



## **Citizens Bancshares Corporation Corporate Governance Guidelines**

(As adopted by the Board of Directors May 23, 2016)

Upon the recommendation of the Governance & Nominating Committee, the Board of Directors has adopted the following corporate governance guidelines.

### **Director Independence**

A majority of the Board of Directors shall be independent within the meaning of the Corporate Governance Standards of the NASDAQ Stock Exchange.

The Board of Directors has developed the following categorical standards for determining the materiality of relationships that the Directors may have with the Company. A Director shall not be deemed to have a material relationship with the Company that impairs the Director's independence as a result of any of the following relationships:

- the Director is an officer or other person holding a salaried position of an entity (other than a principal, equity partner or member of such entity) that provides professional services to the Company and the amount of all payments from the Company to such entity during the most recently completed fiscal year was less than two percent of such entity's consolidated gross revenues;
- the Director is the beneficial owner of less than five percent of the outstanding equity interests of an entity that does business with the Company;
- the Director is an executive officer of a civic, charitable or cultural institution that received less than the greater of \$1 million or two percent of its consolidated gross revenues, as such term is construed by the NASDAQ Stock Exchange Corporate Governance Standards, from the Company for each of the last three fiscal years;
- the Director is an officer of an entity that is indebted to the Company, or to which the Company is indebted, and the total amount of either the Company's or the business entity's indebtedness is less than three percent of the total consolidated assets of such entity as of the end of the previous fiscal year; and
- the Director obtained products or services from the Company on terms generally available to customers of the Company for such products or services.

The Board retains the sole right to interpret and apply the foregoing standards in determining the materiality of any relationship.

The Board shall undertake an annual review of the independence of all non-management Directors. To enable the Board to evaluate each non-management Director, in advance of the meeting at which the review occurs, each non-management Director shall provide the Board with full information regarding the Director's business and other relationships with the Company, its affiliates and senior management.

Directors must inform the Board whenever there are any material changes in their circumstances or relationships that could affect their independence, including all business relationships between a Director and the Company, its affiliates, or members of senior management, whether or not such business relationships would be deemed not to be material under any of the categorical standards set forth above. Following the receipt of such information, the Board shall reevaluate the Director's independence.

## **Director Identification and Qualifications**

The Governance & Nominating Committee is responsible for assisting the Board in identifying individuals qualified to become members of the Company's Board of Directors. Potential candidates for Board positions are identified by the Board of Directors and the Governance & Nominating Committee through a variety of means, including the use of search firms, recommendations of Board members, recommendations of executive officers and shareholder recommendations received as provided below. Potential candidates for nomination as Director must provide written information about their qualifications and participate in interviews conducted by the Governance & Nominating Committee. Candidates are evaluated using the criteria adopted by the Board to determine their qualifications based on the information supplied by the candidates and information obtained from other sources.

The Committee will consider shareholder nominations for Directors that meet the notification, timeliness, consent and information requirements of the Company's By-Laws applicable to nominations that are brought before an annual meeting by a stockholder. The Committee makes no distinctions in evaluating nominees for positions on the Board based on whether or not a nominee is recommended by a security holder, provided that the procedures with respect to nominations referred to above are followed.

In recommending candidates for election as Directors, the Governance & Nominating Committee will take into consideration the need for the Board to have a majority of Directors that meet the independence requirements of the Corporate Governance Standards of the NASDAQ Stock Exchange and such other criteria as shall be established from time to time by the Board of Directors.

The Governance Committee will recommend candidates for election as Director of the Company only if they have the following qualifications, which have been recommended by the Governance & Nominating Committee to, and approved by, the Board:

- Financial Literacy. Such person should be "financially literate" as such qualification is interpreted by the Board of Directors in its business judgment.
- Leadership Experience. Such person should possess significant leadership experience, such as experience in business, finance/accounting, law, education or government, and shall possess qualities reflecting a proven record of accomplishment and ability to work with others.
- Commitment to the Company's Values. Such person shall be committed to promoting the financial success of the Company and preserving and enhancing the Company's reputation as a leader in the local business community, and in agreement with the values of the Company as embodied in its Codes of Conduct.
- Absence of Conflicting Commitments. Such person should not have commitments that would conflict with the time commitments of a Director of the Company.
- Reputation and Integrity. Such person shall be of high repute and recognized integrity and not have been convicted in a criminal proceeding or be named a subject of a pending criminal proceeding (excluding traffic violations and other minor offenses). Such person shall not have been found in a civil proceeding to have violated any federal or state securities or commodities law, and shall not be subject to any court or regulatory order or decree limiting his or her business activity, including in connection with the purchase or sale of any security or commodity.
- Other Factors. Such person shall have other characteristics considered appropriate for membership on the Board of Directors, including an understanding of marketing and finance, sound business judgment, significant experience and accomplishments and educational background.

When a Director's principal occupation or business association changes from the position he or she held when originally elected to the Board, including because of a retirement from such occupation or association, the Director shall inform the Chairman of the Board of Directors and shall tender his or her resignation. The Chairman of the Board of Directors shall inform the Chair of the Governance & Nominating Committee of such development. The Governance & Nominating Committee shall determine

whether such director's resignation should be accepted or rejected under the circumstances, and recommend such action to the full Board for final decision.

It is generally accepted by the Board that the established retirement age for Directors shall be at the age of 70. A Director attaining his or her 70<sup>th</sup> birthday will tender a resignation to the Chairman of the Board. The Chairman shall inform the Chair of the Governance & Nominating Committee of such development. The Governance & Nominating Committee shall determine whether such director's resignation should be accepted or rejected under the circumstances, and recommend such action to the full Board for final decision. If the Governance & Nominating Committee and the Board should decide not to accept the director's resignation, the director shall tender his or her resignation for consideration annually thereafter for reconsideration by the Governance & Nominating Committee and the full Board.

### **Responsibilities of Directors**

The Board of Directors is responsible for overseeing the management of the Company's business and advising the Company's executive officers, who conduct the Company's business and affairs. In performing their general oversight responsibility, Directors apply their business judgment to assure that the Company's executive officers manage in the best long-term interests of the Company and its shareholders.

In order to satisfy their oversight responsibilities, Directors are expected to attend all meetings of the Board of Directors and the Committees on which they serve, and the annual meeting of the shareholders of the Company, subject to unavoidable circumstances, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board's understanding of the business to be conducted at Board and Committee meetings shall be provided to the Directors prior to or at the meetings. Before the meetings, Directors shall review the materials that are provided in advance. Directors shall be fully protected in relying in good faith upon the records of the Company and upon information, opinions, reports or statements presented to the Board of Directors by any of the Company's officers or employees, or Committees of the Board, or by any other person as to matters the Director reasonably believes are within such other person's professional or expert competence.

The Chairman of the Board and the Committee Chairs shall approve agendas for meetings of the Board of Directors and the Board Committees. Any Director and Committee members shall have the right to suggest matters to be included on the agendas and at meetings raise subjects that are not on the agendas. At one meeting a year, the Board shall review the Company's business plan and updated Strategic Plan.

Non-management Directors shall meet at least two times a year in executive session without management. The non-executive Chairman of the Board shall preside over the executive sessions. The non-management Directors also may meet from time to time throughout the year privately with the Chief Executive Officer. If the group of non-management Directors includes Directors who are not "independent" within the meaning of the NASDAQ Exchange Corporate Governance Standards, the Directors who are independent shall meet at least annually in an executive session that includes only independent Directors.

Directors should advise the Chair of the Governance & Nominating Committee and the Chairman of the Board before accepting membership on other boards of directors or any audit committee or other significant committee assignment on any other public company board of directors.

Directors are encouraged to limit the number of other public company boards on which they serve to no more than three, taking into account the requirements of time, participation and attendance that multiple board service entails. Directors who are currently serving on more than three other public company boards, having demonstrated their ability to devote the time and attention that are required to serve on multiple boards, will be permitted to continue to serve in such capacities.

Directors are expected to act in conformity with the letter and spirit of the Directors' Code of Business Conduct and Ethics.

## **Board Committees**

The Board of Directors has established the Audit Committee, the Directors' Loan Committee, the Executive Committee, the Asset/Liability Management Committee, and the Governance & Nominating Committee, and may from time to time establish other Committees. Upon the recommendation of the Governance & Nominating Committee, the Board of Directors shall appoint the Chairs and members of the Committees, the Board having determined their qualifications.

The Audit Committee and the Governance & Nominating Committee shall consist entirely of Directors who meet the independence requirements under the Corporate Governance Standards of the NASDAQ Stock Exchange, and, in the case of the Audit Committee, the additional independence requirements for audit committee members under such Corporate Governance Standards and the regulations of the Securities and Exchange Commission. The Governance & Nominating Committee shall determine whether or not at least one member of the Audit Committee is an "audit committee financial expert", and recommend to the full Board of Directors designation of the identified Director as such, as required by rules and regulations of the Securities and Exchange Commission.

Each Committee shall have a charter that sets forth its role and responsibilities.

## **Management Succession**

The Board of Directors shall annually consider a succession plan for the Chief Executive Officer and the executive officers of the Company taking into consideration the Chief Executive Officer's recommendations and evaluations of any potential successors and any development plans that the Chief Executive Officer may recommend for any such potential successors.

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

Directors shall have full and free access to officers and employees of the Company. Any meetings or contacts that a Director wishes to initiate may be arranged through the Chief Executive Officer or the Chief Operating Officer; provided, that, using his or her best judgment to assure that any such contact would not be disruptive to the business operations of the Company, a Director may contact an officer or employee directly if he or she wishes to do so.

The Board of Directors may obtain advice and assistance from outside advisors as the Board may determine to be necessary or desirable. The Board shall have the sole authority to approve the fees and other terms of engagement of any such advisor. The Board may select as its advisor an advisor that is otherwise engaged by the Company for another purpose.

## **Director Compensation**

Recommendations about the composition and amount of Director compensation shall be made to the Board of Directors by the Governance & Nominating Committee, which shall conduct an annual review of Director compensation taking into account the compensation of Directors at comparable companies and the advice of compensation consultants when necessary or appropriate.

## **Director Orientation and Continuing Education**

Within three months after a Director has first been elected to the Board of Directors, he or she shall participate in an orientation program which will include presentations by the Company's executive officers concerning the Company's strategic plans, the operations of its significant business segments, its significant financial, accounting and risk management issues, its compliance programs, and its codes of ethics for the Board, employees and senior financial officers. Not less than annually, the Board of Directors and the executive officers shall engage in an in-depth review of the Company's strategic plans and goals and significant business challenges and opportunities.

**Annual Evaluation of the Board's Performance**

Every three years the Board of Directors shall conduct a self-evaluation to determine whether it and the Board Committees are functioning effectively. At that time, the Governance Committee shall solicit comments from all Directors concerning the Board's and the Committees' performance and report to the Board about such assessment.

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