

NATIONAL SECURITY GROUP INC
Form DEF 14A
April 07, 2017

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

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

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The National Security Group, Inc.

(Name of Registrant as Specified In Its Charter)

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661 East Davis Street, Elba, Alabama 36323

Notice of
Annual
Meeting of
Stockholders
May 19,
2017

To the Stockholders of The National Security Group, Inc.:

Notice is hereby given of the Annual Meeting of Stockholders of The National Security Group, Inc., a Delaware corporation (the "Company"), to be held at the principal executive offices of the Company, 661 East Davis Street, Elba, Alabama, on Friday, May 19, 2017, at 10:00 a.m. for the purpose of considering and acting upon the following:

1. The election of four (4) members to the Board of Directors to serve three-year terms, one (1) member to the Board of Directors to serve a two-year term and one (1) member of the Board of Directors to serve a one-year term, until their successors are duly elected and qualified (Proposal One);
2. To ratify selection of independent auditors (Proposal Two);
3. To approve, on an advisory basis, the compensation of the Company's named executive officers, as disclosed in this proxy statement (Proposal Three);
4. The transaction of such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The close of business on March 22, 2017, has been fixed as the record date for determination of stockholders entitled to notice of and to vote at the Annual Meeting of Stockholders. Stockholders are cordially invited to attend the Annual Meeting in person.

In addition to voting by proxy, you may use the internet to transmit your voting instructions. Online voting is available at www.proxyvote.com. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 18, 2017. Telephone voting is available by calling 1-800-690-6903. Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time on May 18, 2017. Have your proxy card in hand when you call and then follow the instructions.

The Company's Proxy Statement is submitted herewith, together with the Annual Report for the year ended December 31, 2016, and is also available in the "Investors" section of our website at www.nationalsecuritygroup.com. You may also request a copy through www.proxyvote.com using your Control Number.

BY ORDER OF THE BOARD OF DIRECTORS

Elba, Alabama
April 7, 2017
Laura Williams Jordan
Secretary

Your Vote is Important

Whether or not you expect to attend in person, we urge you to vote your shares at your earliest convenience. This will ensure the presence of a quorum at the meeting. An addressed envelope for which no postage is required if mailed in

the United States is enclosed if you wish to vote by mail. Early submittal of your proxy will not prevent you from voting your shares in person if you desire to attend, as your proxy is revocable at your option.

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661 East Davis Street, Elba, Alabama 36323

Proxy

Statement

For Annual

Meeting of

Stockholders

May 19,

2017

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of The National Security Group, Inc. (the "Company"), to be voted at the Annual Meeting of Stockholders of the Company to be held at 10:00 a.m. (Central Time) on May 19, 2017, at the Conference Center located adjacent to the principal executive offices of the Company, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders ("Annual Meeting"). Any reference to "the Group" or any use of the terms "Company," "we," "us" or "our" in the proxy statement refers to The National Security Group, Inc. This proxy statement, dated April 7, 2017, is being mailed to holders of the Company common stock on or about March 22, 2017.

At the Annual Meeting, the stockholders of the Company will vote on matters noted in the proxy. If the enclosed proxy is properly signed and returned, your shares will be voted on all matters that properly come before the Annual Meeting for a vote. If instructions are specified in your signed proxy with respect to matters being voted upon, your shares will be voted in accordance with your instructions. If no instructions are so specified, your shares will be voted "FOR" the election of the persons nominated as directors in the proxy statement, "FOR" the ratification of selection of independent auditors and "FOR" the approval of the compensation of the Company's named executive officers as disclosed in this proxy statement. So far as is now known, there is no business to be acted upon at the Annual Meeting other than as set forth above, and it is not anticipated that other matters will be brought before the Annual Meeting. If, however, other appropriate matters are duly brought before the Annual Meeting, the persons appointed as proxy agents will have discretion to vote or act thereon according to their own judgment.

Whether or not you attend the Annual Meeting, your vote is important. Accordingly, you are asked to sign and return the accompanying proxy, regardless of the number of shares you own. Shares can be voted at the Annual Meeting only if the holder is present or represented by proxy. Shares of common stock represented by a properly executed and returned proxy will be treated as present at the Annual Meeting for purposes of determining a quorum without regard to whether the proxy is marked as casting a vote for or against or abstaining with respect to a particular matter. In addition, shares of common stock represented by "broker non-votes" (i.e., shares of common stock held in record name by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote, (ii) the broker or nominee does not have discretionary voting power or (iii) the record holder has indicated that it does not have authority to vote such shares on the matter) generally will be treated as present for the purposes of determining a quorum. The affirmative vote of the holders of a majority of the outstanding shares of common stock of the Company present in person or represented by proxy at the Annual Meeting and entitled to vote thereon is required for the election of the nominees to the Board of Directors. With respect to this matter, an abstention will have the same effect as a negative vote, but because shares held by brokers will not be considered entitled to vote on matters as to which brokers would hold authority, a broker non-vote will have no effect on the vote.

A proxy may be revoked at any time prior to its exercise (i) by filing with the Secretary of the Company either an instrument revoking the proxy or a duly executed proxy bearing a later date or (ii) by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting by itself will not revoke a proxy.

Voting Securities and Securities Ownership

The Board of Directors has fixed the close of business on March 22, 2017, as the record date for the determination of stockholders who are entitled to notice of, and to vote at the Annual Meeting and any adjournments thereof. On the record date, the Company had outstanding 2,517,339 shares of common stock, the holders of which are entitled to one vote per share. No shares of any other class of common stock are issued or outstanding. The Company has retained Broadridge Financial Solutions, Inc. to assist in the distribution of proxy materials and solicitation of votes. The Company bears all costs associated with the distribution and solicitation.

Proposal One: Directors are elected by a plurality of the votes cast at the Annual Meeting on this proposal, and the nominees who receive the most votes will be elected. Your vote is important. Whether or not you expect to attend in person, we urge

you to vote your shares at your earliest convenience. Early submittal of your proxy will not prevent you from voting your shares in person if you desire to attend, as your proxy is revocable at your option.

Your brokerage firm or other nominee may not vote your shares with respect to Proposal One without specific instructions from you as to how to vote with respect to the election of each of the nominees for director, because election of directors is not considered a “routine” matter under the NASDAQ rules. Abstentions and broker non-votes represented by submitted proxies will not be taken into account in determining the outcome of the election of directors.

Proposal Two: To be approved, this proposal must receive an affirmative majority of the total votes cast “FOR” and “AGAINST” this proposal at the meeting. Proposal Two is considered a “routine” matter under the NASDAQ rules and, therefore, brokerage firms and nominees that are members of the NASDAQ have the authority under those rules to vote their customers' unvoted shares on Proposal Two if the customers have not furnished voting instructions within a specified period of time prior to the meeting.

Proposal Three: To be approved, this proposal must receive an affirmative majority of the total votes cast "FOR" and "AGAINST" this proposal at the meeting without regard to broker non-votes or abstentions.

Stock Ownership of Certain Beneficial Owners, Directors, Nominees and Executive Officers

The following table sets forth information with respect to the holdings of: (1) directors, nominees for director and executive officers; and (2) all directors and executive officers as a group; and (3) shares held in the employee stock ownership plan. This information is as of the Record Date, except as otherwise indicated. To the best of our knowledge, each of the persons named in the table below as beneficially owning the shares set forth therein has sole voting power and sole investment power with respect to such shares, unless otherwise indicated.

Names	Number of Shares Owned	Percent of Common Stock
Carolyn E. Brunson**	380,095	² 15.10 %
Fred Clark, Jr.	89,423	⁵ 3.55 %
Winfield Baird	121,221	4.82 %
Jack E. Brunson	116,012	³ 4.59 %
W. L. Brunson, Jr.	72,532	⁴ 2.88 %
Donald S. Pittman	34,000	1.35 %
Brian R. McLeod	25,710	1.02 %
James B. Saxon**	24,038	*
Mickey L. Murdock	23,813	*
Charles Arnold	14,100	*
Walter P. Wilkerson	11,273	*
Paul C. Wesch	10,457	*
Frank B. O'Neil	12,031	*
L. Brunson White	10,038	*
Fleming G. Brooks	5,300	*
Elizabeth B. Crawford	4,375	*
Directors, Nominees and Officers (as a group, 17 persons including persons named above)	958,777	⁶ 38.09 %
National Security Employee Stock Ownership Plan	48,436	1.92 %
	1,007,213	40.01 %
		* Less than 1%

** Director Emeritus (non-voting member of the board)

¹For purposes of this table, an individual is considered to "beneficially own" any shares of the Company if he or she directly or indirectly has or shares (i) voting power, which includes power to vote or direct voting of the shares; or (ii) investment power, which includes the power to dispose or direct the disposition of the shares. All amounts include stock held in a spouse's name.

²Includes stock held in Brunson Properties, a partnership (W.L. Brunson Estate), Carolyn E. Brunson and W. L. Brunson, Jr., Managing Partners.

³Includes 45,641 shares held in Jack R. Brunson Estate.

⁴Includes 57,713 shares held by the Jerry B. Brunson Marital Trust and the Jerry B. Brunson Family Trust. Sara B. Brunson and W. L. Brunson, Jr. co-trustees. W. L. Brunson, Jr. disclaims beneficial ownership of these shares.

⁵Includes 49,077 shares held in Trust by Clark's Investment Group, Ltd.

⁶Includes 36,140 units held in 401-K plan.

On January 18, 2013, the Board of Directors of National Security Group, Inc. adopted the recommendation of its Compensation Committee that established a stock ownership target for Independent Directors of 3,000 shares or an amount of shares equal to three years' annual Board cash compensation, whichever amount of shares is greater. The stock ownership target is intended to encourage Director ownership of National Security Group, Inc. common stock so as to further align the interests of the Independent Directors with the shareholders. Directors will obtain, then maintain, this level of stock ownership within their first three years of Board service, or within two years from the enactment of this policy.

Proposal One: Election of Directors

The Bylaws of the Company provide that the Board of Directors shall be divided into three classes as nearly equal in number as possible. The term of each director is three years, and the terms are staggered to provide for the election of one class of directors each year. At the Annual Meeting, our stockholders will elect one director to hold office until the 2018 Annual Meeting, one director to hold office until the 2019 Annual Meeting and four directors to hold office until the 2020 Annual Meeting and until their respective successors have been duly elected and qualified. The Board of Directors, upon the recommendation of the Nominating Committee, has nominated the following directors, to serve as directors until their respective term expires as noted and until their respective successors have been duly elected and qualified:

Elizabeth B. Crawford, 47
 Nominated for one-year term ending in 2018
 Birmingham, Alabama

Elizabeth B. Crawford is an attorney and former Director of a United Way Agency. She has served on the advisory board of the National Security Group Inc. for the past year. She presently serves on a number of non-profit board of directors in the Birmingham area. Mrs. Crawford has executive experience, a knowledge of governmental agencies, strong leadership and board experience.

NSEC Board and Board Committees	Meeting Attendance
Board of Directors	3 of 3* 100%

Independent

Charles B. Arnold, 39
 Nominated for two-year term ending in 2019
 Buford, Georgia

Charles B. Arnold currently serves as an assistant controller for Church's Chicken. He has served on the advisory board of the National Security Group Inc. for the past year. Mr. Arnold has experience in financial reporting and project management in various industries and has worked in the public accounting field for several years before moving to industry. He is a certified public accountant(inactive).

NSEC Board and Board Committees	Meeting Attendance
Board of Directors	3 of 3* 100%

Independent

W. L. Brunson, Jr., 58

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President/CEO

William L. Brunson, Jr. has served as a director since 1999 and as President and Chief Executive Officer of the Company since 2000. He holds the position of President of NSIC. He joined the Company in 1983. Mr. Brunson is a Director of NSFC, NATSCO, NSIC and Omega One. Mr. Brunson is also a member of the Alabama State Bar. Mr. Brunson has extensive knowledge of the insurance industry and regulation as well as significant experience in the areas of operations, corporate strategy, structure and law.

Nominated for three-year term ending in 2020

Elba, Alabama

Term Expires 2017

Director since 1999

NSEC Board and Board Committees	Meeting Attendance	
Board of Directors	4 of 4	100%
Executive Committee	None during 2016	

3

Fred Clark, Jr. is currently President and Chief Executive Officer of Alabama Municipal Electric Authority in Montgomery, Alabama. He was formerly Executive Director of The Electric Cities of Alabama and Executive Director of the Alabama Farmers Federation, President of Alabama Rural Electric Association of Cooperatives, Montgomery, Alabama, State Director for U. S. Senator Richard Shelby, Legislative Representative for National Rural Electric Cooperative Association and Legislative Assistant to U. S. Senator Howell Heflin. Mr. Clark has extensive leadership skills, experience in government relations, experience in a heavily regulated industry, financial acumen developed through his extensive executive and board experience, and has developed significant industry knowledge through his tenure as a director.

Fred Clark, Jr., 56
Nominating Committee Chairman

Nominated for three-year term

Matthews, Alabama
Term Expires 2017
Director since 1996
Independent

NSEC Board and Board Committees Meeting Attendance		
Board of Directors	4 of 4	100%
Compensation Committee	2 of 2	100%
Nominating Committee	1 of 1	100%
Executive Committee	None during 2016	

Mickey L. Murdock, 74
Audit Committee Chairman

Financial Expert

Nominated for three-year term

Mickey L. Murdock has served as a director since 1976. Mr. Murdock was appointed Mayor of Elba, Alabama in September 2011, to fill the unexpired term of the deceased mayor and was elected mayor in 2012 and re-elected in 2016. Mr. Murdock also serves as a Director of Power South, a provider of wholesale energy needs to 16 electric cooperatives and four municipal electric systems in Alabama and northwest Florida. Mr. Murdock retired from the Company in 2009 having served as Senior Vice President. From 1982 to 2002, he served as Chief Financial Officer and Treasurer of the Company. Prior to that time, he served as Vice President and Controller of the Company. He joined the Company in 1970. Mr. Murdock previously served as a Director of NSIC, NSFC, Omega One, and NATSCO. Mr. Murdock is a Certified Public Accountant (retired). Mr. Murdock has extensive knowledge of the insurance industry and regulation coupled with significant experience in operations, risk management, budgeting, financial reporting and investor communications.

Elba, Alabama

Term Expires 2017
Director since 1976
Independent

NSEC Board and Board Committees Meeting Attendance		
Board of Directors	4 of 4	100%
Audit Committee	5 of 6	83%
Dividend Committee	2 of 2	100%

	Nominating Committee	
	Paul C. Wesch currently serves as the Finance Director for the City of Mobile. He is a member of the Mobile County and State of Alabama Bar Associations. Mr. Wesch has extensive executive experience, knowledge of corporate governance, real estate development, corporate and real estate law.	
Paul C. Wesch, 62		
Nominated for three-year term		
Mobile, Alabama		
Term Expires 2017	NSEC Board and Board Committees	Meeting Attendance
Director since 2002	Board of Directors	4 of 4 100%
Independent	Compensation Committee	2 of 2 100%
*attended as advisory board members (non-voting member of the board) after appointment		

Each nominee has indicated a willingness to serve as a director. Should a nominee become unavailable to accept election as a director, the persons named in the enclosed proxy will vote the shares that such proxy represents for the election of such other person as the Board of Directors may nominate on the recommendation of the Nominating Committee.

The persons named in the enclosed proxy intend to vote "FOR" the election of the Nominees unless the proxy is marked to indicate that such authorization is expressly withheld. Should any of the Nominees be unable to accept nomination or election (which the Board of Directors does not expect) or should any other vacancy have occurred in the Board, it is the intention of the persons named in the enclosed proxy to vote for the election of the person or persons whom the Board of Directors recommends.

The Board of Directors Unanimously Recommends a Vote "FOR" the Election of the Above Nominees as Directors.

Proposal Two: Ratification of Company Independent Auditors

The Audit Committee of the Board of Directors has selected Warren Averett, LLC as the Company's independent registered public accounting firm for the calendar year ending December 31, 2017, and has further directed that management submit the selection of independent auditors for ratification by the stockholders at the Annual Meeting. Representatives of the firm are expected to be present at the Annual Meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Stockholder ratification of the selection of Warren Averett, LLC as the Company's independent auditors is not required by the Company's by-laws or otherwise. However, the Board is submitting the selection of Warren Averett, LLC to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent auditing firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

The affirmative vote of a majority of the votes cast at the Annual Meeting at which a quorum representing a majority of all outstanding shares of common stock of the Company is present and voting, either in person or by proxy, is required for approval of this proposal. Proposal Two is considered a "routine" matter under the NASDAQ rules, and therefore, brokerage firms and nominees that are members of the NASDAQ have the authority under those rules to vote their customers' unvoted shares on Proposal Two if the customers have not furnished voting instructions within a specified period of time prior to the meeting.

The Board of
Directors
Unanimously
Recommends
a Vote
"FOR" The
Ratification
of the
Selection of
Independent
Auditors.

Independent Registered Public Accounting Firm's Fees

Aggregate fees for professional services rendered for the Company by Warren Averett, LLC during the years ended December 31, 2016 and 2015 were as follows:

Year Ended December 31,	2016	%	2015	%
Audit Fees ⁽¹⁾	\$211,150	81 %	\$211,150	81 %
Audit-Related Fees ⁽²⁾	745	— %	2,910	1 %
Tax Fees ⁽³⁾	39,900	15 %	37,800	15 %
All Other Fees ⁽⁴⁾	9,197	4 %	7,177	3 %
Total	\$260,992	100%	\$259,037	100%

⁽¹⁾ Audit Fees were for professional services rendered in connection with the audit of the Company's annual financial statements for the year

ended December 31, 2016, and same period for the prior year as well as for the review of the Company's interim financial statements included in quarterly

reports on Form 10-Q during the year ended December 31, 2016, and same period for the prior year.

(2) Audit-Related Fees were for professional services rendered in connection with deductibility of compensation accruals (2016) and net operating loss carryback (2015).

(3) Tax Fees were for tax related services and totaled approximately \$39,900. The audit committee does not consider the tax related fees of \$39,900 to impair the auditor's independence.

(4) All Other Fees were for out of pocket expenses.

Proposal Three: Advisory Vote Executive Compensation

In 2013, stockholders voted in accordance with the recommendation of the Board of Directors for the non-binding advisory vote on executive compensation to occur with a frequency of every 1 year. Our Board of Directors remains committed to promoting the best interests of our stockholders through excellence in governance. As part of that commitment and as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act and Section 14A of the Exchange Act, we are providing our stockholders with an opportunity to cast an advisory vote regarding the compensation of our named executive officers as presented in this proxy statement. The Compensation Committee, comprised of independent directors, establishes and recommends all of the compensation and benefits policies and actions for our named executive officers. The Company has included details regarding the compensation and benefits policies for our named executive officers in the Compensation, Discussion and Analysis (CD&A) portion of this proxy statement. As a Smaller Reporting Company, we are not required to provide CD&A; however, this information has been included to provide greater understanding of our policies and practices and to provide information to our stockholders to support an affirmative vote.

While the advisory vote on executive compensation is not binding, it will provide useful information to our Board and the Compensation Committee regarding our stockholders' view of our executive compensation philosophy, policies and practices. Our Board is not required by law to take any action in response to our stockholders' advisory vote on executive compensation; however, the Compensation Committee values our stockholders' opinions and will take the results of the advisory vote into consideration when determining the future compensation arrangements for our named executive officers. To the extent there are significant negative advisory votes, we will consider the voting results and take them into consideration in making future decisions about our executive compensation program.

The approval of this proposal requires the affirmative vote of a majority of the shares voting on the matter at the 2017 Annual Meeting without regard to broker non-votes or abstentions. The next stockholder advisory vote on executive compensation will occur at our annual stockholders meeting in 2018.

The Board of
Directors
Unanimously
Recommends
a Vote
"FOR" The
Approval of
the
Compensation
of the
Company's
Named
Executive
Officers for
2016 as
Disclosed in
this Proxy
Statement

Board of Directors

In 1990, National Security Insurance Company was reorganized as a holding company system pursuant to a plan of exchange whereby The National Security Group, Inc., (the "Company"), became the holding company for National Security Insurance Company (NSIC), and its prior subsidiaries: National Security Fire & Casualty Company (NSFC), and NATSCO, Inc. ("NATSCO"). Subsequently Omega One Insurance Company ("Omega One") was formed as a wholly owned subsidiary of NSFC. References to tenure with the Company (in the following biographical section) include the individual's tenure with NSIC prior to the reorganization. Director ages for nominees and current directors are at December 31, 2016. In addition to the persons who are standing for re-election as directors (whose biographical information is included in Proposal One above), the following is a biographical summary of our other directors:

Frank B. O'Neil, 63

Compensation Committee Chairman

Frank B. O'Neil is the Senior Vice President and Chief Communications Officer of ProAssurance Corporation (NYSE: PRA) of Birmingham, Alabama. He is a member of National Investor Relations Institute and holds the Investor Relations Charter designation. He is a former member and chairman of the Board of Directors

of the Alabama Insurance Planning Commission. Mr. O'Neil currently serves as Chairman of the Rating Agency Liaison Committee for the Physician Insurers Association of America, a group representing medical professional liability insurance companies. Mr. O'Neil has extensive knowledge of the insurance industry and regulation, financial reporting, investor communications, corporate governance, risk management and experience working with other public company boards.

Birmingham, Alabama

Term Expires 2019	NSEC Board and Board Committees	Meeting Attendance
Director since 2004	Board of Directors	4 of 4 100%
Independent	Compensation Committee	2 of 2 100%

Donald S. Pittman has been in the private practice of law since June of 1988, in Enterprise, Alabama. He is a member of the Coffee County, State of Alabama and American Bar Associations. Mr. Pittman has extensive experience with real estate, corporate, tax and estate law as well as risk management, financial acumen and industry knowledge developed through his tenure as a director and service as Audit Committee Chairman.

Enterprise, Alabama

Term Expires 2019	NSEC Board and Board Committees	Meeting Attendance
Director since 2002	Board of Directors	4 of 4 100%
Independent	Audit Committee	6 of 6 100%
	Executive Committee	None during 2016

Brian R. McLeod, 48
 Vice President of Finance and Operation, Chief Financial Officer

Brian R. McLeod is Vice President of Finance and Operations and Chief Financial Officer of the Company. He joined the Company in 1992 and has served in various financial and operational roles during his tenure. He serves on the Boards of Directors of Company subsidiaries NSIC, NSFC, Omega One and NATSCO. He is a certified public accountant and also holds a chartered global management accountant designation. Mr. McLeod has extensive knowledge of the insurance industry and regulation stemming from his experience in areas of operations, project management, corporate strategy, financial management and regulatory reporting.

Elba, Alabama

Term Expires 2019

Director since 2016

NSEC Board and Board Committees	Meeting Attendance
Board of Directors	4 of 4 100%
Dividend Committee	2 of 2 100%

L. Brunson White, 60

L. Brunson White is a Principal and owner of Brunson White Advisors, LLC, a strategy and technology consulting company. He was Secretary of Information Technology for the State of Alabama from 2013 through 2015. In this role Mr. White served on the Cabinet of Alabama Governor Robert Bentley where he was responsible for the governance of approximately \$345 million in information technology spending. Prior to his gubernatorial appointment, Mr. White served as a Director of The National Security Group, Inc. from 2002-2013. Mr. White is retired from Energen Corporation (NYSE:EGN) where he worked as Chief Information Officer for much of his 33 year tenure. He has extensive technology and regulatory experience, having served as chief information officer of a highly regulated publicly traded company. Mr. White's risk management experience, financial acumen and industry knowledge have developed through his time as a director and previous service as a member of the Audit Committee for The National Security Group, Inc.

Birmingham, Alabama

Term Expires 2019

Director since 2016

Independent

NSEC Board and Board Committees	Meeting Attendance
Board of Directors	4 of 4 100%
Compensation Committee	

Winfield Baird, 84
 Chairman of the Board

Winfield Baird is a Chartered Financial Analyst and retired financial advisor with Baird Financial Management in Birmingham, Alabama. He previously served as President of Investment Counselors of Alabama, Inc. He was formerly a

partner and manager at the Birmingham office of J. C. Bradford & Company. Mr. Baird has extensive leadership experience as board chairman, financial acumen, risk management, investment management and regulatory knowledge developed through his experience as an investment advisor.

Birmingham, Alabama

Term expires 2018	NSEC Board and Board Committees	Meeting Attendance	
Director since 1964	Board of Directors	4 of 4	100%
Independent	Nominating Committee	1 of 1	100%
	Executive Committee	None during 2016	

Fleming G. Brooks is Chairman of the Board of Brooks Agrico LLC, of Samson, Alabama and various affiliates of that Company. He either serves currently or has served in the past, in various positions with associations of the agricultural community. Mr. Brooks has extensive executive management and leadership experience having served as chairman and CEO of a diversified privately held agribusiness entity and industry knowledge developed through his tenure as a director.

Fleming G. Brooks, 71
Dividend Committee Chairman

Samson, Alabama

Term expires 2018	NSEC Board and Board Committees	Meeting Attendance	
Director since 2004	Board of Directors	4 of 4	100%
Independent	Compensation Committee	2 of 2	100%
	Dividend Committee	4 of 4	100%
	Nominating Committee	1 of 1	100%

Jack E. Brunson has served as a director since 1999 and as President of NSFC since 1997. He also serves on the Boards of Directors of NSFC and Omega One. He joined the Company in 1982. Mr. Brunson has extensive leadership experience as president of an insurance subsidiary, financial acumen and risk management experience developed through his operational and director experiences, as well as extensive industry knowledge gained over his tenure with the Company. Mr. Brunson holds the Chartered Property and Casualty Underwriter designation.

Elba, Alabama

Term expires 2018	NSEC Board and Board Committees	Meeting Attendance
Director since 1999	Board of Directors	3 of 4 75%
	Dividend Committee	4 of 4 100%

Walter P. Wilkerson is a certified public accountant and consultant for the firm of Brunson, Wilkerson, Bowden & Associates, P.C. in Enterprise, Alabama. He is also a member of the American Institute of Certified Public Accountants and Alabama Society of Certified Public Accountants. Mr. Wilkerson has extensive leadership experience as a managing partner, financial acumen and risk management experience developed through his experience in public accounting and involvement in business operations and planning. He has been designated as the Audit Committee financial expert under NASDAQ listing standards, and has developed significant industry knowledge through his tenure as a director.

Walter P. Wilkerson, 69
Financial Expert

Enterprise, Alabama

Term expires 2018	NSEC Board and Board Committees	Meeting Attendance
Director since 1984	Board of Directors	4 of 4 100%
Independent	Audit Committee	6 of 6 100%
	Executive Committee	None during 2016

Director Compensation

The Compensation Committee periodically reviews levels of director compensation for non-employee directors of the Company. The goal of the compensation review is to provide a median level of director compensation relative to peer group companies to attract and retain individuals to provide independent oversight of management and bring diverse business ideas in order to provide input into strategic plans and objectives of the organization.

Non-employee directors are currently paid an annual base retainer of \$23,000. Reflecting the additional workload of their oversight duties and Committee assignments, the Chairman of the Board of Directors is paid an additional \$7,000 per year (\$30,000 in total); Audit Committee members are paid an additional \$4,000 per year (\$27,000 in total) and its Chairman is paid an additional \$5,000 per year (\$28,000 in total); Compensation Committee members are paid an

additional \$2,000 per year (\$25,000 in total) and its Chairman is paid an additional \$3,000 per year (\$26,000 in total).

Directors may choose to receive their compensation in cash and/or stock pursuant to the 2009 Equity Incentive Plan and have the ability to defer compensation. New Directors must elect to receive 50% or more of their compensation in Company stock pursuant to the 2009 Equity Incentive Plan until ownership standards are met. The Board of Directors adopted an Anti-Hedging Policy which states that: No employee of National Security Group, Inc. or any of its subsidiary companies, nor any member of the National Security Group, Inc. Board of Directors may purchase financial instruments (including, but not limited to: prepaid variable forward contracts, equity swaps, collars, and exchange funds) that are designed to hedge or offset any decrease in the market value of the common stock of National Security Group, Inc. This policy is designed to further align the financial interests of employees and directors with the financial interests of National Security Group, Inc. shareholders.

Directors are required to attend at least 75% of the total of all Board of Directors meetings and Committee meetings for any consecutive twelve-month period. If this attendance standard is not met, the Director's retainer for the following twelve-month period will be proportionately reduced. Full reimbursement is provided for travel expenses associated with Board or Committee meetings or other Company functions.

Directors may annually elect to defer compensation into a non-qualified deferred compensation plan (NQDC). Participants in the NQDC plan may select from a group of externally managed investment options. The Company also does not guarantee returns for any component of funds deferred in the NQDC plan.

Director Compensation Table

Name	Fees Earned or paid in Cash	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Non-qualified Deferred Compensation	All Other Compensation	Total
Winfield Baird	\$ 30,000	\$	—\$	—\$	—		