considers a variety of factors and criteria in arriving at its decisions and recommendations for compensation. The Committee's objective is to attract and retain a superb leadership team with market-competitive compensation and to align the team member's interests with those of the Company, its customers and its shareholders. Accordingly, a significant portion of the Company's executive officers' compensation is directly and materially linked to operating performance. In particular, cash bonuses and incentive payments are heavily dependent on meeting or exceeding Company performance goals as well as objective and subjective criteria related to the executive officer's area of responsibility.

Each director who served on the Committee during 2015 qualifies as a "non-employee director" as such term is defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934 and is an "independent director" as such term is defined in NASDAQ Marketplace Rule 5605(a)(2).

The Committee considers the results of the shareholder advisory say-on-pay vote in its deliberations regarding compensation of the named executive officers. At the Company's 2015 Annual Meeting, 86.4% of shareholders who voted at the meeting voted for the approval of the compensation levels and programs provided to the named executive officers.

Role of Compensation Consultant

During 2014, the Committee retained the services of Pearl Meyer & Partners, LLC (“PM&P”), an independent executive compensation consulting firm, to provide consulting services in connection with developing the Company’s compensation philosophy and providing a competitive compensation review with respect to executive management, a larger group than the named executive officers. Management was not involved in the decision to use an outside consultant or the selection of PM&P.

The compensation review encompassed (i) the development of a custom peer group consisting of community banks of comparable size in Virginia and contiguous states, publicly traded, with assets between $600 million and $4 billion; (ii) an assessment of the Company’s executive compensation as compared to market (similar executives in the peer group); (iii) a high level assessment of the Company’s performance relative to peers; and (iv) establishing a basis for discussing potential pay or other compensation changes in future periods.

The customer peer group of comparable community banks consisted of the following institutions:

Institution Name	Ticker	City	State
BNC Bancorp	BNCN	High Point	NC
First Bancorp	FBNC	Southern Pines	NC
First Community Bancshares. Inc.	FCBC	Bluefield	VA
Stock Yards Bancorp, Inc.	SYBT	Louisville	KY
NewBridge Bancorp	NBBC	Greensboro	NC
Bank of Kentucky Financial Corporation	BKYF	Crestview Hills	KY
Farmers Capital Bank Corporation	FFKT	Frankfort	KY
Summit Financial Group, Inc.	SMMF	Moorefield	WV
C&F Financial Corporation	CFFI	West Point	VA
Middleburg Financial Corporation	MBRG	Middleburg	VA
National Bankshares, Inc.	NKSH	Blacksburg	VA
Premier Financial Bancorp, Inc.	PFBI	Huntington	WV
Community Bankers Trust Corporation	ESXB	Richmond	VA
Shore Bancshares, Inc.	SHBI	Easton	MD
Peoples Bancorp of North Carolina, Inc.	PEBK	Newton	NC
Eastern Virginia Bankshares, Inc.	EVBS	Tappahannock	VA
Monarch Financial Holdings, Inc.	MNRK	Chesapeake	VA
O1d Point Financial Corporation	OPOF	Hampton	VA
Valley Financial Corporation	VYFC	Roanoke	VA

The PM&P review determined that overall cash compensation approximated the market median, but total compensation was below market because of a lack of long-term incentives and supplemental retirement benefits. Based on such information, the Board of Directors and the Committee determined to establish, for 2015, for members of executive management a formalized incentive program and the opportunity to participate in a nonqualified deferred compensation plan.

During 2014, PM&P reported directly to the Committee and did not provide any other services to the Company. The Committee has analyzed whether the work of PM&P has raised any conflicts of interest, taking into consideration the following factors, among others: (i) the provision of other services to the Company by PM&P (none); (ii) the amount of fees from the Company paid to PM&P as a percentage of PM&P’s total revenues; (iii) PM&P’s policies and procedures that are designed to prevent

conflicts of interest; (iv) any business or personal relationship of PM&P or the individual compensation advisors employed by PM&P with an executive officer of the Company; (v) any business or personal relationship of the individual compensation advisors with any member of the Committee; and (vi) any stock of the Company owned by PM&P or the individual compensation advisors employed by PM&P. The Committee has determined, based on its analysis of the above factors, among others, that the work of PM&P and the individual compensation advisors employed by PM&P as compensation consultants or advisors to the Company has not created any conflicts of interest.

During 2015, the Company did not engage PM&P for any services.

Salary

The base salary of each executive officer named in the Summary Compensation Table (the “named executive officers”) is designed to be competitive with that of the Company’s peer banks and bank holding companies. In establishing the base salaries for the named executive officers in 2015, the Committee and Board relied upon an evaluation of each officer’s level of responsibility and performance and on comparative information, including the Virginia Bankers Association’s Salary Survey of Virginia Banks and the SNL Bank Compensation Review. The Committee and the independent members of the Board of Directors also took into account the information described above that was provided by PM&P, including the peer group data. In establishing the base salary for the executive officers other than the Chief Executive Officer, the Committee also received and took into account the individual compensation recommendations of the Chief Executive Officer. In executive session, the independent directors collectively evaluated the performance of the Chief Executive Officer, especially as his performance inured to the benefit of the shareholders. The Chairman of the Committee met with the Chief Executive Officer to review the results of the evaluation after the Committee discussion. The 2015 salary of the Chief Executive Officer was ultimately reviewed, discussed, and approved by the independent members of the Board of Directors in executive session, upon recommendation of the Committee.

Performance Compensation Program

For 2015, and based on the information described above that was provided by PM&P, the Board of Directors and the Committee established an incentive program for executive officers. Pursuant to the terms of the program, the Company’s executive officers had the opportunity to earn incentive payments for 2015 performance, with the targeted payout for the Chief Executive Officer set at an amount up to $150,000 and the targeted payout for the other named executive officers set at an amount equal to 30% of their respective base salaries. For the Chief Executive Officer, the targeted incentive payment was entirely based on achievement of growth goals in core earnings per share ("EPS"). For the other named executive officers, 50% of the targeted incentive payment was based on achievement of certain position specific objective goals and the other 50% was based on the achievement of certain growth goals in core EPS. Incentive payments will be made in a combination of cash and restricted stock grants.

The financial target was growth in core net income (defined as net income, per generally accepted accounting principles, less the impact of fair value and merger related adjustments) on an earnings per share basis. For the Chief Executive Officer, the targeted growth was an increase in core EPS of 7.1%, which would result in a $150,000 incentive payment. The minimum threshold was a 3% increase in core EPS, which would result in a $30,000 payment. The maximum threshold was a 10% increase in core EPS, which would result in a $225,000 payment. For 2015, the Company achieved sufficient core EPS growth to result in the maximum incentive payments. For 2016, the incentive program methodology will remain the same.

For the named executive officers, other than the Chief Executive Officer, the targeted growth was an increase in core EPS of 7.1%, which would result in a 100% incentive payment. The minimum threshold was a 3% increase in core EPS, which would result in a 20% payment. The maximum threshold was a 10% increase in core EPS, which would result in a 150% payment. For 2015, the Company achieved sufficient core EPS growth to result in the maximum incentive payments to the named executive officers. For 2016, the incentive program methodology will remain the same.

In addition, beginning in 2015, all of the Company's named executive officers participate in a voluntary, nonqualified deferred compensation plan pursuant to which the officers are able to defer any portion of their annual incentive payments. In addition, the Company may make discretionary contributions to the deferred compensation plan. The plan is administered through the Virginia Bankers Association.

In the opinion of the Committee and the Board of Directors, the Company's compensation practices do not encourage excessive or inappropriate risk taking and are not reasonably likely to have a material adverse effect on the Company, but rather will have a positive effect on the Company.

Stock Compensation Plans

The Company maintains the 2008 Stock Incentive Plan ("2008 Plan"), which is designed to attract and retain qualified key personnel, provide employees with a proprietary interest in the Company as an incentive to contribute to the success of the Company, and reward employees for outstanding performance and the attainment of goals. The 2008 Plan was adopted by the Board of Directors of the Company on February 19, 2008 and approved by the shareholders on April 22, 2008 at the Company's 2008 Annual Meeting. The 2008 Plan provides for the granting of restricted stock awards and incentive and non-statutory options to employees and directors on a periodic basis, at the discretion of the Board or a Board designated committee. The 2008 Plan authorizes the issuance of up to 500,000 shares of common stock. The 2008 Plan replaced the Company's earlier stock option plan that expired in December 2006.

The 2008 Plan is administered by a Committee of the Board of Directors of the Company comprised of the independent directors. Under the 2008 Plan, the Committee determines which employees will be granted restricted stock awards and options, whether such options will be incentive or non-statutory options, the number of shares subject to each option, whether such options may be exercised by delivering other shares of common stock, and when such options become exercisable. In general, the per share exercise price of an incentive stock option must be at least equal to the fair market value of a share of common stock on the date the option is granted. Restricted stock is granted under terms and conditions established by the Committee.

Stock options become vested and exercisable in the manner specified by the Committee. Each stock option or portion thereof shall be exercisable at any time on or after it vests and is exercisable until ten years after its date of grant. No stock options have been backdated or repriced. As of December 31, 2015, options for 67,871 shares are exercisable under the 2008 Plan, options for 60,555 shares are exercisable under options assumed in the MidCarolina Financial Corporation ("MidCarolina") merger and options for 7,316 shares are exercisable under options assumed in the MainStreet BankShares, Inc. ("MainStreet") merger. The MidCarolina and MainStreet option shares will be issued from the 2008 Plan. There were no stock options awarded in 2015.

The Company from time-to-time grants shares of restricted stock to key employees and non-employee directors. The Company believes the awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly

related to increases in the value of the Company’s stock. The value of the stock awarded is based on the fair market value of the Company’s common stock at the time of the grant, which is the closing price of the stock on the NASDAQ Global Select Market on the grant day. The Company recognizes expense, equal to the total value of such awards, proportionately over the vesting period of the stock grants.

The grants of restricted stock do not have performance conditions that must be satisfied in order for the shares to be earned and vest 36 months after the award date. On January 20, 2015, the Company awarded an aggregate of 12,649 shares of restricted stock to the named executive officers and 11 other senior officers of the Bank.

Nonvested restricted stock for the year ended December 31, 2015 is summarized in the following table.

Restricted Stock	Shares	Weighted Average Grant Date Value
Nonvested at January 1, 2015	41,562	$21.39
Granted	19,155	$21.81
Vested	(15,536)	$19.51
Forfeited	(3,618)	$22.89
Nonvested at December 31, 2015	41,563	$22.15

As of December 31, 2015, there was $340,000 of total unrecognized compensation cost related to nonvested restricted stock granted under the 2008 Plan. This cost is expected to be recognized over the next 12 to 30 months.