

ORRSTOWN FINANCIAL SERVICES INC

Form 10-K

March 15, 2019

ORRSTOWN FINANCIAL SERVICES INC Accelerated

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

**FORM 10-K**

**ANNUAL  
REPORT  
PURSUANT  
TO SECTION  
13 OR 15(d) OF  
THE  
SECURITIES  
EXCHANGE  
ACT OF 1934**

**For the fiscal year ended December 31, 2018**

**Commission file number: 001-34292**

**ORRSTOWN FINANCIAL SERVICES, INC.**

**(Exact Name of Registrant as Specified in its Charter)**

**Pennsylvania**      **23-2530374**  
(State or Other  
Jurisdiction of  
Incorporation or  
Organization)      (I.R.S. Employer  
Identification  
No.)

**77 East King  
Street, P. O.  
Box 250,              17257  
Shippensburg,      (Zip Code)  
Pennsylvania**

(Address of Principal  
Executive Offices)

**Registrant's Telephone Number, Including Area Code: (717) 532-6114**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
<b>Common Stock, No Par Value</b>	<b>The NASDAQ Capital</b>

**Market**

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “accelerated filer,” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	<input checked="" type="checkbox"/>
<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
	Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.). Yes  No

The aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of the last business day of the Registrant’s most recently completed second fiscal quarter, was approximately \$207.4 million. For purposes of this calculation, the term “affiliate” refers to all directors and executive officers of the registrant, and all persons beneficially owning more than 5% of the registrant’s common stock.

Number of shares outstanding of the Registrant’s common stock as of February 28, 2019: 9,481,969.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

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**Table of Contents****Glossary of Defined Terms**

The following terms may be used throughout this Report, including the consolidated financial statements and related notes.

Term	Definition
ALL	Allowance for loan losses
AFS	Available for sale
AOCI	Accumulated other comprehensive income (loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bank	Orrstown Bank, the commercial banking subsidiary of Orrstown Financial Services, Inc.
BHC Act	Bank Holding Company Act of 1965
CDI	Core deposit intangible
CET1	Common Equity Tier 1
CMO	Collateralized mortgage obligation
Company	Orrstown Financial Services, Inc. and subsidiaries (interchangeable with "Orrstown" below)
CFPB	Consumer Financial Protection Bureau
CRA	Community Reinvestment Act
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS	Earnings per common share
ERM	Enterprise risk management
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIA	Federal Deposit Insurance Act
FDIC	Federal Deposit Insurance Corporation
FHC	Financial holding company
FHLB	Federal Home Loan Bank
FRB	Board of Governors of the Federal Reserve System
GAAP	Accounting principles generally accepted in the United States of America

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GLB Act	Gramm-Leach-Bliley Act United States
GSE	government-sponsored enterprise
Hamilton	Hamilton Bancorp, Inc., and its wholly-owned banking subsidiary, Hamilton Bank
IRC	Internal Revenue Code of 1986, as amended
LHFS	Loans held for sale
MBS	Mortgage-backed securities
Mercersburg	Mercersburg Financial Corporation and its wholly-owned banking subsidiary, First Community Bank of Mercersburg (acquired October 1, 2018)
MPF Program	Mortgage Partnership Finance Program
MSR	Mortgage servicing right
NIM	Net interest margin
OCI	Other comprehensive income (loss)
OFA	Orrstown Financial Advisors, a division of the Bank that provides investment and brokerage services
OREO	Other real estate owned (foreclosed real estate)
Orrstown	Orrstown Financial Services, Inc. and subsidiaries
OTTI	Other-than-temporary impairment
Parent Company	Orrstown Financial Services, Inc., the parent company of Orrstown Bank and Wheatland Advisors, Inc.
2011 Plan	2011 Orrstown Financial Services, Inc. Stock Incentive Plan
PCI loans	Purchased credit impaired loans
Repurchase Agreements	Securities sold under agreements to repurchase
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
TDR	Troubled debt restructuring
U.S.	United States of America
Wheatland	Wheatland Advisors, Inc., the Registered Investment Advisor subsidiary of Orrstown Financial Services, Inc.

*Unless the context otherwise requires, the terms “Orrstown,” “we,” “us,” “our,” and “Company” refer to Orrstown Financial Services, Inc. and its subsidiaries.*

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**PART I**

**Forward-Looking Statements:**

Certain statements appearing herein which are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make other written and oral communications, from time to time, that contain such statements. Such forward-looking statements refer to a future period or periods, reflecting our current beliefs as to likely future developments, and use words like “may,” “will,” “expect,” “estimate,” “anticipate” or similar terms. Forward-looking statements are statements that include projections, predictions, expectations, or beliefs about events or results or otherwise are not statements of historical facts, including, but not limited to, statements related to new business development, new loan opportunities, growth in the balance sheet and fee based revenue lines of business, merger and acquisition activity, reducing risk assets, and mitigating losses in the future. Actual results and trends could differ materially from those set forth in such statements and there can be no assurances that we will achieve the desired level of new business development and new loans, growth in the balance sheet and fee based revenue lines of business, successful merger and acquisition activity, continue to reduce risk assets or mitigate losses in the future. Factors that could cause actual results to differ from those expressed or implied by the forward-looking statements include, but are not limited to, the following: ineffectiveness of the Company’s business strategy due to changes in current or future market conditions; the effects of competition, including industry consolidation and development of competing financial products and services; the integration of the Company’s strategic acquisitions; the inability to fully achieve expected savings, efficiencies or synergies from mergers and acquisitions, or taking longer than estimated for such savings, efficiencies and synergies to be realized; changes in laws and regulations; interest rate movements; changes in credit quality; inability to raise capital, if necessary, under favorable conditions; volatilities in the securities markets; deteriorating economic conditions; expenses associated with pending litigation and legal proceedings; and other risks and uncertainties.

This Annual Report on Form 10-K includes forward-looking statements. With respect to all such forward-looking statements, you should review our Risk Factors discussion in Item 1A, our Critical Accounting Policies and Cautionary Statement About Forward-Looking Statements sections included in Item 7, and Note 21, Contingencies, in the Notes To Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K. We encourage readers of this report to understand forward-looking statements to be strategic objectives rather than absolute targets of future performance. Forward-looking statements speak only as of the date they are made. We do not intend to update publicly any forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

**ITEM 1 – BUSINESS**

Orrstown Financial Services, Inc., a Pennsylvania corporation, is the holding company for its wholly-owned subsidiaries Orrstown Bank and Wheatland Advisors, Inc. The Company’s principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania, 17257, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania, 17111. The Parent Company was organized on November 17, 1987, for the purpose of acquiring the Bank and such other banks and bank-related activities as are permitted by law and desirable. The Company provides banking and bank-related services through branches located in south central Pennsylvania, principally in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry and York Counties and in Washington County, Maryland. Wheatland was acquired in December 2016 and provides services as a registered investment advisor through its office in Lancaster County, Pennsylvania.

The Company files periodic reports with the SEC in the form of quarterly reports on Form 10-Q, annual reports on Form 10-K, annual proxy statements and current reports on Form 8-K for any significant events that may arise during the year. Copies of these reports, and any amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), may be obtained free of charge through the SEC’s Internet site at [www.sec.gov](http://www.sec.gov) or by accessing the Company’s website at [www.orrstown.com](http://www.orrstown.com) as soon

as reasonably practicable after such reports are electronically filed with, or furnished to, the SEC. Information on our website shall not be considered a part of this Annual Report on Form 10-K.

Recent Merger and Acquisition Activity

On October 1, 2018, the Company expanded its presence in Franklin County, Pennsylvania, with the completion of its acquisition of Mercersburg Financial Corporation and the merger of its banking subsidiary, First Community Bank of Mercersburg, with and into Orrstown Bank.

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On October 23, 2018, the Company announced it had entered into an agreement and plan of merger with Hamilton Bancorp, Inc., the holding company for Hamilton Bank, based in Towson, Maryland. The merger is expected to close in the second quarter of 2019, subject to receipt of regulatory approvals, the approval of Hamilton's shareholders, and the satisfaction of other customary closing conditions. If completed, the Hamilton acquisition will expand the Company's presence into the greater Baltimore, Maryland, market.

## **Business**

The Bank was originally organized in 1919 as a state-chartered bank. On March 8, 1988, in a bank holding company reorganization transaction, the Parent Company acquired 100% ownership of the Bank.

The Parent Company's primary activity consists of owning and supervising its subsidiaries, the Bank and Wheatland. Day-to-day management is conducted by its officers, who are also Bank officers. The Parent Company has historically derived most of its income through dividends from the Bank. At December 31, 2018, the Company had total assets of \$1,934,388,000, total deposits of \$1,558,756,000 and total shareholders' equity of \$173,433,000.

The Parent Company has no employees. Its 10 officers are employees of the Bank. On December 31, 2018, the Bank and Wheatland combined had 367 full-time and 19 part-time employees.

The Bank is engaged in the commercial banking and trust business as authorized by the Pennsylvania Banking Code of 1965. This involves accepting demand, time and savings deposits, and granting loans. The Bank holds commercial, residential, consumer and agribusiness loans primarily in its market areas of Cumberland, Dauphin, Franklin, Lancaster, Perry and York Counties in Pennsylvania; Washington County, Maryland; and in contiguous counties. The concentrations of credit by type of loan are included in Note 4, Loans and Allowance for Loan Losses, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." The Bank maintains a diversified loan portfolio and evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon the extension of credit, is based on management's credit evaluation of the customer pursuant to collateral standards established in the Bank's credit policies and procedures.

Wheatland supplements the Bank's trust and wealth management group and is anticipated to provide opportunities for future growth in these areas.

## **Lending**

All secured loans are supported with appraisals or evaluations of collateral. Business equipment and machinery, inventories, accounts receivable, and farm equipment are considered appropriate security, provided borrowers meet acceptable standards for liquidity and marketability. Loans secured by real estate generally do not exceed 90% of the appraised value of the property. Loan to collateral values are monitored as part of the loan review process, and appraisals are updated as deemed appropriate under the circumstances.

## **Commercial Lending**

A majority of the Company's loan assets are loans for business purposes. Approximately 62% of the loan portfolio is comprised of commercial loans. The Bank makes commercial real estate, equipment, working capital and other commercial purpose loans as required by the broad range of borrowers across the Bank's various markets.

The Bank's credit policy dictates the underwriting requirements for the various types of loans the Bank would extend to borrowers. The policy covers such requirements as debt coverage ratios, advance rates against different forms of collateral, loan-to-value ratios and maximum term.

## **Consumer Lending**

The Bank provides home equity loans, home equity lines of credit and other consumer loans primarily through its branch network and customer call center. A large majority of the consumer loans are secured by either a first or second lien position on the borrower's primary residential real estate. The Bank requires a loan-to-value ratio of no greater than 90% of the value of the real estate being taken as collateral. We also, at times, purchase consumer loans to help diversify credit risk in our loan portfolio.

Residential Lending

The Bank provides residential mortgages throughout its various markets through a network of mortgage loan officers. A majority of the residential mortgages originated are sold to secondary market investors, primarily Wells Fargo, Fannie Mae and

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the FHLB of Pittsburgh. All mortgages, regardless of being sold or held in the Bank's portfolio, are generally underwritten to secondary market industry standards for prime mortgages. The Bank generally requires a loan-to-value ratio of no greater than 80% of the value of the real estate being taken as collateral, without the borrower obtaining private mortgage insurance.

## **Loan Review**

The Bank has a loan review policy and program which is designed to identify and monitor risk in the lending function. The ERM Committee, comprised of executive officers and loan department personnel, is charged with the oversight of overall credit quality and risk exposure of the Bank's loan portfolio. This includes the monitoring of the lending activities of all Bank personnel with respect to underwriting and processing new loans and the timely follow-up and corrective action for loans showing signs of deterioration in quality. The loan review program provides the Bank with an independent review of the Bank's commercial loan portfolio on an ongoing basis. Generally, consumer and residential mortgage loans are included in Pass categories unless a specific action, such as extended delinquencies, bankruptcy, repossession, or death of the borrower occurs, which heightens awareness as to a possible credit event. Internal loan reviews are completed annually on all commercial relationships with a committed loan balance in excess of \$500,000, which includes confirmation of risk rating by an independent credit officer. In addition, all relationships greater than \$250,000 rated Substandard, Doubtful or Loss are reviewed quarterly and corresponding risk ratings are reaffirmed by the Bank's Problem Loan Committee, with subsequent reporting to the ERM Committee. The Bank outsources its independent loan review to a third-party provider, which monitors and evaluates loan customers on a quarterly basis utilizing risk-rating criteria established in the credit policy in order to identify deteriorating trends and detect conditions which might indicate potential problem loans. The results of the third-party loan review are reported quarterly to the ERM Committee for approval. The loan ratings provide the basis for evaluating the adequacy of the ALL.

## **Investment Services**

Through its trust department, the Bank renders services as trustee, executor, administrator, guardian, managing agent, custodian, investment advisor, and other fiduciary activities authorized by law under the trade name "Orrstown Financial Advisors." OFA offers retail brokerage services through a third-party broker/dealer arrangement with Cetera Advisor Networks LLC. Wheatland also offers investment advisor services as a registered investment advisor. At December 31, 2018, assets under management by OFA and Wheatland totaled \$1,330,595,000.

## **Regulation and Supervision**

The Parent Company is a bank holding company registered with the FRB and has elected status as a financial holding company. As a registered bank holding company and FHC, the Company is subject to regulation under the Bank Holding Company Act of 1956 and to inspection, examination, and supervision by the FRB.

The Bank is a Pennsylvania-chartered commercial bank and a member of the FRB. The operations of the Bank are subject to federal and state statutes applicable to banks chartered under Pennsylvania law, to FRB member banks and to banks whose deposits are insured by the FDIC. The Bank's operations are also subject to regulations of the Pennsylvania Department of Banking and Securities, the FRB and the FDIC.

Wheatland is subject to periodic examination by the SEC.

Several of the more significant regulatory provisions applicable to bank holding companies and banks to which the Company and the Bank are subject are discussed below, along with certain regulatory matters concerning the Company and the Bank. To the extent that the following information describes statutory or regulatory provisions, such information is qualified in its entirety by reference to the particular statutes or regulations. Any change in applicable law or regulation may have a material effect on the business and prospects of the Company and the Bank.

### *Financial and Bank Holding Company Activities*

As an FHC, we are permitted to engage, directly or through subsidiaries, in a wide variety of activities that are financial in nature or are incidental or complementary to a financial activity, in addition to all of the activities otherwise allowed to us.

As an FHC, the Company is generally subject to the same regulation as other bank holding companies, including the reporting, examination, supervision and consolidated capital requirements of the FRB. To preserve our FHC status, we must remain well-capitalized and well-managed and ensure that the Bank remains well-capitalized and well-managed for regulatory purposes and earns “satisfactory” or better ratings on its periodic Community Reinvestment Act examinations. An FHC ceasing to meet these standards is subject to a variety of restrictions, depending on the circumstances.

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If the Parent Company or the Bank are either not well-capitalized or not well-managed, the Parent Company or the Bank must promptly notify the FRB. Until compliance is restored, the FRB has broad discretion to impose appropriate limitations on an FHC's activities. If compliance is not restored within 180 days, the FRB may ultimately require the FHC to divest its depository institutions or in the alternative, to discontinue or divest any activities that are permitted only to non-FHC bank holding companies.

If the FRB determines that an FHC or its subsidiaries do not satisfy the CRA requirements, the potential restrictions are different. In that case, until all the subsidiary institutions are restored to at least "satisfactory" CRA rating status, the FHC may not engage, directly or through a subsidiary, in any of the additional activities permissible under the BHC Act nor make additional acquisitions of companies engaged in the additional activities. However, completed acquisitions and additional activities and affiliations previously begun are left undisturbed, as the BHC Act does not require divestiture for this type of situation.

### *Federal Financial Regulatory Reform*

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in 2010, substantially increased regulatory oversight and enforcement and imposed additional costs and risks on the operations of financial holding companies and banks.

The Dodd-Frank Act materially changed the regulation of financial institutions and the financial services industry and created a framework for regulatory reform. The Dodd-Frank Act and the regulations thereunder, some of which are still being drafted and implemented, include provisions affecting large and small financial institutions alike, including several provisions that affect the regulation of community banks and bank holding companies.

The Dodd-Frank Act, among other things, imposed new capital requirements on bank holding companies; changed the base for FDIC insurance assessments to a bank's average consolidated total assets minus average tangible equity, rather than upon its deposit base; permanently raised the current standard deposit insurance limit to \$250,000; and expanded the FDIC's authority to raise insurance premiums. The legislation also called for the FDIC to raise its ratio of reserves to deposits from 1.15% to 1.35% for deposit insurance purposes by September 30, 2020 and to "offset the effect" of increased assessments on insured depository institutions with assets of less than \$10 billion.

The Dodd-Frank Act also included provisions that affect corporate governance and executive compensation at all publicly-traded companies and allows financial institutions to pay interest on business checking accounts. The legislation also restricts proprietary trading by banking organizations, places restrictions on the owning or sponsoring of hedge and private equity funds, and regulates the derivatives activities of banks and their affiliates. The Dodd-Frank Act established the Financial Stability Oversight Council to identify threats to the financial stability of the U.S., promote market discipline, and respond to emerging threats to the stability of the U.S. financial system.

The Dodd-Frank Act also established the Consumer Financial Protection Bureau as an independent entity funded by the FRB. The CFPB has broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB's rules contain provisions on mortgage-related matters such as steering incentives, and determinations as to a borrower's ability to repay, loan servicing, and prepayment penalties. The CFPB has primary examination and enforcement authority over banks with over \$10 billion in assets as to consumer financial products.

One of the announced goals of the CFPB is to bring greater consumer protection to the mortgage servicing market. The CFPB has defined a "qualified mortgage" for purposes of the Dodd-Frank Act, and set standards for mortgage lenders to determine whether a consumer has the ability to repay the mortgage. It has also issued regulations affording safe harbor legal protections for lenders making qualified loans that are not "higher priced." The CFPB's regulations contain new mortgage servicing rules applicable to the Bank, which took effect in 2014. Changes affect notices to be given to consumers as to delinquency, foreclosure alternatives, modification applications, interest rate adjustments and options for avoiding "force-placed" insurance. Servicers are prohibited from processing foreclosures when a loan modification is pending, and must wait until a loan is more than 120 days delinquent before initiating a foreclosure action.

The servicer must provide direct and ongoing access to its personnel, and provide prompt review of any loss mitigation application. Servicers must maintain accurate and accessible mortgage records for the life of a loan and until one year after the loan is paid off or transferred.

The Bank presently services 5,000 or fewer mortgage loans which it owns or originated, so it is considered a “Small Servicer” and is exempt from certain parts of the mortgage servicing rules. The mortgage servicing requirements applicable to the Bank’s servicing operations under the new mortgage servicing rules are: adjustable rate mortgage interest rate adjustment notices; prompt payment crediting and payoff statements; limits on force-placed insurance; responses to written information requests and complaints of errors; and loss mitigation with regard to the first notice or filing for a foreclosure and no foreclosure proceedings if a borrower is performing pursuant to the terms of a loss mitigation agreement.

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### *Federal Deposit Insurance*

The Bank's deposits are insured to applicable limits by the FDIC. The maximum deposit insurance amount is \$250,000 under the Dodd-Frank Act.

The FDIC is required by the Dodd-Frank Act to return its insurance reserve ratio to 1.35% no later than September 30, 2020. When the fund reached 1.15%, banks larger than \$10 billion in assets were required to assume the burden of bringing the fund to 1.35%. In 2016, the fund reached the 1.15% ratio and smaller banks' assessments decreased. In September 2018, the fund reached 1.36%, exceeding the statutorily required minimum reserve ratio of 1.35%. FDIC regulations provide for two changes to deposit insurance assessments upon reaching the minimum: (1) surcharges on insured large banks will cease; and (2) small banks will receive assessment credits for the portion of their assessments that contributed to the growth in the reserve ratio from between 1.15 percent and 1.35 percent, to be applied when the reserve ratio is at or above 1.38%. At December 31, 2018, the reserve ratio did not exceed 1.38 percent.

As required by the Dodd-Frank Act, the FDIC changed its calculation of FDIC insurance premiums. Institutions are now assigned a base rate using their examination ratings, which is then adjusted based on their leverage ratio, net income before taxes to total assets ratio, nonperforming loans and leases to gross assets ratio, other real estate owned to gross assets ratio, loan mix index, and one-year asset growth rate. The result is then further adjusted to reflect its level of unsecured debt issued, the level of unsecured depository institution debt it owns, and the level of brokered deposits (excluding reciprocal deposits) it has issued above regulatory minimums.

If the FDIC is appointed conservator or receiver of a bank upon the bank's insolvency or the occurrence of other events, the FDIC may sell some, part or all of a bank's assets and liabilities to another bank or repudiate or disaffirm most types of contracts to which the bank was a party if the FDIC believes such contracts are burdensome. In resolving the estate of a failed bank, the FDIC as receiver will first satisfy its own administrative expenses, and the claims of holders of U.S. deposit liabilities also have priority over those of other general unsecured creditors.

### *Liability for Banking Subsidiaries*

Under the Dodd-Frank Act and applicable FRB policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to commit resources to their support. This support may be required at times when the bank holding company may not have the resources to provide it. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act (the "FDIA"), the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with the "default" of a commonly controlled FDIC-insured depository institution; or any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution "in danger of default."

### *Pennsylvania Banking Law*

The Pennsylvania Banking Code ("Banking Code") contains detailed provisions governing the organization, location of offices, rights and responsibilities of directors, officers, and employees, as well as corporate powers, savings and investment operations and other aspects of the Bank and its affairs. The Banking Code delegates extensive rule-making power and administrative discretion to the PDB so that the supervision and regulation of state chartered banks may be flexible and readily responsive to changes in economic conditions and in savings and lending practices. The FDIA, however, prohibits state chartered banks from making new investments, loans, or becoming involved in activities as principal and equity investments which are not permitted for national banks unless the FDIC determines the activity or investment does not pose a significant risk of loss to the Deposit Insurance Fund; and the bank meets all applicable capital requirements. Accordingly, the additional operating authority provided to the Bank by the Banking Code is significantly restricted by the FDIA.

### *Dividend Restrictions*

The Parent Company's funding for cash distributions to its shareholders is derived from a variety of sources, including cash and temporary investments. One of the principal sources of those funds has historically been dividends received from the Bank. Various federal and state laws limit the amount of dividends the Bank can pay to the Parent Company without regulatory approval. In addition, federal bank regulatory agencies have authority to prohibit the Bank from engaging in an unsafe or unsound practice in conducting its business. The payment of dividends, depending upon the

financial condition of the bank in question, could be deemed to constitute an unsafe or unsound practice. The ability of the Bank to pay dividends in the future may be influenced by bank regulatory policies and capital guidelines.

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### **Regulatory Capital Requirements**

Compliance by the Company and the Bank with respect to capital requirements is incorporated by reference from Note 15, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data," and from the Capital Adequacy and Regulatory Matters section of Item 7, "Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations."

### **Basel III Capital Rules**

The Company and the Bank are subject to the Basel III Capital Rules, which prescribe a standardized approach for risk weightings that expanded the risk-weighting categories to a larger and more risk-sensitive number of categories than previously used, depending on the nature of the assets. These categories generally range from 0%, for U.S. government and agency securities, to 600%, for certain equity exposures, and result in higher risk weights for a variety of asset categories.

The Basel III Capital Rules incorporate a capital measure called Common Equity Tier 1 and a related regulatory capital ratio of CET1 to risk-weighted assets and a "capital conservation buffer," designed to absorb losses during periods of economic stress. Institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer are subject to constraints on dividends, equity repurchases and discretionary bonuses to executive officers based on the amount of the shortfall. The capital standards were fully phased-in and fully implemented on January 1, 2019. Those applicable to the Parent Company and the Bank include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) Total capital to risk-weighted assets of at least 10.5%.

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets arising from temporary differences that could not be realized from net operating loss carrybacks and significant investments in unconsolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories, in the aggregate, exceed 15% of CET1. Under a one-time permanent election made by the Company and the Bank, the effects of certain accumulated other comprehensive income items are not excluded from regulatory capital, including unrealized gains or losses on certain securities available for sale. Implementation of the deductions and other adjustments to CET1 were phased in and fully implemented beginning January 1, 2018.

### **Other Federal Laws and Regulations**

The Company's operations are subject to additional federal laws and regulations applicable to financial institutions, including, without limitation:

- Privacy provisions of the Gramm-Leach-Bliley Act and related regulations, which require us to maintain privacy policies intended to safeguard customer financial information, to disclose the policies to our customers and to allow customers to "opt out" of having their financial service providers disclose their confidential financial information to non-affiliated third parties, subject to certain exceptions;
- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;
- Consumer protection rules for the sale of insurance products by depository institutions, adopted pursuant to the requirements of the GLB Act; and
- the USA PATRIOT Act, which requires financial institutions to take certain actions to help prevent, detect and prosecute international money laundering and the financing of terrorism.

### **Future Legislation and Regulation**

Changes in federal laws and regulations, as well as laws and regulations in states where the Parent Company and the Bank do business, can affect the operating environment of the Company and the Bank in substantial ways. We cannot predict whether those changes in laws and regulations will occur, and, if they occur, the ultimate effect they would have upon the financial condition or results of operations of the Company.

### **NASDAQ Capital Market**

The Company's common stock is listed on The NASDAQ Capital Market under the trading symbol "ORRF" and is subject to NASDAQ's rules for listed companies.

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### **Competition**

The Bank's principal market area consists of Berks County, Cumberland County, Dauphin County, Franklin County, Lancaster County, Perry County, and York County, Pennsylvania, and Washington County, Maryland. The Bank serves a substantial number of depositors in this market area and contiguous counties, with the greatest concentration in Chambersburg, Shippensburg, and Carlisle, Pennsylvania and the surrounding areas.

We are subject to robust competition in our market areas. Like other depository institutions, we compete with less heavily regulated entities such as credit unions, brokerage firms, money market funds, consumer finance and credit card companies, and with other commercial banks, many of which are larger than the Bank. The principal methods of competing effectively in the financial services industry include improving customer service through the quality and range of services provided, improving efficiencies and pricing services competitively. The Bank is competitive with the financial institutions in its service areas with respect to interest rates paid on time and savings deposits, service charges on deposit accounts and interest rates charged on loans.

We continue to implement strategic initiatives focused on expanding our core businesses and to explore, on an ongoing basis, acquisition, divestiture, and joint venture opportunities to the extent permitted by our regulators. We analyze each of our products and businesses in the context of shareholder return, customer demands, competitive advantages, industry dynamics, and growth potential. We believe our market area will support growth in assets and deposits in the future, which we expect to contribute to our ability to maintain or grow profitability.

### **ITEM 1A – RISK FACTORS**

An investment in our common stock is subject to risks inherent in our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, our business, financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of our common stock could decline significantly, and you could lose all or part of your investment.

#### **Risks Related to Credit**

*If our allowance for loan losses is not sufficient to cover actual losses, our earnings would decrease.*

There is no precise method of predicting loan losses. The required level of reserves, and the related provision for loan losses, can fluctuate from year to year, based on charge-offs and/or recoveries, loan volume, credit administration practices, and local and national economic conditions, among other factors. The ALL, which is a reserve established through a provision for loan losses charged to expense, represents management's best estimate of probable incurred losses within the existing portfolio of loans. The level of the allowance reflects management's evaluation of, among other factors, the status of specific impaired loans, trends in historical loss experience, delinquency, credit concentrations and economic conditions within our market area. The determination of the appropriate level of the ALL inherently involves a high degree of subjectivity and judgment and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require us to increase our ALL.

In addition, bank regulatory agencies periodically review our ALL and may require us to increase the provision for loan losses or to recognize further loan charge-offs, based on judgments that differ from those of management. If loan charge-offs in future periods exceed the ALL, there would be a need to record additional provisions to increase our ALL. Furthermore, growth in the loan portfolio would generally lead to an increase in the provision for loan losses. Generally, increases in our ALL will result in a decrease in net income and stockholders' equity, and may have a material adverse effect on the financial condition of the Company, results of operations and cash flows.

The deterioration of one or more of our significant lending relationships could result in a significant increase in the nonperforming loans and the provisions for loan losses, which would negatively impact our results of operations.

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### ***Commercial real estate lending may expose us to a greater risk of loss and impact our earnings and profitability.***

Our business strategy includes making loans secured by commercial real estate. These types of loans generally have higher risk-adjusted returns and shorter maturities than other loans. Loans secured by commercial real estate properties are generally for larger amounts and may involve a greater degree of risk than other loans. Payments on loans secured by these properties are often dependent on the income produced by the underlying properties which, in turn, depends on the successful operation and management of the properties. Accordingly, repayment of these loans is subject to conditions in the real estate market or the local economy. In challenging economic conditions, these loans represent higher risk and could result in an increase in our total net charge-offs, requiring us to increase our ALL, which could have a material adverse effect on our financial condition or results of operations. While we seek to minimize these risks in a variety of ways, there can be no assurance that these measures will protect against credit-related losses.

### ***The credit risk related to commercial and industrial loans is greater than the risk related to residential loans.***

Commercial and industrial loans generally carry larger loan balances and involve a greater degree of risk of nonpayment or late payment than home equity loans or residential mortgage loans. Commercial and industrial loans include advances to local and regional businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit or term loans. Although commercial and industrial loans may be unsecured to our highest rated borrowers, the majority of these loans are secured by the borrower's accounts receivable, inventory and machinery and equipment. In a significant number of these loans, the collateral also includes the business real estate or the business owner's personal real estate or assets. Commercial and industrial loans are more susceptible to risk of loss during a downturn in the economy, as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline. We attempt to mitigate this risk through our underwriting standards, including evaluating the creditworthiness of the borrower and, to the extent available, credit ratings on the business. Additionally, monitoring of the loans through annual renewals and meetings with the borrowers are typical. However, these procedures cannot eliminate the risk of loss associated with commercial and industrial lending. Our commercial and industrial lending operations are located primarily in south central Pennsylvania and in Washington County, Maryland. Our borrowers' ability to repay these loans depends largely on economic conditions in these and surrounding areas. A deterioration in the economic conditions in these market areas could materially adversely affect our operations and increase loan delinquencies, increase problem assets and foreclosures, increase claims and lawsuits, decrease the demand for our products and services and decrease the value of collateral securing loans.

## **Risks Related to Interest Rates and Investments**

### ***Changes in interest rates could adversely impact the Company's financial condition and results of operations.***

Our operations are subject to risks and uncertainties surrounding our exposure to changes in the interest rate environment. Operating income, net income and liquidity depend to a great extent on our net interest margin, i.e., the difference between the interest yields we receive on interest-earning assets, such as loans and securities, and the interest rates we pay on interest-bearing liabilities, such as deposits and borrowings. These rates are highly sensitive to many factors beyond our control, including competition; general economic conditions; and monetary and fiscal policies of various governmental and regulatory authorities, including the FRB. If the rate of interest we pay on our interest-bearing liabilities increases more than the rate of interest we receive on our interest-earning assets, our net interest income, and therefore our earnings, and liquidity could be materially adversely affected. Our earnings and liquidity could also be materially adversely affected if the rates on interest-earning assets fall more quickly than those on our interest-bearing liabilities.

Changes in interest rates also can affect our ability to originate loans; the ability of borrowers to repay adjustable or variable rate loans; our ability to obtain and retain deposits in competition with other available investment alternatives; and the value of interest-earning assets, which would negatively impact stockholders' equity, and the ability to realize gains from the sale of such assets. Based on our interest rate sensitivity analyses, an increase in the general level of interest rates will negatively affect the market value of the investment portfolio because of the relatively higher duration of certain securities included in the investment portfolio.

Our subordinated notes, issued in December 2018, have a 6.0% fixed interest rate through December 2023, after which the interest rate will convert to a variable rate of the London Interbank Offered Rate (“LIBOR”) for the applicable interest period plus 3.16% through maturity in December 2028. Depending on our financial condition at the time of the rate changing from fixed to variable, an increase in the interest rate on our subordinated debt could have a material adverse effect on our liquidity and results of operations.

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***The expected discontinuance of LIBOR presents risks to the financial instruments originated, issued or held by us that use LIBOR as a reference rate.***

LIBOR is used as a reference rate for many of our transactions, which means it is the base on which relevant interest rates are determined. Transactions include those in which we lend and borrow money and issue, purchase and sell securities. LIBOR is the subject of recent national and international regulatory guidance and proposals for reform. The United Kingdom Financial Conduct Authority, which regulates the process for setting LIBOR, announced in July 2017 that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021.

While there are ongoing efforts to establish an alternative reference rate to LIBOR, as of the date of this report, no such rate has been accepted or is considered ready to be implemented.

If another rate does not achieve wide acceptance as the alternative to LIBOR, there likely will be disruption to all of the markets relying on the availability of a broadly accepted reference rate. Even if another reference rate ultimately replaces LIBOR, risks will remain for us with respect to outstanding loans, or other instruments using LIBOR. Those risks arise in connection with transitioning those instruments to a new reference rate and the corresponding value transfer that may occur in connection with that transition. Risks related to transitioning instruments to a new reference rate or to how LIBOR is calculated and its availability include impacts on the yield on loans or securities held by us and amounts paid on securities we have issued. The value of loans, securities, or borrowings tied to LIBOR and the trading market for LIBOR-based securities could also be impacted upon its discontinuance or if it is limited.

Further, it is possible that LIBOR quotes will become unavailable prior to 2021 if sufficient banks decline to make submissions to the LIBOR administrator. In that case, the risks associated with the transition to an alternative reference rate will be accelerated and magnified. These risks may also be increased due to the shorter time frame for preparing for the transition.

## **Risks Related to Competition and to Our Business Strategy**

***Difficult economic and market conditions can adversely affect the financial services industry and may materially and adversely affect the Company.***

Our operations are sensitive to general business and economic conditions in the U.S. If the growth of the U.S. economy slows, or if the economy worsens or enters into a recession, our growth and profitability could be constrained. In addition, economic conditions in foreign countries can affect the stability of global financial markets, which could impact the U.S. economy and financial markets. Weak economic conditions are characterized by deflation, fluctuations in debt and equity capital markets, including a lack of liquidity and/or depressed prices in the secondary market for mortgage loans, increased delinquencies on mortgage, consumer and commercial loans, residential and commercial real estate price declines and lower home sales and commercial activity. All of these factors are detrimental to our business. Our business is significantly affected by monetary and related policies of the U.S. federal government, its agencies and government-sponsored entities. Changes in any of these policies could have a material adverse effect on our business, financial position, results of operations and cash flows.

In particular, we may face the following risks in connection with volatility in the economic environment:

- Loan delinquencies could increase;
- Problem assets and foreclosures could increase;
- Demand for our products and services could decline; and
- Collateral for loans made by us, especially real estate, could decline in value, reducing customers' borrowing power, and reducing the value of assets and collateral associated with our loans.

***Because our business is concentrated in south central Pennsylvania and Washington County, Maryland, our financial performance could be materially adversely affected by economic conditions and real estate values in these market areas.***

Our operations and the properties securing our loans are primarily located in south central Pennsylvania and in Washington County, Maryland. Our operating results depend largely on economic conditions and real estate valuations in these and surrounding areas. A deterioration in the economic conditions in these market areas could materially adversely affect our operations and increase loan delinquencies, increase problem assets and foreclosures, increase claims and lawsuits, decrease the demand for our products and services and decrease the value of collateral securing loans, especially real estate, in turn reducing customers' borrowing power, the value of assets associated with nonperforming loans and collateral coverage.

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### ***Competition from other banks and financial institutions in originating loans, attracting deposits and providing other financial services may adversely affect our profitability and liquidity.***

We experience substantial competition in originating loans, both commercial and consumer loans, in our market area. This competition comes principally from other banks, savings institutions, credit unions, mortgage banking companies and other lenders. Some of our competitors enjoy advantages, including greater financial resources, and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income and liquidity by decreasing the number and size of loans that we originate and the interest rates we are able to charge on these loans.

As we expand our on-line lending capabilities, we will face competition, particularly in residential mortgage lending, from non-bank lenders (financial institutions that only make loans and do not offer deposit accounts such as a savings account or checking account) and financial technology companies (that use new technology and innovation with available resources in order to compete in the marketplace of traditional financial institutions and intermediaries in the delivery of financial services). This competition could similarly reduce our net income and liquidity.

In attracting business and consumer deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Some of our competitors enjoy advantages, including more expansive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. Increased deposit competition could materially adversely affect our ability to generate the funds necessary for lending operations. As a result, we may need to seek other sources of funds that may be more expensive to obtain and could increase our cost of funds.

### ***The Company's business strategy includes the continuation of moderate growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.***

Over the long term, we expect to continue to experience organic growth in loans and total assets, the level of our deposits and the scale of our operations. Achieving our growth targets requires us to successfully execute our business strategies, which includes continuing to grow our loan portfolio. Our ability to successfully grow will also depend on the continued availability of loan opportunities that meet underwriting standards. In addition, we may consider the acquisition of other financial institutions and branches within or outside of our market area to the extent permitted by our regulators. The success of any such acquisition will depend on a number of factors, including our ability to integrate the acquired institutions or branches into the current operations of the Company; our ability to limit the outflow of deposits held by customers of the acquired institution or branch locations; our ability to control the incremental increase in noninterest expense arising from any acquisition; and our ability to retain and integrate the appropriate personnel of the acquired institution or branches. We believe we have the resources and internal systems in place to successfully achieve and manage our future growth. If we do not manage our growth effectively, we may not be able to achieve our business plan goals and our business and prospects could be harmed.

### ***The Company may be adversely affected by technological advances.***

Technological advances impact our business. The banking industry undergoes technological change with frequent introductions of new technology-driven products and services. In addition to improving customer services, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success may depend, in part, on our ability to address the needs of our current and prospective customers by using technology to provide products and services that will satisfy demands for convenience, as well as to create additional efficiencies in operations.

### ***The Company may not be able to attract and retain skilled people.***

The Company's success depends, in large part, on our ability to attract and retain skilled people. We have, at times, experienced turnover among our senior officers. Competition for the best people in most activities engaged in by us can be intense, and we may not be able to attract and hire sufficiently skilled people to fill open and newly created positions or to retain current or future employees. An inability to attract and retain individuals with the necessary skills to fill open positions, or the unexpected loss of services of one or more of our key personnel, could have a material adverse impact on our business due to the loss of their skills, knowledge of our markets, years of industry

experience or the difficulty of promptly finding qualified replacement personnel.

***An interruption or breach in security with respect to our information systems, or our outsourced service providers, could adversely impact the Company's reputation and have an adverse impact on our financial condition or results of operations.***

Information systems are critical to our business as our business operations and interaction with customers are increasingly supported by electronic means. We use various technological systems to manage our customer relationships, general ledger, securities investments, deposits and loans. We rely on software, communication, and information exchange on a variety of

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computing platforms and networks and over the internet, and we rely on the services of a variety of vendors to meet our data processing and communication needs. If these third-party providers encounter difficulties, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected. Threats to information security also exist in the processing of customer information through various other third-party vendors and their personnel.

Security breaches of our systems or the systems of third-parties on which we rely could expose us to litigation, remediation costs, increased costs for security measures, loss of revenue, damage to our reputation and potential liability. Our corporate systems, third-party systems and security measures may be breached due to the actions of outside parties, employee error, malfeasance, a combination of these, or otherwise, and, as a result, an unauthorized party may obtain access to our information, our employees' information or our customers' information. In addition, outside parties may attempt to fraudulently induce employees to disclose information in order to gain access to such confidential information. In July 2018, we fell victim to a phishing attack, which led to an unauthorized third-party gaining access to two employee email accounts. Although this incident did not result in a material loss of revenue, any future incidents, particularly of larger scope or longer duration, could damage our brand and reputation and result in a material loss of revenue. If an actual or perceived security breach occurs, the market perception of the effectiveness of our security measures could be harmed, we could lose customers, and we could suffer significant legal and financial harm due to such events or in connection with remediation efforts and costs, investigation costs or penalties, litigation, regulatory and enforcement actions, changed security and system protection measures. Any of these actions could have a material and adverse effect on our business, reputation and operating results. In addition, the cost and operational consequences of investigating, remediating, eliminating and putting in place additional information technology tools and devices designed to prevent actual or perceived security breaches, as well as the costs to comply with any notification obligations resulting from such a breach, could have a significant impact on our financial and operating results.

### ***We could be adversely affected by a failure in our internal controls.***

A failure in our internal controls could have a significant negative impact not only on our earnings, but also on the perception that customers, regulators and investors may have of us. We continue to devote a significant amount of effort and resources to constantly strengthening our controls and ensuring compliance with complex accounting standards and banking regulations. However, these efforts may not be effective in preventing a breach in or failure of our controls.

### ***Negative public opinion could damage our reputation and adversely affect our earnings.***

Reputational risk, or the risk to the Company's earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from the actual or perceived manner in which we conduct our business activities, including banking operations and trust and investment operations, our management of actual or potential conflicts of interest and ethical issues, and our protection of confidential client information. Negative public opinion can adversely affect the Company's ability to keep and attract customers and can expose the Company to litigation and regulatory action. Although we take steps to minimize reputation risk in the way we conduct our business activities and deal with our customers, communities and vendors, these steps may not be effective.

### ***We may become subject to claims and litigation pertaining to fiduciary responsibility.***

We provide fiduciary services through OFA and Wheatland. From time to time, customers may make claims and take legal action with regard to the performance of our fiduciary responsibilities. Whether such claims and legal actions are founded or unfounded, if such claims or legal actions are not resolved in a manner favorable to us, the claims or related actions may result in significant financial expense and liability to us and/or adversely affect our reputation in the marketplace, as well as adversely impact customer demand for our products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

## **Risks Related to Mergers and Acquisitions**

On October 1, 2018, we completed the acquisition of Mercersburg. On October 23, 2018, we announced the signing of a definitive agreement to acquire Hamilton Bancorp, Inc.

***Growing by acquisition involves risks.***

We intend to pursue a growth plan consistent with our business strategy, including growth by acquisition, as well as leveraging our existing branch network and adding new branch locations in current and future markets we choose to serve.

Our ability to manage growth successfully will depend on our ability to attract qualified personnel and maintain cost controls and asset quality while attracting additional loans and deposits on favorable terms, as well as on factors beyond our

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control, such as economic conditions and competition. If we grow too quickly and are not able to attract qualified personnel, control costs and maintain asset quality, this continued rapid growth could materially adversely affect our financial performance.

### ***There is no assurance when, or even if, our acquisition of Hamilton will be completed.***

The merger agreement between the Company and Hamilton is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include:

- approval of the merger agreement and the merger by Hamilton shareholders;
- the receipt of required regulatory approvals;
- absence of orders prohibiting the completion of the merger;
- effectiveness of the registration statement filed by the Company to register the shares of our common stock to be issued to Hamilton shareholders in the merger;
- the continued accuracy of the representations and warranties by both parties and the performance by both parties of their covenants and agreements; and
- the receipt by both parties of legal opinions from their respective tax counsels.

There can be no assurance that the parties will be able to satisfy the closing conditions or that closing conditions beyond their control will be satisfied or waived.

### ***The Hamilton merger agreement may be terminated in accordance with its terms and the merger may not be completed.***

The parties can agree at any time to terminate the merger agreement under specified circumstances. In addition, Hamilton may choose to terminate the merger agreement if the volume weighted average stock price of our common stock as reported on NASDAQ during the 15 trading day period immediately preceding the determination date (as defined in the merger agreement) is less than \$20.1535 per share and our common stock underperforms the NASDAQ Bank Index by more than 15% between October 23, 2018 and the determination date. Any such termination would be subject to the right of the Company to increase the amount of our common stock or cash consideration to be provided to Hamilton shareholders pursuant to the formulas prescribed in the merger agreement.

### ***Regulatory approvals may not be received or may take longer than expected in order to be obtained for the Hamilton merger.***

We are required to obtain the approvals of the Board of Governors of the Federal Reserve System, the Pennsylvania Department of Banking and Securities, and the Maryland Office of the Commissioner of Financial Regulation prior to completing the merger. Obtaining the approval of these regulatory agencies may delay the date of completion of the merger. In addition, you should be aware that, as in any transaction, it is possible that, among other things, restrictions on the combined operations of the two companies may be sought by governmental agencies as a condition to obtaining the required regulatory approvals. This may diminish the benefits of the merger to us or have an adverse effect on us following the merger and prevent us from achieving the expected benefits of the merger. We have the right to terminate the merger agreement if the approval of any governmental authority required for consummation of the merger and the other transactions provided for in the merger agreement, imposes any term, condition or restriction upon us or any of our subsidiaries that we reasonably determine would (a) prohibit or materially limit the ownership or operation by us of any material portion of Hamilton's business or assets, (b) compel us to dispose or hold separate any material portion of Hamilton's assets or (c) compel us to take any action, or commit to take any action, or agree to any condition or request, if the prohibition, limitation, condition or other requirement described in clauses (a)-(c) of this sentence would have a material adverse effect on the future operation by us of our business, taken as a whole.

### ***If the Hamilton merger is not completed, we will have incurred substantial expenses without realizing the expected benefits.***

We will incur substantial expenses in connection with the pending acquisition of Hamilton. If the merger is not completed, these expenses may have a material adverse impact on our operating results.

### ***Goodwill incurred in the Mercersburg and Hamilton mergers may negatively affect our financial condition.***

To the extent that the merger consideration, consisting of the cash and the number of shares of our common stock issued in the Mercersburg merger or to be issued in the Hamilton merger, exceeds the fair value of the net assets acquired, including identifiable intangibles, that amount will be reported as goodwill by us. In accordance with current

accounting guidance, goodwill will not be amortized but will be evaluated for impairment annually or more frequently if events or circumstances warrant. A failure to realize expected benefits of the merger could adversely impact the carrying value of the goodwill recognized in the merger and, in turn, negatively affect our financial results.

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### ***We may be unable to successfully integrate Mercersburg's and Hamilton's operations.***

The mergers involve the integration of companies that previously operated independently with Orrstown. The difficulties of combining the companies' operations include:

- integrating personnel with diverse business backgrounds;
- integrating departments, systems, operating procedures and information technologies;
- combining different corporate cultures;
- retaining existing customers and attracting new customers; and
- retaining key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could have a material adverse effect on the business and results of operations of the combined company.

The success of the mergers will depend, in part, on our ability to realize the anticipated benefits and cost savings from combining the business of the Company with Mercersburg and Hamilton. If we are unable to successfully integrate Mercersburg or Hamilton, the anticipated benefits and cost savings of the mergers may not be realized fully or may take longer to realize than expected. For example, we may fail to realize the anticipated increase in earnings and cost savings anticipated to be derived from the acquisitions. In addition, as with regard to any merger, a significant change in interest rates or economic conditions or decline in asset valuations may also cause us not to realize expected benefits and result in the mergers not being as accretive as expected.

### ***Unanticipated costs relating to the mergers could reduce our future earnings per share.***

We believe that we have reasonably estimated the likely costs of integrating the operations of the Company and Mercersburg and Hamilton, and the incremental costs of operating as a combined company. However, it is possible that we could incur unexpected transaction costs such as taxes, fees or professional expenses or unexpected future operating expenses such as increased personnel costs or increased taxes, which could result in the mergers not being as accretive as expected or having a dilutive effect on the combined company's earnings per share.

### ***The market price of our common stock after the mergers may be affected by factors different from those affecting our shares currently.***

The businesses of the Company and Mercersburg and Hamilton differ and, accordingly, the results of operations of the combined company and the market price of the combined company's shares of common stock may be affected by factors different from those currently affecting the independent results of operations and market prices of common stock of each of us, Mercersburg and Hamilton. The market value of our common stock fluctuates based upon various factors, including changes in our business, operations or prospects, market assessments of the merger, regulatory considerations, market and economic considerations, and other factors. Further, the market price of our common stock after the merger may be affected by factors different from those currently affecting our common stock.

## **Risks Related to Regulatory Compliance and Legal Matters**

### ***Governmental regulation and regulatory actions against us may impair our operations or restrict our growth.***

The Company is subject to regulation and supervision under federal and state laws and regulations. The requirements and limitations imposed by such laws and regulations limit the manner in which we conduct our business, undertake new investments and activities and obtain financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit our shareholders. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation in the future, none of which is within our control. Federal and state regulatory agencies also frequently adopt changes to their regulations or change the manner in which existing regulations are applied or enforced. The Company cannot predict the substance or impact of pending or future legislation, regulation or the application thereof. Compliance with such current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner. Bank regulations can hinder our ability to compete with financial services companies that are not regulated in the same manner or are subject to less regulation.



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### ***The Dodd-Frank Act may affect the Company's financial condition, results of operations, liquidity and stock price.***

The Dodd-Frank Act includes provisions affecting large and small financial institutions, including several provisions that affect how community banks and bank holding companies will be regulated in the future. Among other things, these provisions relax rules regarding interstate branching; allow financial institutions to pay interest on business checking accounts; change the scope of federal deposit insurance coverage; and impose new capital requirements on bank holding companies. Many of the requirements called for in the Dodd-Frank Act will be implemented over time and will be subject to implementation regulations developed over the course of several years. Given the uncertainty associated with the manner in which the provisions of the Dodd-Frank Act will be implemented by the various regulatory agencies and through regulations, the full extent of the impact such requirements will have on our operations is not certain.

The Dodd-Frank Act created the CFPB which has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions including the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets are examined by their applicable bank regulators.

The Company may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act. Failure to comply with requirements may negatively impact our results of operations and financial condition. While the Company cannot predict what effect any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, these changes could be materially adverse to our investors.

### ***Increases in FDIC insurance premiums may have a material adverse effect on our results of operations.***

We are generally unable to control the amount of premiums that are required to be paid for FDIC insurance. If there are bank or financial institution failures, the Company may be required to pay significantly higher premiums than the levels currently imposed or additional special assessments or taxes that could adversely affect earnings. Any future increases or required prepayments in FDIC insurance premiums may materially adversely affect the results of operations.

### ***Legislative, regulatory and legal developments involving income and other taxes could materially adversely affect the Company's results of operations and cash flows.***

The Company is subject to U.S. federal and U.S. state income, payroll, property, sales and use, and other types of taxes including the Pennsylvania Bank Shares Tax. Significant judgment is required in determining the Company's provisions for income taxes. Changes in tax rates, enactments of new tax laws, revisions of tax regulations, and claims or litigation with taxing authorities could result in substantially higher taxes, and therefore, could have a significant adverse effect on the Company's results of operations, financial condition and liquidity. Increases in the assessment rate for the Pennsylvania Bank Shares Tax, which is calculated on the outstanding equity of the Bank, may also materially adversely affect results of operations.

### ***The Company is required to use judgment in applying accounting policies and different estimates and assumptions in the application of these policies could result in a decrease in capital and/or other material changes to the reports of financial condition and results of operations.***

Material estimates that are particularly susceptible to significant change relate to the determination of the ALL, the fair value of certain financial instruments, particularly securities, and goodwill and purchase accounting associated with acquisitions. While we have identified those accounting policies that we consider critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could have a material adverse effect on our financial condition and results of operations.

### ***Changes in our accounting policies or in accounting standards could materially affect how we report our financial results and condition.***

From time to time, the FASB and SEC and other regulatory bodies change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can be operationally complex to implement and can materially impact how we record and report our financial condition and results of

operations. For example, in June 2016, the FASB issued Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments, that will, effective on January 1, 2020, substantially change the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The update replaces existing incurred loss impairment guidance and establishes a single allowance framework for financial assets carried at amortized cost. Upon adoption of ASU 2016-13, companies must recognize credit losses on these assets equal to management's estimate of credit losses over the full remaining expected life. Companies must consider all relevant information when estimating expected credit losses, including details about

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past events, current conditions, and reasonable and supportable forecasts. In December 2018, the Federal Reserve, OCC and FDIC released a final rule to revise their regulatory capital rules to address this upcoming change to the treatment of credit expense and allowances. The final rule provides an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard. The impact of this final rule on the Company will depend on whether we elect to phase in the impact of the standard over a three-year period. The standard is likely to have a negative impact, potentially materially, to the allowance and capital at adoption in 2020; however, we are still evaluating the impact. It is also possible that our ongoing reported earnings and lending activity will be negatively impacted in periods following adoption.

***The short-term and long-term impact of changing regulatory capital requirements and new capital rules is uncertain.***

The Basel III Capital Rules have targeted higher levels of base capital, certain capital buffers, and a migration toward common equity as the key source of regulatory capital, as domestic and international bank regulatory agencies have sought to require financial institutions, including depository institutions, to maintain generally higher levels of capital. The application of more stringent capital requirements to the Company and the Bank could, among other things, result in lower returns on invested capital, result in the need for additional capital, and result in regulatory actions if we were to be unable to comply with such requirements, including limitations on our ability to make distributions, including paying out dividends or buying back shares. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets.

***Pending litigation and legal proceedings and the impact of any finding of liability or damages could adversely impact the Company and its financial condition and results of operations.***

As more fully described in Note 21, Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statement and Supplementary Data," of this Annual Report on Form 10-K, the allegations of Southeastern Pennsylvania Transportation Authority's ("SEPTA") second amended complaint disclosed the existence of a confidential, non-public, fact-finding inquiry regarding the Company being conducted by the SEC. On September 27, 2016, the Company entered into a settlement agreement with the SEC resolving the investigation of accounting and related matters at the Company for the periods ended June 30, 2010 to December 31, 2011. As part of the settlement agreement, the Company agreed to pay a civil money penalty of \$1 million. In February 2018, the Court issued an order continuing all case management deadlines for the completion of discovery, the filing of motions and various pre-trial conferences, until further order of the Court. Discovery in the case is ongoing.

The Company believes that the allegations of SEPTA's second amended complaint are without merit and intends to vigorously defend itself against those claims. It is not possible at this time to estimate reasonably possible losses, or even a range of reasonably possible losses, in connection with the litigation. However, there can be no assurances that the Company will not incur any losses associated with this litigation or that any losses that are incurred will not be material.

***Indemnification costs associated with litigation and legal proceedings could adversely impact the Company and its financial condition and results of operations.***

We are generally required, to the extent permitted by Pennsylvania law, to indemnify our current and former directors and officers who are named as defendants in lawsuits. We also have certain contractual indemnification obligations to third parties regarding litigation. Generally, insurance coverage is not available for such indemnification costs we could incur to third parties. Current or future litigation could result in indemnification expenses that could have a materially adverse impact on our financial condition and results of operations.

**Risks Related to Liquidity**

***The Parent Company is a holding company dependent for liquidity on payments from its bank subsidiary, which is subject to restrictions.***

The Parent Company is a holding company and depends on dividends, distributions and other payments from the Bank to fund dividend payments and stock repurchases, if permitted, and to fund all payments on obligations. The Bank is subject to laws that restrict dividend payments or authorize regulatory bodies to prohibit or reduce the flow of funds from it to us. In addition, our right to participate in a distribution of assets upon the Bank's liquidation or reorganization is subject to the prior claims of the Bank's creditors, including its depositors.

***The soundness of other financial institutions could adversely affect the Company.***

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have historically led to market-wide liquidity problems, losses of

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depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of other banks' difficulties or failure, which would increase the capital we are required to maintain to support such growth.

### **Risks Related to Owning our Stock**

*If the Company wants, or is compelled, to raise additional capital in the future, that capital may not be available when it is needed or on terms favorable to current shareholders.*

Federal banking regulators require us and our banking subsidiary to maintain adequate levels of capital to support our operations. These capital levels are determined and dictated by law, regulation and banking regulatory agencies. In addition, capital levels are also determined by our management and board of directors based on capital levels that, they believe, are necessary to support our business operations. At December 31, 2018, all four capital ratios for us and our banking subsidiary were above regulatory minimum levels to be deemed "well capitalized" under current bank regulatory guidelines. To be "well capitalized," banks generally must maintain a tier 1 leverage ratio of at least 5.0%, CET1 capital ratio of 6.5%, Tier 1 risk-based capital ratio of at least 8.0%, and a total risk-based capital ratio of at least 10.0%. The phase-in implementation of the capital conservation buffer was completed on January 1, 2019, which essentially increased the aforementioned capital ratios by 2.5% .

The Company's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we cannot provide assurance of our ability to raise additional capital on terms and time frames acceptable to us or to raise additional capital at all. Additionally, the inability to raise capital in sufficient amounts may adversely affect our operations, financial condition and results of operations. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative news and expectations about the prospects for the financial services industry as a whole. If we raise capital through the issuance of additional shares of our common stock or other securities, we would likely dilute the ownership interests of current investors and the price at which we issue additional shares of stock could be less than the current market price of our common stock and, thus, could dilute the per share book value and earnings per share of our common stock. Furthermore, a capital raise through the issuance of additional shares may have an adverse impact on our stock price.

*The market price of our common stock is subject to volatility.*

The market price of the Company's common stock has been subject to fluctuations in response to numerous factors, many of which are beyond our control. These factors include actual or anticipated variations in our operational results and cash flows, changes in financial estimates by securities analysts, trading volume, large purchases or sales of our common stock, market conditions within the banking industry, the general state of the securities markets and the market for stocks of financial institutions, as well as general economic conditions.

*The Parent Company's primary source of income is dividends received from its bank subsidiary.*

The Parent Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company is responsible for paying any dividends declared to its shareholders. The Company also has repurchased shares of its common stock. The Company's primary source of income is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid from the Bank to the Company without prior approval of regulatory agencies. Restrictions on the Bank's ability to dividend funds to the Company are included in Note 14, Restrictions on Dividends, Loans and Advances, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data."

## **ITEM 1B – UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2 – PROPERTIES**

Our principal executive offices are located at 77 East King Street, Shippensburg, Pennsylvania, with additional executive and administrative offices at 4750 Lindle Road, Harrisburg, Pennsylvania. These facilities are owned by the Bank, which also maintains its principal and additional executive and administrative offices at those locations.

We own or lease other premises for use in conducting our business activities, including bank branches, an operations center, and offices in Berks, Cumberland, Dauphin, Franklin, Lancaster, Perry and York Counties, Pennsylvania and

Washington County, Maryland. We believe that the properties currently owned and leased are adequate for present levels of operation. We are constantly evaluating the best and most efficient mix of branch locations to service our customers due to evolving trends in our industry and increased engagement through digital channels.

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**ITEM 3 – LEGAL PROCEEDINGS**

Information regarding legal proceedings is included in Note 21, Contingencies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statement and Supplementary Data."

In connection with the pending merger acquisition of Hamilton, on February 15, 2019, Orrstown filed with the SEC a proxy statement/prospectus dated February 8, 2019 (the "Proxy Statement/Prospectus"). The Proxy Statement/Prospectus is the proxy statement for Hamilton's special meeting of stockholders (the "Special Meeting") to be held on March 20, 2019 to vote on the approval of the merger, and is also Orrstown's prospectus with respect to the shares of Orrstown's common stock to be issued to Hamilton stockholders in the merger.

On March 5, 2019, Paul Parshall, a purported individual stockholder of Hamilton, filed, on behalf of himself and all of Hamilton's stockholders other than the named defendants and their affiliates (the "Purported Class"), a derivative and putative class action complaint in the Circuit Court for Baltimore City, Maryland, captioned Paul Parshall v. Carol Coughlin et. al., naming each Hamilton director, Orrstown and Hamilton as defendants (the "Action"). The Action alleges, among other things, that Hamilton's directors breached their fiduciary duties to the Purported Class in connection with the merger, and that the Proxy Statement/Prospectus omitted certain material information regarding the merger. Orrstown is alleged to have aided and abetted the Hamilton directors' alleged breaches of their fiduciary duties. The Action seeks, among other remedies, to enjoin the merger or, in the event the merger is completed, rescission of the merger or rescissory damages; unspecified damages; and costs of the lawsuit, including attorneys' and experts' fees. Orrstown believes that the lawsuit is without merit as there are substantial legal and factual defenses to the claims asserted and intends to vigorously defend the lawsuit. It is not possible at this time to estimate reasonably possible losses, or even a range of reasonably possible losses, in connection with the litigation.

**ITEM 4 – MINE SAFETY DISCLOSURES**

Not applicable.

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**PART II**

**ITEM 5 – MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

Our common stock is traded on the NASDAQ Capital Market under the symbol “ORRF.” At the close of business on February 28, 2019, there were approximately 3,000 shareholders of record.

The Board declared cash dividends of \$0.51 and \$0.42 per common shares in 2018 and 2017, respectively. Our management is currently committed to continuing to pay regular cash dividends; however, there can be no assurance as to future dividends because they are dependent on our future earnings, capital requirements and financial condition. Restrictions on the payment of dividends are discussed in Note 15, Shareholders' Equity and Regulatory Capital, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." On January 23, 2019, the Board declared a cash dividend of \$0.15 per common share, which was paid on February 11, 2019.

**Securities Authorized for Issuance under Equity Compensation Plans**

Information regarding the Company's equity compensation plans is included in Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

**Issuer Purchases of Equity Securities**

In September 2015, the Board of Directors of the Company authorized a share repurchase program under which the Company may repurchase up to 5% of the Company's outstanding shares of common stock, or approximately 416,000 shares, in accordance with all applicable securities laws and regulations, including Rule 10b-18 of the Securities Exchange Act of 1934, as amended. When and if appropriate, repurchases may be made in open market or privately negotiated transactions, depending on market conditions, regulatory requirements and other corporate considerations, as determined by management. Share repurchases may not occur and may be discontinued at any time.

No shares were repurchased from October 1, 2018 to December 31, 2018. At December 31, 2018, 82,725 shares had been repurchased under the program at a total cost of \$1,438,000, or \$17.38 per share and the maximum number of shares that may yet be purchased under the plan is 333,275 shares.

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The performance graph below compares the cumulative total shareholder return on our common stock with other indexes: the SNL index of banks with assets between \$1 billion and \$5 billion, the S&P 500 Index, and the NASDAQ Composite index. The graph assumes an investment of \$100 on December 31, 2013 and reinvestment of dividends on the date of payment without commissions. Shareholder returns on our common stock are based upon trades on the NASDAQ Stock Market. The performance graph represents past performance and should not be considered to be an indication of future performance.

<u>Index</u>	<i>Period Ending</i>					
	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Orrstown Financial Services, Inc.	100.00	103.98	110.50	141.39	162.23	119.46
SNL Bank \$1B-\$5B Index	100.00	104.56	117.04	168.38	179.51	157.27
S&P 500 Index	100.00	103.69	115.26	129.05	157.22	150.33
NASDAQ Composite Index	100.00	104.75	122.74	133.62	173.22	168.30

Source : S&P Global Market Intelligence © 2019

In accordance with the rules of the SEC, this section captioned "Performance Graph" shall not be incorporated by reference into any of our future filings made under the Exchange Act or the Securities Act. The Performance Graph and its accompanying table are not deemed to be soliciting material or to be filed under the Exchange Act or the Securities Act.

**Recent Sales of Unregistered Securities**

The Company has not sold any equity securities within the past three years which were not registered under the Securities Act.

**Table of Contents****ITEM 6 – SELECTED FINANCIAL DATA**

At or For The Year Ended December 31,

*(Dollars in thousands except per share information)***Summary of Operations**

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Interest income	\$ 64,837	\$ 51,015	\$ 41,962	\$ 38,635	\$ 38,183
Interest expense	13,467	7,644	5,417	4,301	4,159
Net interest income	51,370	43,371	36,545	34,334	34,024
Provision for loan losses	800	1,000	250	(603)	(3,900)
Net interest income after provision for loan losses	50,570	42,371	36,295	34,937	37,924
Investment securities gains	1,006	1,190	1,420	1,924	1,935
Noninterest income	20,848	19,197	18,319	17,254	16,919
Noninterest expenses	57,979	50,330	48,140	44,607	43,768
Income before income tax expense (benefit)	14,445	12,428	7,894	9,508	13,010
Income tax expense (benefit)	1,640	4,338	1,266	1,634	(16,132)
Net income	\$ 12,805	\$ 8,090	\$ 6,628	\$ 7,874	\$ 29,142

**Per Share Information**

Basic earning per share	\$ 1.53	\$ 1.00	\$ 0.82	\$ 0.97	\$ 3.59
Diluted earnings per share	1.50	0.98	0.81	0.97	3.59
Dividends paid per share	0.51	0.42	0.35	0.22	0.00
Book value at December 31	18.39	17.34	16.28	16.08	15.40
Weighted average shares outstanding – basic	8,359,703	8,070,472	8,059,412	8,106,438	8,110,344
Weighted average shares outstanding – diluted	8,536,697	8,226,261	8,145,456	8,141,600	8,116,054

**Stock Price Statistics**

Close	\$ 18.21	\$ 25.25	\$ 22.40	\$ 17.84	\$ 17.00
High	27.05	26.95	23.75	18.45	17.50
Low	18.10	19.05	16.60	15.10	15.33
Price earnings ratio at close	11.9	25.3	27.3	18.4	4.7
Diluted price earnings ratio at close	12.1	25.8	27.7	18.4	4.7
Price to book at close	1.0	1.5	1.4	1.1	1.1

**Year-End Information**

Total assets	\$ 1,934,388	\$ 1,558,849	\$ 1,414,504	\$ 1,292,816	\$ 1,190,443
Loans	1,247,657	1,010,012	883,391	781,713	704,946
	476,686	425,305	408,124	402,844	384,549

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Total investment securities					
Deposits – noninterest-bearing	<b>204,843</b>	162,343	150,747	131,390	116,302
Deposits – interest-bearing	<b>1,353,913</b>	1,057,172	1,001,705	900,777	833,402
Total deposits	<b>1,558,756</b>	1,219,515	1,152,452	1,032,167	949,704
Repurchase agreements	<b>9,069</b>	43,576	35,864	29,156	21,742
Borrowed money	<b>170,309</b>	133,815	76,163	84,495	79,812
Total shareholders' equity	<b>173,433</b>	144,765	134,859	133,061	127,265
Assets under management – market value	<b>1,330,595</b>	1,370,950	1,174,143	966,362	1,017,013
<b>Financial Ratios</b>					
Average equity / average assets	<b>8.7%</b>	9.49 %	10.41 %	10.66 %	8.63 %
Return on average equity	<b>8.5%</b>	5.73 %	4.80 %	5.99 %	28.78 %
Return on average assets	<b>0.7%</b>	0.54 %	0.50 %	0.64 %	2.48 %

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**ITEM 7 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis is intended to assist readers in understanding the consolidated financial condition and results of operations of Orrstown and should be read in conjunction with our Consolidated Financial Statements and notes thereto included in this Annual Report on Form 10-K. Certain prior period amounts presented in this discussion and analysis have been reclassified to conform to current period classifications.

**Overview**

The results of our operations are highly dependent on economic conditions and market interest rates. The Company's profitability for the years ended December 31, 2018, 2017 and 2016 was influenced by its continued organic growth and ongoing expansion into targeted markets, the acquisition of Mercersburg, and a continued focus on maintaining strong asset quality. These and other matters are discussed more fully below.

**Critical Accounting Estimates**

The Company's consolidated financial statements are prepared in accordance with GAAP, and follow general practices within the financial services industry. The most significant accounting policies followed by the Company are presented in Note 1, Summary of Significant Accounting Policies, to the Consolidated Financial Statements under Part II, Item 8, "Financial Statements and Supplementary Data." In applying those accounting policies, management of the Company is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. Certain of the critical accounting estimates are more dependent on such judgment and in some cases may contribute to volatility in the Company's reported financial performance should the assumptions and estimates used change over time due to changes in circumstances. Some of the more significant areas in which management of the Company applies critical assumptions and estimates include the following.

Accounting for credit losses — The loan portfolio is the largest asset on the consolidated balance sheets. The allowance for loan loss represents the amount that in management's judgment appropriately reflects credit losses inherent in the loan portfolio at the balance sheet date. A provision for credit losses is recorded to adjust the level of the allowance as deemed necessary by management. In estimating losses inherent in the loan portfolio, assumptions and judgment are applied to measure amounts and timing of expected future cash flows, collateral values and other factors used to determine the borrowers' abilities to repay obligations. Historical loss trends are also considered, as are economic conditions, industry trends, portfolio trends and borrower-specific financial data. In accounting for loans acquired at a discount that is, in part, attributable to credit quality which are initially recorded at fair value with no carry-over of an acquired entity's previously established allowance for credit losses, the cash flows expected at acquisition in excess of estimated fair value are recognized as interest income over the remaining lives of the loans. Subsequent decreases in the expected principal cash flows require the Company to evaluate the need for additions to the Company's allowance for credit losses. Subsequent improvements in expected cash flows result first in the recovery of any applicable allowance for credit losses and then in the recognition of additional interest income over the remaining lives of the loans. Changes in the circumstances considered when determining management's estimates and assumptions could result in changes in those estimates and assumptions, which may result in adjustment of the allowance or, in the case of loans acquired at a discount, increases in interest income in future periods.

Valuation methodologies — Management applies various valuation methodologies to assets and liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as; most investment securities. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans, deposits, borrowings, goodwill, core deposit and other intangible assets, other assets and liabilities obtained or assumed in business combinations, and capitalized servicing assets. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on our results of operations, financial condition or disclosures of fair value information. In addition to valuation, the Company must assess whether there are any declines in value below the carrying value of assets that should be considered other than temporary or otherwise require an adjustment in

carrying value and recognition of a loss in the consolidated statement of income. Examples include investment securities, loan servicing rights, goodwill and core deposit and other intangible assets, among others.

Readers of the consolidated financial statements should be aware that the estimates and assumptions used in the Company's current financial statements may need to be updated in future financial presentations for changes in circumstances, business or economic conditions in order to fairly represent the condition of the Company at that time.

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### **Economic Climate, Inflation and Interest Rates**

Preliminary annual real GDP growth for 2018 was 2.9%. This robust pace tied with 2015 for the strongest in over a decade. While the pace of U.S. economic growth was strong in 2018, growth peaked in the second quarter and has declined each quarter since. The positive impact of tax cuts and a significant increase in government spending appears to be fading. The Federal Reserve raised the Fed Funds rate four times in 2018 to the rate of 2.50% and has since announced that future interest rate increases are on hold. It remains to be seen if growth will return to the one to two percent range that persisted before the tax cuts and expansion of the federal deficit or if the economy will tip into recession. Credit spreads have recovered some of the widening they experienced late last year when the stock market entered correction territory. The unemployment rate recently increased as more of the population joined the work force, while inflation fell back from the Federal Reserve's two percent target. The U.S. Treasury yield curve has inverted with two-year rates above five-year rates, as some market participants take out recession insurance. The majority of the assets and liabilities of a financial institution are monetary in nature, and therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an impact on the growth of total assets and on noninterest expenses, which tend to rise during periods of general inflation. Inflationary pressures remain modest and there is great uncertainty about when or if inflation will increase and pressure interest rates to move higher.

As the Company's balance sheet consists primarily of financial instruments, interest income and interest expense are greatly influenced by the level of interest rates and the slope of the yield curve. During 2016, interest rates were near all-time lows. The FRB raised the Fed Funds rate 25 basis points eight times between December of 2016 and December of 2018. The yield curve is currently flat with the ten-year U.S. Treasury yield less than 25 basis points above the Fed Funds rate. The Company has been able to grow its net interest income by \$14,825,000 from 2016 to 2018, through the growth of loans and higher yielding securities in combination with slower increases in its funding costs. Competition for quality lending opportunities remains intense, which, together with a flattening yield curve, will continue to challenge our ability to grow our net interest margin and to leverage our overhead expenses.

### **Results of Operations**

#### **Summary**

Earnings in 2018 reflected continuing increased interest income from expanding loan and investment portfolios in a rising rate environment, partially offset by increases in interest expense. In addition, the comparability of operating results for 2018 with 2017 have been impacted by the Mercersburg acquisition, which was completed on October 1, 2018 and added securities, loans and deposits totaling \$7,352,000, \$141,103,000 and \$160,433,000, respectively. The Company recorded net income of \$12,805,000, \$8,090,000 and \$6,628,000 for 2018, 2017 and 2016. Diluted earnings per share totaled \$1.50, \$0.98 and \$0.81 for 2018, 2017 and 2016.

Net interest income totaled \$51,370,000, \$43,371,000 and \$36,545,000 for 2018, 2017 and 2016, principally reflecting our organic growth in loans from an expanded sales force and efforts to expand our geographic footprint while taking advantage of market opportunities. A higher interest rate environment each year contributed to increased yields on loans and investments, and, to a lesser extent, costs of interest-bearing liabilities.

Favorable historical charge-off data and management's emphasis on loan quality have positively impacted our results, as the allowance for loan losses increased moderately as loans have increased. The provision for loan losses totaled \$800,000, \$1,000,000 and \$250,000 in 2018, 2017 and 2016.

Noninterest expenses totaled \$57,979,000, \$50,330,000 and \$48,140,000 for 2018, 2017 and 2016. The changes in certain components of noninterest expenses between the years are reflective of the Company's focus on investing in additional talent and locations to better serve the needs of our customers and continuing efforts to develop new relationships by taking advantage of market opportunities created by consolidation of other banks. Salaries and employee benefits expense increased \$3,775,000 from 2016 to 2017 and \$2,379,000 from 2017 to 2018. Occupancy and furniture and fixture costs increased \$414,000 from 2016 to 2017 and \$923,000 from 2017 to 2018 as new branch locations were opened. In 2018, the Company incurred \$3,197,000 in pretax expense for merger related activity. Income tax expense totaled \$1,640,000, \$4,338,000 and \$1,266,000 for 2018, 2017 and 2016, or an effective tax rate of 11.4%, 34.9% and 16.0% respectively. In 2017, we remeasured our net deferred tax asset due to the enactment of

the Tax Act in December 2017. The Tax Act lowered our statutory tax rate from 34% to 21% effective January 1, 2018. Remeasurement of our net deferred tax asset at the lower rate resulted in an expense of \$2,635,000, which is included in total tax expense for 2017.

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### **Net Interest Income**

Net interest income is the primary component of the Company's revenue. Interest-earning assets include loans, securities and federal funds sold. Interest-bearing liabilities include deposits and borrowed funds.

Net interest income is affected by changes in interest rates, volumes of interest-earning assets and interest-bearing liabilities, and the composition of those assets and liabilities. "Net interest spread" and "net interest margin" are two common statistics related to changes in net interest income. The net interest spread represents the difference between the yields earned on interest-earning assets and the rates paid for interest-bearing liabilities. The net interest margin is defined as the ratio of net interest income to average earning asset balances. Through the use of noninterest-bearing demand deposits and shareholders' equity, the net interest margin exceeds the net interest spread, as these funding sources are noninterest-bearing.

The Federal Reserve influences the general market rates of interest, including the deposit and loan rates offered by many financial institutions. Our loan portfolio is affected by changes in the prime interest rate. In 2016, the prime rate was at 3.50% until it increased 25 basis points in December to end the year at 3.75%. During 2017, the prime rate increased 25 basis points in each of March, June and December to end the year at 4.50%. And in 2018, the prime rate continued to rise with 25 point increases in each of March, June, September and December, ending the year at 5.50%.

Core deposits are deposits that are stable, lower cost and generally reprice more slowly than other deposits when interest rates change. Core deposits are typically funds of local customers who also have a borrowing or other relationship with the Bank. We are primarily funded by core deposits, with noninterest-bearing demand deposits historically being a significant source of funds. This lower-cost funding base is expected to have a positive impact on our net interest income and net interest margin in a rising interest rate environment.

Net interest income totaled \$51,370,000, \$43,371,000 and \$36,545,000 in 2018, 2017 and 2016. The following table presents net interest income, net interest spread and net interest margin on a taxable-equivalent basis for 2018, 2017 and 2016. Taxable-equivalent adjustments are the result of increasing income from tax-free loans and investments by an amount equal to the taxes that would be paid if the income were fully taxable based on a 21% federal corporate tax rate for 2018 and 34% for 2017 and 2016, reflecting our statutory tax rates for those years. The lower rate in 2018 reflects tax law changes to our statutory tax rate effective January 1, 2018.

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	2018					2017		
<i>(Dollars in thousands)</i>	Average Balance	Taxable-Equivalent Interest	Taxable-Equivalent Rate	Average Balance	Taxable-Equivalent Interest	Taxable-Equivalent Rate	Average Balance	Taxable-Equivalent Interest
<b>Assets</b>								
Federal funds sold and interest-bearing bank balances	\$ 16,442	\$ 327	1.99%	\$ 15,487	\$ 218,144	1.44%	\$ 31,144	\$ 31,144
Taxable securities	359,852	10,858	3.02	326,900	7,478	2.29	303,422	7,478
Tax-exempt securities	119,665	4,873	4.07	93,683	4,748	5.07	57,226	4,748
Total securities	479,517	15,731	3.28	420,583	12,226	2.91	360,648	12,226
Taxable loans	1,053,308	48,321	4.59	893,555	38,568	4.32	774,422	38,568
Tax-exempt loans	47,318	1,875	3.96	50,797	2,450	4.82	58,226	2,450
Total loans	1,100,626	50,196	4.56	944,352	41,018	4.34	833,648	41,018
Total interest-earning assets	1,596,585	66,254	4.15	1,380,422	53,462	3.87	1,222,296	53,462
Cash and due from banks	18,951			20,391			20,800	
Bank premises and equipment	35,399			35,055			31,400	
Other assets	72,960			65,293			61,300	
Allowance for loan losses	(13,298)			(12,738)			(13,500)	
Total	\$ 1,710,597			\$ 1,488,423			\$ 1,388,300	
<b>Liabilities and Shareholders' Equity</b>								
Interest-bearing demand deposits	\$ 767,863	4,924	0.64	\$ 648,174	2,148	0.33	\$ 560,000	2,148
Savings deposits	102,189	159	0.16	94,815	150	0.16	90,200	150
Time deposits	324,118	5,102	1.57	292,616	3,836	1.31	289,000	3,836
Short-term borrowings	81,172	1,577	1.94	97,814	784	0.80	56,300	784
Long-term debt	83,640	1,632		1,710,648	1.0		1,710,648	1.0
							Shimao Property Holdings Ltd.	
820,000	Sinopec Engineering Group Co. Ltd.	664,389	0.4					
1,572,000	Zhejiang Expressway Co., Ltd.	1,932,375	1.2					
		38,855,784	23.4					
<b>Hong Kong: 10.2%</b>								
556,482	AIA Group Ltd.	3,272,664	2.0					
260,000	CLP Holdings Ltd.	2,338,925	1.4					
13,570,000	Emperor Watch & Jewellery Ltd.	454,974	0.3					
701,000	Hang Lung Properties Ltd.	1,987,901	1.2					

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2,854,500	#	HK Electric Investments and HK Electric Investments Ltd.	1,933,348	1.2
4,884,000		Hutchison Telecommunications Hong Kong Holdings Ltd.	2,468,886	1.5
519,500		MTR Corp.	2,409,920	1.4
319,100		Television Broadcasts Ltd.	2,043,752	1.2
			<b>16,910,370</b>	<b>10.2</b>

**India: 7.5%**

546,910		Bank of Baroda	1,602,996	1.0
341,392		Coal India Ltd.	2,181,699	1.3
270,446		GAIL India Ltd.	1,782,837	1.1
424,685		ICICI Bank Ltd.	2,313,496	1.4
804,927		NTPC Ltd.	2,065,869	1.2
283,349		Oil & Natural Gas Corp., Ltd.	1,488,830	0.9
341,345	@	Punjab National Bank	917,694	0.6
			<b>12,353,421</b>	<b>7.5</b>

**Indonesia: 1.9%**

885,500		Indo Tambangraya Megah PT	1,156,423	0.7
3,507,000		Indofood Sukses Makmur Tbk PT	2,004,525	1.2
			<b>3,160,948</b>	<b>1.9</b>

**Malaysia: 3.1%**

1,624,013		Berjaya Sports Toto BHD	1,514,063	0.9
995,400		IJM Corp. Bhd	1,985,845	1.2
646,900		Malayan Banking BHD	1,650,651	1.0
			<b>5,150,559</b>	<b>3.1</b>

**Singapore: 2.9%**

1,331,000		CapitaMall Trust	2,061,369	1.2
1,301,000		First Resources Ltd.	1,757,904	1.1

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58,000	United Overseas Bank Ltd.	981,010	0.6
		<b>4,800,283</b>	<b>2.9</b>

**South Korea:**  
**11.2%**

84,780	Hite Jinro Co. Ltd.	1,767,698	1.1
74,059	Hyundai Marine & Fire Insurance Co., Ltd.	1,839,181	1.1
61,937	Kangwon Land, Inc.	1,918,868	1.1
58,709	KB Financial Group, Inc.	2,090,044	1.3
59,640	@ KT Corp.	1,668,699	1.0

Voya Asia Pacific High Dividend Equity Income Fund      PORTFOLIO OF INVESTMENTS  
as of February 28, 2015 (CONTINUED)

6,956	POSCO	1,694,602	1.0
3,186	Samsung Electronics Co., Ltd.	3,940,464	2.4
44,250	Shinhan Financial Group Co., Ltd.	1,762,700	1.1
19,033	@ SK Innovation Co. Ltd.	1,790,861	1.1
		<b>18,473,117</b>	<b>11.2</b>
	<b>Taiwan: 10.8%</b>		
432,000	Cheng Uei Precision Industry Co., Ltd.	774,545	0.5
2,857,835	CTBC Financial Holding Co. Ltd.	1,898,009	1.1
121,827	MediaTek, Inc.	1,829,244	1.1
2,390,021	Mega Financial Holdings Co., Ltd.	1,895,705	1.1
930,000	Powertech Technology, Inc.	1,587,031	1.0
714,000	Quanta Computer, Inc.	1,797,800	1.1
235,000	Radiant Opto-Electronics Corp.	770,848	0.5
1,045,167	Taiwan Semiconductor Manufacturing Co., Ltd.	4,986,574	3.0
166,000	TPK Holding Co. Ltd.	1,194,803	0.7
386,000	Zhen Ding Technology Holding Ltd.	1,197,897	0.7
		<b>17,932,456</b>	<b>10.8</b>
	<b>Thailand: 1.1%</b>		
175,900	PTT PCL-Foreign	<b>1,863,501</b>	<b>1.1</b>
	<b>United Kingdom: 1.0%</b>		
188,800	HSBC Holdings PLC	<b>1,691,472</b>	<b>1.0</b>
	Total Common Stock (Cost \$164,758,370)	<b>159,089,082</b>	<b>96.0</b>
	<b>PREFERRED STOCK: 2.2%</b>		
	<b>South Korea: 2.2%</b>		
4,238	Hyundai Motor Co.	422,471	0.3
10,406	Hyundai Motor Co.- Series 2	1,075,582	0.6
2,267	Samsung Electronics Co., Ltd.	2,167,606	1.3
	Total Preferred Stock (Cost \$2,714,320)	<b>3,665,659</b>	<b>2.2</b>
	<b>Total Investments in Securities</b> <b>(Cost \$167,472,690)</b>	<b>\$162,754,741</b>	<b>98.2</b>
	<b>Assets in Excess of Other Liabilities</b>	<b>3,002,105</b>	<b>1.8</b>
	<b>Net Assets</b>	<b>\$165,756,846</b>	<b>100.0</b>

# Securities with purchases pursuant to Rule 144A or section 4(a)(2), under the Securities Act of 1933 and may not be resold subject to that rule except to qualified institutional buyers.  
@ Non-income producing security.

Cost for federal income tax purposes is \$167,543,232.

Net unrealized depreciation consists of:

Gross Unrealized Appreciation	\$ 15,038,538
Gross Unrealized Depreciation	(19,827,029)

**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment companies.**

**PROXY VOTING PROCEDURES and GUIDELINES**

VOYA FUNDS

**VOYA INVESTMENTS, LLC**

**DIRECTED SERVICES LLC**

Effective Date: July 10, 2003

Revision Date: March 13, 2015

## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

### Introduction

This document reflects the Proxy Voting Guidelines and Procedures (the “Guidelines,” the “Procedures” and collectively the “Guidelines and Procedures”) of the Voya funds (the “Funds”), and the Funds’ investment advisers, Voya Investments, LLC and Directed Services LLC (each referred to as the “Adviser” and collectively the “Advisers”). Please see [www.voyainvestments.com](http://www.voyainvestments.com) for the list of funds to which the Guidelines apply.

The investment advisers to the Funds have a fiduciary duty to vote proxies in a timely manner and make voting decisions that are in the Funds' beneficial owners' best interests by maximizing the value of their shares over the long-term. The Fund's investment advisers, in exercising their delegated authority, will abide by the Guidelines with regard to voting proxies.

The Guidelines summarize the Board's (as defined below) positions on various issues of concern to investors, and give an indication of how Funds securities will be voted on proposals dealing with particular issues.

The Procedures summarize the processes established and abided by in order to effectively implement the Guidelines.

### Delegation of Voting Authority

#### Boards of Directors/Trustees

The Boards of Directors/Trustees of the Voya funds (the “Board”) have developed these Guidelines and Procedures to ensure that proxies are voted in the Funds' beneficial owners' best interests. The Board annually reviews and approves these Guidelines and Procedures, which may be amended only by the Board. Review of these Guidelines and Procedures are at the Board's discretion, and it may make any revisions it deems appropriate. Non-material amendments to the Guidelines and Procedures may be approved for immediate implementation by the President or Chief Financial Officer of the Funds, subject to ratification at the next regularly scheduled Board's Compliance Committee meeting.

#### Compliance Committee

The Board has delegated to its Compliance Committee the authority and responsibility to:

- oversee the implementation of these Guidelines and Procedures
- make determinations on behalf of the Board with respect to voting proxies on the Funds and Advisers' behalf
- review and recommend changes to the proxy voting policies and procedures of the Funds, the Advisers and the sub-advisers, as applicable

The Board considers any proxy voting determination made by the Compliance Committee or any of its members as the Guidelines permit to be a good faith determination. The Compliance Committee may rely on the Advisers through the Proxy Coordinator, Proxy Advisory Firm, and/or Proxy Group (as defined below) to manage the application of these Guidelines and Procedures. Finally, the Compliance Committee will conduct itself in accordance with its charter.

#### Advisers

Voya Investments, LLC and Directed Services LLC are the investment advisers for the Funds. Each Adviser has adopted the Guidelines and Procedures in connection with voting the portfolio securities for the Funds for which it serves as the Adviser.

The Board has delegated to the Advisers the authority and responsibility to vote all proxies with respect to all of the Funds' portfolio securities in accordance with the Guidelines. The Board may revoke such delegation with respect to any proxy or proposal, and assume the

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

responsibility of voting any Fund proxy or proxies as they deem appropriate.

The Board may elect to delegate proxy voting to a sub-adviser of the Voya funds and also approve the sub-adviser's proxy policies and procedures for implementation on behalf of such Voya fund (a "Sub-Adviser-Voted Fund"). Sub-Adviser-Voted Funds are not covered under these Guidelines and Procedures, except as described in the Reporting and Record Retention section below with respect to vote reporting requirements. However, they are covered by the Sub-Adviser's proxy policies, provided that the Board has approved them on behalf of the Sub-Adviser-Voted Fund, and ratifies any subsequent changes at the next regularly scheduled Compliance Committee meeting.

### Proxy Coordinator

As described below, the Voya Proxy Coordinator will vote proxies on behalf of the Funds and the Advisers in connection with annual and special meetings of shareholders (except those regarding bankruptcy matters and/or related plans of reorganization).

## Advisers' Roles and Responsibilities

### Proxy Coordinator

The Proxy Coordinator is responsible for overseeing the Proxy Advisory Firm (as defined below) and voting the Funds' proxies in accordance with the Guidelines and Procedures on behalf of the Funds and the Advisers. The Proxy Coordinator is authorized to direct the Proxy Advisory Firm to vote a Fund's proxy in accordance with the Guidelines and Procedures. Responsibilities assigned to the Proxy Coordinator, or activities that support it, may be performed by such members of the Proxy Group (as defined below) or employees of the Advisers' affiliates as the Proxy Group deems appropriate.

The Proxy Coordinator is also responsible for identifying and informing Counsel (as defined below) of potential conflicts between the proxy issuer and the Proxy Advisory Firm, the Advisers, the Funds' principal underwriters, or an affiliated person of the Funds. The Proxy Coordinator will identify such potential conflicts of interest based on information the Proxy Advisory Firm periodically provides; client analyses, distributor, broker-dealer, and vendor lists; and information derived from other sources, including public filings.

### Proxy Advisory Firm

The Board has approved retaining an independent proxy voting service (the “Proxy Advisory Firm”) to assist the Advisers in voting the Funds’ proxies of publicly traded securities through the provision of vote analysis, implementation, recordkeeping, and disclosure services. The Proxy Advisory Firm is Institutional Shareholder Services Inc., a subsidiary of Vestar Capital Partners.

The Proxy Advisory Firm is responsible for coordinating with the Funds’ custodians to ensure that all proxy materials received by the custodians relating to the portfolio securities are processed in a timely fashion. To the extent applicable, the Proxy Advisory Firm is required to provide research, analysis, and vote recommendations under its Proxy Voting guidelines, as well as to vote and/or refer all proxies in accordance with the Guidelines.

### Proxy Group

The Advisers have established a Proxy Group (the “Proxy Group”) that assists in the review of the Proxy Advisory Firm’s recommendations when a proxy voting issue is referred to the Proxy Group through the Proxy Coordinator. The members of the Proxy Group, which may include employees of the Advisers’ affiliates, are identified in *Exhibit 1*, and may be amended from time to time at the Advisers’ discretion.

### Investment Professionals

The Funds’ Sub-Advisers and/or portfolio managers are each referred to herein as an

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

“Investment Professional” and collectively, “Investment Professionals”. The Board encourages Investment Professionals to submit a recommendation to the Proxy Group regarding proxy voting related to the portfolio securities over which they have day-to-day portfolio management responsibility. Additionally, when requested, Investment Professionals are responsible for submitting a recommendation to the Proxy Group regarding proxy voting related to the portfolio securities over which they have day-to-day portfolio management responsibility.

### Counsel

A member of the mutual funds legal practice group of Voya Investment Management (“Counsel”) is responsible for determining if a potential conflict of interest is in fact deemed a conflict of interest.

### Proxy Voting Procedures

#### Proxy Group Oversight

As mentioned above, the Advisers have established the Proxy Group to assist in the review of the Proxy Advisory Firm’s recommendations.

A minimum of four (4) members of the Proxy Group (or three (3) if one member of the quorum is either the Fund’s Chief Investment Risk Officer or Chief Financial Officer) will constitute a quorum for purposes of taking action at any meeting of the Group.

The Proxy Group may meet in person or by telephone. The Proxy Group also may take action via electronic mail in lieu of a meeting, provided that the Proxy Coordinator follows the directions of a majority of a quorum responding via electronic mail.

A Proxy Group meeting will be held whenever:

- The Proxy Coordinator receives a recommendation from an Investment Professional to vote a Fund’s proxy contrary to the Guidelines.
- The Proxy Advisory Firm has made no recommendation on a matter and the Procedures do not provide instruction.
-

A matter requires case-by-case consideration, including those in which the Proxy Advisory Firm's recommendation is deemed to be materially conflicted.

- The Proxy Coordinator requests the Proxy Group's input and vote recommendation on a matter.

In its discretion, the Proxy Group may provide the Proxy Coordinator with standing instructions to perform responsibilities assigned to the Proxy Group, or activities in support thereof, on its behalf, provided that such instructions do not contravene any requirements of these Procedures or the Guidelines.

If the Proxy Group has previously provided the Proxy Coordinator with standing instructions to vote in accordance with the Proxy Advisory Firm's recommendation and no issue of conflict must be considered, the Proxy Coordinator may implement the instructions without calling a Proxy Group meeting.

For each proposal referred to the Proxy Group, it will review:

- the relevant Guidelines and Procedures,
- the recommendation of the Proxy Advisory Firm, if any,
- the recommendation of the Investment Professional(s), if any,
- other resources that any Proxy Group member deems appropriate to aid in a determination of a recommendation.

#### Vote Instruction

The vote of a simple majority of the voting members present will determine any matter

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

submitted to a vote. Tie votes will be resolved by securing the vote of members not present at the meeting; provided, however, that the Proxy Coordinator will ensure compliance with all applicable voting and conflict of interest procedures, and will use best efforts to secure votes from as many absent members as may reasonably be accomplished, and to provide such members with a substantially similar level of relevant information as that provided at the in-person meeting.

In the event a tie vote cannot be resolved, or in the event that the vote remains a tie, the Proxy Coordinator will refer the vote to the Compliance Committee Chair for vote determination.

In the event a tie vote cannot be timely resolved in connection with a voting deadline, the Proxy Coordinator will vote in accordance with the Proxy Advisory Firm's recommendation, unless the Proxy Advisory Firm's recommendation is considered to be materially conflicted, in which case no action will be taken on the matter (*i.e.*, a "Non-Vote").

A member of the Proxy Group may abstain from voting on any given matter, provided that the member does not participate in the Proxy Group discussion(s) in connection with the vote determination. If abstention results in the loss of quorum, the process for resolving tie votes will be observed.

If the Proxy Group recommends that a Fund vote contrary to the Guidelines, or if the Proxy Advisory Firm's recommendation on a matter is deemed to be materially conflicted, the Proxy Group will follow the Out-of-Guidelines procedures.

The Proxy Group may vote contrary to the Guidelines based on a recommendation from an Investment Professional, provided the conflict of interest review process is followed.

### **Vote Determination and Execution**

The Proxy Group receives and thoroughly reviews and evaluates the research and vote recommendations from the Proxy Advisory Firm prior to making a final voting decision. The Board does not consider the Proxy Advisory Firm's recommendations to be the ultimate decision. The Board through the Proxy Group exercises its independent judgment when making a voting decision, and has developed these Guidelines to stipulate the final voting decision.

The Guidelines specify how the Funds generally will vote with respect to the proposals indicated. Additionally, in all cases, unless otherwise noted, the Proxy Group instructs the Proxy Coordinator, on behalf of the Advisers, to vote in accordance with the Guidelines and Procedures.

*Within-Guidelines Votes: Votes in Accordance with the Guidelines*

In the event the Proxy Group and, where applicable, an Investment Professional participating in the voting process, recommend a vote Within Guidelines, the Proxy Group will instruct the Proxy Advisory Firm, through the Proxy Coordinator, to vote in this manner.

In cases when an Investment Professional submits a recommendation, the Investment Professional must disclose in writing any potential conflict of interest or state they do not have a conflict of interest.

*Out-of-Guidelines Votes:*

- *Votes Contrary to the Guidelines and Procedures*
- *Proxy Advisory Firm Does not Provide a Recommendation and the Guidelines do not provide voting instruction*
- *Proxy Advisory Firm's Recommendation is Conflicted*

A vote would be considered Out-of-Guidelines if the:

- Proxy Group or an Investment Professional recommends that a Fund vote contrary to the

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

Guidelines and/or the recommendation of the Proxy Advisory Firm.

Guidelines and Procedures provides no instruction and the Proxy Advisory Firm has made no recommendation on a matter.

- Proxy Advisory Firm's recommendation on a matter is considered to be materially conflicted.

A vote will not be deemed to be Out-of-Guidelines if the Investment Professional's recommendation is contrary to the Guidelines and/or the Proxy Advisory's Firm recommendation, and the Guidelines stipulate that primary consideration will be given to input from the Investment Professional. Regardless, the Investment Professional must disclose in writing any potential conflict of interest or state they do not have a conflict of interest. If the Investment Professional discloses a potential conflict of interest, and Counsel determines that the conflict of interest appears to exist, the proposal will be referred to the Compliance Committee for review as described in the Conflict of Interest section below. The Proxy Group members will not be required to complete a Conflicts Report in connection with such votes, other than the conflict disclosure statement they are required to make prior to reviewing the proposal.

## Routine Matters

Upon instruction, the Proxy Advisory Firm will submit a vote in accordance with the Guidelines where such Guidelines provide a clear policy (*e.g.*, "For," "Against," "Withhold," or "Abstain") on a proposal.

## Matters Requiring Case-by-Case Consideration

The Proxy Advisory Firm will refer proxy proposals accompanied by its written analysis and vote recommendation to the Proxy Coordinator when the Guidelines indicate "case-by-case." Additionally, the Proxy Advisory Firm will refer any proxy proposal to the Proxy Coordinator for instructions as if it were a matter requiring case-by-case consideration under circumstances where the application of the Guidelines is unclear or appears to involve unusual or controversial issues.

Upon receipt of a referral from the Proxy Advisory Firm, the Proxy Coordinator may solicit additional research or clarification from the Proxy Advisory Firm, Investment Professional(s), or other sources.

The Proxy Coordinator will review matters requiring a case-by-case consideration to determine if the Proxy Group had previously provided the Proxy Coordinator with standing vote instructions in accordance with the Proxy Advisory Firm's recommendation, or a provision within the Guidelines is applicable based on prior voting history.

If a matter requires input and vote determination from the Proxy Group, the Proxy Coordinator will forward the Proxy Advisory Firm's analysis and recommendation, the Proxy Coordinator's recommendation and/or any research obtained from the Investment Professional(s), the Proxy Advisory Firm, or any other source to the Proxy Group. The Proxy Group may consult with the Proxy Advisory Firm and/or Investment Professional(s) as appropriate.

The Proxy Coordinator will use best efforts to convene a Proxy Group meeting with respect to all matters requiring its consideration. In the event quorum requirements cannot be timely met in connection with a voting deadline, it is the policy of the Funds and Advisers to vote in accordance with the Proxy Advisory Firm's recommendation, unless the Proxy Advisory Firm's recommendation is considered to be materially conflicted, in which case no action will be taken on the matter (*i.e.*, a "Non-Vote").

Non-Votes: *Votes in which No Action is Taken*

The Proxy Group may recommend that a Fund refrain from voting under certain circumstances

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

including:

The economic effect on shareholders' interests or the value of the portfolio holding is indeterminable or insignificant, *e.g.*, proxies in connection with fractional shares, securities no longer held in the portfolio of a Voya fund or proxies being considered on behalf of a Fund that is no longer in existence.

The cost of voting a proxy outweighs the benefits, *e.g.*, certain international proxies, particularly in cases when share blocking practices may impose trading restrictions on the relevant portfolio security.

The Proxy Advisory Firm's recommendation has been deemed to be conflicted.

In such cases, the Proxy Group may instruct the Proxy Advisory Firm, through the Proxy Coordinator, not to vote such proxy. The Proxy Group may provide the Proxy Coordinator with standing instructions on parameters that would dictate a Non-Vote without the Proxy Group's review of a specific proxy.

Further, Counsel may permit the Proxy Coordinator to abstain from voting any proposal that is subject to a material conflict, provided such abstention does not have the same effect as an "against" vote, and therefore has no effect on the outcome of the vote.

If Counsel considers the Proxy Advisory Firm's recommendation to be materially conflicted on a matter, no action will be taken on such matter, either by abstaining from voting any proposal(s) subject to the material conflict or not voting the entire proxy (*i.e.*, a "Non-Vote"), as Counsel deemed appropriate with respect to the nature of the Proxy Advisory Firm's material conflict.

The Proxy Coordinator will make reasonable efforts to secure and vote all other proxies for the Funds, particularly in markets where shareholders' rights are limited.

### **Matters Requiring Further Consideration**

#### Referrals to the Compliance Committee

If a vote is deemed Out-of-Guidelines and Counsel has determined that a material conflict of interest appears to exist with respect to the party or parties (*i.e.* Proxy Advisory Firm, the Advisers, underwriters, affiliates, any participating Proxy Group member, or any Investment Professional(s)) participating in the voting process, the Proxy Coordinator will refer the vote to the Compliance Committee Chair.

The Compliance Committee may consider all recommendations, analyses, research and Conflicts Reports the Proxy Coordinator provides and any other written materials used to establish whether a conflict of interest exists, in determining how to vote the proxies referred to the Compliance Committee. The Compliance Committee, generally through the Committee Chair, will instruct the Proxy Coordinator how such referred proposals should be voted.

The Proxy Coordinator uses best efforts to timely refer matters to the Compliance Committee for its consideration. In the event any such matter cannot be timely referred to or considered by the Compliance Committee, the Compliance Committee's standing instruction is to vote Within Guidelines.

#### Consultation with Compliance Committee

The Proxy Coordinator may consult the Compliance Committee Chair for guidance on behalf of the Committee if application of the Guidelines and Procedures is unclear or in connection with any unusual or controversial issue or a recommendation received from an Investment Professional. The Chair may consider all recommendations, analyses, research, or Conflicts Reports provided. The Chair may provide guidance or direct the Proxy Coordinator to refer the proposal(s) to the full Compliance Committee. The guidance of the Chair, or the Compliance Committee, as applicable, will receive the Proxy Group's primary consideration in making a vote

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

determination.

As mentioned in the Reporting and Record Retention section below, the Compliance Committee will receive a report for proposals that were voted Out-of-Guidelines, Within Guidelines if the Investment Professional's recommendation was not agreed to, or the proposal was referred to the Compliance Committee.

### **Conflicts of Interest**

As a fiduciary, the Advisers always must act in the beneficial owners of the Funds' best interests. Therefore, the Board of Directors, Advisers, Proxy Coordinator, Proxy Group, Investment Professionals and others supporting these Guidelines and Procedures strive to avoid even the appearance of a conflict that may compromise the trust of the Funds' beneficial owners.

Conflicts of interest can arise in situations where:

· The issuer is a vendor whose products or services are material to the Voya Funds, the Advisers or their affiliates.

· The issuer is an entity participating to a material extent in the distribution of the Voya Funds

· The issuer is a significant executing broker dealer;

Any individual that participates in the voting process for the Funds including an Investment Professional, a member of the Proxy Group, an employee of the Advisers, or Director/ Trustee of the Board serves as a director or officer of the issuer; or,

· The issuer is Voya Financial.

### Potential Conflicts with a Proxy Issuer

A conflict of interest may exist when a relationship between the issuer and the party or parties reviewing the issuer could unduly influence a vote recommendation. Therefore, as previously described, the Proxy Coordinator is responsible for identifying and informing Counsel of potential conflicts with the proxy issuer. In addition to obtaining potential conflict of interest information described in the Roles and Responsibilities section above, members of the Proxy Group are required to disclose to the Proxy Coordinator any potential conflicts of interests prior to discussing the Proxy Advisory Firms' recommendation.

In the event a Proxy Group member believes that a potential or perceived conflict of interest exists that may preclude him/her from making a vote determination in the best interests of the beneficial owners of the Funds, the Proxy Group member will advise the Proxy Coordinator. The Proxy Group member may elect to recuse himself/herself from consideration of the relevant proxy or ask the Proxy Coordinator to solicit the opinion of Counsel on the matter, recusing himself/herself only in the event Counsel determines that a material conflict of interest exists. If recusal, whether voluntary or pursuant to Counsel's findings, does not occur prior to the member's participation in any Proxy Group discussion of the relevant proxy, any Out-of-Guidelines Vote determination is subject to the Compliance Committee referral process. Should members of the Proxy Group verbally disclose a potential conflict of interest, they are required to complete a Conflict of Interest Report, which will be reviewed by Counsel.

Investment Professionals are also required to complete a Conflict of Interest Report or confirm in they do not have any potential conflicts of interests when submitting a vote recommendation to the Proxy Coordinator.

The Proxy Coordinator gathers and analyzes the information provided by the Proxy Advisory

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Firm, the Advisers, the Funds' principal underwriters, affiliates of the Funds, members Proxy Group, Investment Professionals, and the Directors and Officers of the Funds. Counsel will document such potential material conflicts of interest on a consolidated basis as appropriate.

If Counsel determines that a material conflict of interest does not appear to exist with respect a proxy issuer, any participating Proxy Group member, or any participating Investment Professional(s), the Proxy Coordinator will instruct the Proxy Advisory Firm to vote the proxy as recommended by the Proxy Group.

### Compliance Committee Oversight

The Proxy Coordinator will refer a proposal to the Funds' Compliance Committee if the Proxy Group recommends an Out-of-Guidelines Vote, and Counsel has determined that a material conflict of interest appears to exist.

The Proxy Coordinator will refer the proposal to the Funds' Compliance Committee for determination so that the conflicted party(ies) have no opportunity to exercise voting discretion over a Fund's proxy in a situation when such parties may have a conflict of interest.

The Proxy Coordinator will refer the proposal to the Compliance Committee Chair, forwarding all information relevant to the Compliance Committee's review, including the following or a summary of its contents:

- the applicable Guidelines and Procedures
- the Proxy Advisory Firm recommendation
- the Investment Professional(s)'s recommendation, if applicable
- any resources used by the Proxy Group in arriving at its recommendation
- Counsel's findings
- Conflicts Report(s) and/or any other written materials establishing whether a conflict of interest exists

In the event a member of the Funds' Compliance Committee believes he/she has a conflict of interest that would preclude him/her from making a vote determination in the best interests of the applicable Fund's beneficial owners, the Compliance Committee member will advise the Compliance Committee Chair and recuse himself/herself with respect to the relevant proxy determinations.

### Conflicts Reports

Investment Professionals, the Proxy Advisory Firm, and members of the Compliance Committee, the Proxy Group, and the Proxy Coordinator are required to disclose any potential conflicts of interest and/or confirm they do not have a conflict of interest in connection with their participation in the voting process for portfolio securities. The Conflicts Report should describe any known relationships of either a business or personal nature that Counsel has not previously assessed, which may include communications with respect to the referral item, but excluding routine communications with or submitted to the Proxy Coordinator or Investment Professional(s) on behalf of the subject company or a proponent of a shareholder proposal.

The Conflicts Report should also include written confirmation that the Investment Professional based the recommendation in connection with an Out-of-Guidelines Vote or under circumstances where a conflict of interest exists solely on the investment merits of the proposal and without regard to any other consideration.

Completed Conflicts Reports should be provided to the Proxy Coordinator within two business days and may be submitted to the Proxy Coordinator verbally, provided the Proxy Coordinator completes the Conflicts Report, and the submitter reviews and approves the Conflict Report in writing.

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

The Proxy Coordinator will forward all Conflicts Reports to Counsel for review. Upon review, Counsel will provide the Proxy Coordinator with a brief statement regarding whether or not a material conflict of interest is present.

Counsel will document such potential conflicts of interest on a consolidated basis as appropriate rather than maintain individual Conflicts Reports.

### Assessment of the Proxy Advisory Firm

In furtherance of the Advisers' fiduciary duty to the Funds and their beneficial owners, the Advisers established and maintain procedures to ensure the Advisers are voting the Funds' proxies in accordance with the Funds' beneficial owners' best interest and the Guidelines. Therefore, prior to engaging the services of any new proxy service and annually thereafter, the Proxy Coordinator, on behalf of the Advisers, will assess if the Proxy Advisory Firm:

- is independent from the Advisers
- has resources that indicate it can competently provide analysis of proxy issues
- can make recommendations in an impartial manner and in the best interests of the Funds and their beneficial owners
- has adequate compliance policies and procedures to:
  - o ensure that its proxy voting recommendations are based on current and accurate information
  - o identify and address conflicts of interest.

The Proxy Coordinator will utilize, and the Proxy Advisory Firm will comply with, such methods for completing the assessment as the Proxy Coordinator may deem reasonably appropriate. The Proxy Advisory Firm will also promptly notify the Proxy Coordinator in writing of any material change to information previously provided to the Proxy Coordinator in connection with establishing the Proxy Advisory Firm's independence, competence, or impartiality.

Information provided in connection with the Proxy Advisory Firm's potential conflict of interest will be forwarded to Counsel for review. Counsel will review such information and advise the Proxy Coordinator as to whether a material concern exists and if so, determine the most appropriate course of action to eliminate such concern.

### Voting Funds of Funds, Investing Funds and Feeder Funds

Funds that are “Funds-of-Funds” will “echo” vote their interests in underlying mutual funds, which may include mutual funds other than the Voya funds indicated on Voya’s website ([www.voyainvestments.com](http://www.voyainvestments.com)). Meaning that, if the Fund-of-Funds must vote on a proposal with respect to an underlying investment company, the Fund-of-Funds will vote its interest in that underlying fund in the same proportion all other shareholders in the underlying investment company voted their interests.

However, if the underlying fund has no other shareholders, the Fund-of-Funds will vote as follows:

If the Fund-of-Funds and the underlying fund are being solicited to vote on the same proposal (*e.g.*, the election of fund directors/trustees), the Fund-of-Funds will vote the shares it holds in the underlying fund in the same proportion as all votes received from the holders of the Fund-of-Funds’ shares with respect to that proposal.

If the Fund-of-Funds is being solicited to vote on a proposal for an underlying fund (*e.g.*, a new Sub-Adviser to the underlying fund), and there is no corresponding proposal at the Fund-of-Funds level, the Board will determine the most appropriate method of voting with respect to the underlying fund proposal.

An Investing Fund (*e.g.*, any Voya fund), while not a Fund-of-Funds will have the foregoing

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

Fund-of-Funds procedure applied to any Investing Fund that invests in one or more underlying funds. Accordingly:

Each Investing Fund will “echo” vote its interests in an underlying fund, if the underlying fund has shareholders other than the Investing Fund.

In the event an underlying fund has no other shareholders, and the Investing Fund and the underlying fund are being solicited to vote on the same proposal, the Investing Fund will vote its interests in the underlying fund in the same proportion as all votes received from the holders of its own shares on that proposal.

In the event an underlying fund has no other shareholders, and there is no corresponding proposal at the Investing Fund level, the Board will determine the most appropriate method of voting with respect to the underlying fund proposal.

A fund that is a “Feeder Fund” in a master-feeder structure passes votes requested by the underlying master fund to its shareholders. Meaning that, if the master fund solicits the Feeder Fund, the Feeder Fund will request instructions from its own shareholders, either directly or, in the case of an insurance-dedicated Fund, through an insurance product or retirement plan, as to how it should vote its interest in an underlying master fund.

When a Voya fund is a feeder in a master-feeder structure, proxies for the portfolio securities owned by the master fund will be voted pursuant to the master fund’s proxy voting policies and procedures. As such, except as described in the Reporting and Record Retention section below, Feeder Funds will not be subject to these Guidelines and Procedures.

## Securities Lending

Many of the Funds participate in securities lending arrangements to generate additional revenue for the Fund. Accordingly, the Fund will not be able to vote securities that are on loan under these types of arrangements. However, under certain circumstances, for voting issues that may have a significant impact on the investment, the Proxy Group or Proxy Coordinator may request to recall securities that are on loan if they determine that the benefit of voting outweighs the costs and lost revenue to the Fund and the administrative burden of retrieving the securities.

Investment Professionals may also deem a vote is “material” in the context of the portfolio(s) they manage. Therefore, they may request that lending activity on behalf of their portfolio(s) with respect to the relevant security be reviewed by the Proxy Group and considered for recall and/or restriction. The Proxy Group will give primary consideration to relevant Investment Professional input in its determination of whether a given proxy vote is material and the associated security accordingly restricted from lending. The determination that a vote is material in the context of a Fund’s portfolio will not mean that such vote is considered material across all Funds voting at that meeting. In order to

recall or restrict shares on a timely basis for material voting purposes, the Proxy Coordinator, on behalf of the Proxy Group, will use best efforts to consider, and when appropriate, to act upon, such requests on a timely basis. Requests to review lending activity in connection with a potentially material vote may be initiated by any relevant Investment Professional and submitted for the Proxy Group's consideration at any time.

#### Reporting and Record Retention

#### Reporting by the Funds

Annually in August, each Fund and each Sub-Adviser-Voted Fund will post its proxy voting record, or a link to the prior one-year period ending on June 30<sup>th</sup> on the Voya funds' website. The proxy voting record for each Fund and each Sub-Adviser-Voted Fund will also be available on Form N-PX in the EDGAR database on the website of the Securities and Exchange Commission ("SEC"). For any Voya fund that is a feeder in a master/feeder structure, no proxy

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voting record related to the portfolio securities owned by the master fund will be posted on the Voya funds' website or included in the Fund's Form N-PX; however, a cross-reference to the master fund's proxy voting record as filed in the SEC's EDGAR database will be included in the Fund's Form N-PX and posted on the Voya funds' website. If an underlying master fund solicited any Feeder Fund for a vote during the reporting period, a record of the votes cast by means of the pass-through process described above will be included on the Voya funds' website and in the Feeder Fund's Form N-PX.

## Reporting to the Compliance Committee

At each regularly scheduled quarterly Compliance Committee meeting, the Compliance Committee will receive a report from the Proxy Coordinator indicating each proxy proposal, or a summary of such proposals, that was:

1. Voted Out-of-Guidelines, including any proposals voted Out-of-Guidelines as a result of special circumstances raised by an Investment Professional;
2. Voted Within Guidelines in cases when the Proxy Group did not agree with an Investment Professional's recommendation;
3. Referred to the Compliance Committee for determination.

The report will indicate the name of the company, the substance of the proposal, a summary of the Investment Professional's recommendation, where applicable, and the reasons for voting, or recommending, an Out-of-Guidelines Vote or, in the case of (2) above, a Within-Guidelines Vote.

## Reporting by the Proxy Coordinator on behalf of the Adviser

The Adviser will maintain the records required by Rule 204-2(c)(2), as may be amended from time to time, including the following:

- A copy of each proxy statement received regarding a Fund's portfolio securities. Such proxy statements the issuers send are available either in the SEC's EDGAR database or upon request from the Proxy Advisory Firm.
  - A record of each vote cast on behalf of a Fund.
- A copy of any Adviser-created document that was material to making a proxy vote decision, or that memorializes the basis for that decision.
- A copy of written requests for Fund proxy voting information and any written response thereto or to any oral request for information on how the Adviser voted proxies on behalf of a Fund.
  - A record of all recommendations from Investment Professionals to vote contrary to the Guidelines,
- All proxy questions/recommendations that have been referred to the Compliance Committee, and all applicable recommendations, analyses, research, Conflict Reports, and vote determinations.

All proxy voting materials and supporting documentation will be retained for a minimum of six years, the first two years in the Advisers' office.

#### Records Maintained by the Proxy Advisory Firm

The Proxy Advisory Firm will retain a record of all proxy votes handled by the Proxy Advisory Firm. Such record must reflect all the information required to be disclosed in a Fund's Form N-PX pursuant to Rule 30b1-4 under the Investment Company Act. In addition, the Proxy Advisory Firm is responsible for maintaining copies of all proxy statements received by issuers and to promptly provide such materials to the Adviser upon request.

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Exhibit 1 – Proxy Group

<b>Name</b>	<b>Title or Affiliation</b>
Stanley D. Vyner	Chief Investment Risk Officer and Executive Vice President, Voya Investments, LLC
Julius A. Drelick III, CFA	Senior Vice President, Head of Fund Compliance, Voya Funds Services, LLC
Kevin M. Gleason	Senior Vice President, Voya Investment Management LLC; and Chief Compliance Officer of the Voya Family of Funds,
Todd Modic	Senior Vice President, Voya Funds Services, LLC and Voya Investments, LLC; and Chief Financial Officer of the Voya Family of Funds
Maria Anderson	Vice President, Fund Compliance, Voya Funds Services, LLC
Sara Donaldson	Proxy Coordinator for the Voya Family of Funds and Vice President, Proxy Voting, Voya Funds Services, LLC
Harley Eisner	Vice President, Financial Analysis, Voya Funds Services, LLC
Evan Posner, Esq.	Vice President and Counsel, Voya Family of Funds
Kristin Lynch	Assistant Vice President, Office of the Chief Compliance Officer, Voya Investment Management LLC

*Effective as of November 12, 2014*

Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

**PROXY VOTING GUIDELINES**

Introduction

Proxies must be voted in the best interest of the Funds' beneficial owners. The Guidelines summarize the Funds' positions on various issues of concern to investors, and give an indication of how Fund securities will be voted on proposals dealing with particular issues. Nevertheless, the Guidelines are not exhaustive, do not include all potential voting issues, and proposals may be addressed, as necessary, on a **CASE-BY-CASE** basis rather than according to the Guidelines.

These Guidelines apply to securities of publicly traded companies and to those of privately held companies if publicly available disclosure permits such application. All matters for which such disclosure is not available shall be considered **CASE-BY-CASE**.

The Board encourages Investment Professionals to submit a recommendation to the Proxy Group regarding proxy voting related to the portfolio securities over which they have day-to-day portfolio management responsibility. Recommendations from the Investment Professionals may be submitted or requested in connection with any proposal and are likely to be requested with respect to proxies for private equity or fixed income securities and/or proposals related to merger transactions/corporate restructurings, proxy contests, or unusual or controversial issues.

These policies may be overridden in any case as provided for in the Procedures. Similarly, the Procedures provide that proposals whose Guidelines prescribe a firm voting position may instead be considered on a **CASE-BY-CASE** basis when unusual or controversial circumstances so dictate.

Interpretation and application of these Guidelines is not intended to supersede any law, regulation, binding agreement, or other legal requirement to which an issuer may be or become subject. No proposal shall be supported whose implementation would contravene such requirements.

General Policies

In cases receiving **CASE-BY-CASE** consideration, including cases not specifically provided for under these Guidelines, the Funds' policy is to vote in accordance with the recommendation provided by the Funds' Proxy Advisory Firm.

Further, the Funds' policy is to vote in accordance with the Proxy Advisory Firm's recommendation when such recommendation aligns with the recommendation of the relevant company's management or management has made no recommendation. However, this policy will not apply to **CASE-BY-CASE** proposals for which a contrary recommendation from the relevant Investment Professional(s) is being utilized.

Investment Professionals input will be given primary consideration with respect to **CASE-BY-CASE** proposals being considered on behalf of the relevant Fund if they involve merger transactions/corporate restructurings, proxy contests, fixed income or private equity securities, or unusual or controversial issues.

The Fund's policy is to not support proposals that would impose a negative impact on existing rights of the Funds' beneficial owners to the extent that any positive impact would not be deemed sufficient to outweigh removal or diminution of such rights. Depending on the relevant market, appropriate opposition may be expressed as an ABSTAIN, AGAINST, or WITHHOLD vote.

#### International Policies

Companies incorporated outside the U.S. are subject to the foregoing U.S. Guidelines if they are listed on a U.S. exchange and treated as a U.S. domestic issuer by the SEC. Where applicable, certain U.S. Guidelines may also be applied to companies incorporated outside the U.S., *e.g.*, companies with a significant base of U.S. operations and employees. However, the following provide for differing regulatory and legal requirements, market practices, and political and economic systems existing in various international markets.

Funds will vote **AGAINST** international proxy proposals when the Proxy Advisory Firm recommends

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

voting **AGAINST** such proposal because relevant disclosure by the company, or the time provided for consideration of such disclosure, is inadequate.

The Funds will consider proposals that are associated with a firm **AGAINST** vote on a **CASE-BY-CASE** basis if the Proxy Advisory Firm recommends their support when:

- The company or market transitions to better practices (*e.g.*, having committed to new regulations or governance codes);

- The market standard is stricter than the Fund's guidelines; or

- It is the more favorable choice when shareholders must choose between alternate proposals.

### **Proposal Specific Policies**

As mentioned above, these policies may be overridden in any case as provided for in the Procedures. Similarly, the Procedures provide that proposals whose Guidelines prescribe a firm voting position may instead be considered on a **CASE-BY-CASE** basis when unusual or controversial circumstances so dictate.

### **Proxy Contests:**

Consider votes in contested elections on a **CASE-BY-CASE** basis, with primary consideration given to input from the relevant Investment Professional(s).

### Reimburse Proxy Solicitation Expenses

Consider Shareholder proposals to reimburse proxy solicitation expenses on a **CASE-BY-CASE** basis; vote **FOR** if the Funds supports the associated director candidates.

### **Uncontested Proxies:**

## **Overview**

The Funds will lodge disagreement with a company's policies or practices by withholding support from the relevant proposal rather than from the director nominee(s) to which the Proxy Advisory Firm assigns a correlation. Support will be withheld from directors deemed responsible for governance shortfalls. If the director(s) are not standing for election (e.g., the board is classified), support will not be withheld from others in their stead. When a determination is made to withhold support due to concerns other than those related to an individual director's independence or actions, responsibility may be attributed to the entire board, a committee, or an individual (such as the CEO or committee chair), taking into consideration whether the desired effect is to send a message or to remove the director from service.

The Funds will vote **FOR** directors in connection with issues raised by the Proxy Advisory Firm if the director did not serve on the board or relevant committee during the majority of the time period relevant to the concerns cited by the Proxy Advisory Firm.

Vote with the Proxy Advisory Firm's recommendation when more candidates are presented than available seats and no other provisions under these Guidelines apply.

In cases where a director holds more than one board seat and corresponding votes, manifested as one seat as a physical person plus an additional seat as a representative of a legal entity, generally vote with the Proxy Advisory Firm's recommendation to withhold support from the legal entity and vote on the physical person.

Vote with the Proxy Advisory Firm's recommendation to withhold support from directors for whom support has become moot since the time the individual was nominated (e.g., due to death, disqualification, or determination not to accept appointment).

## **Independence**

Determination of Independence

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

The Fund will leverage the Proxy Advisory Firm's standards with respect to determining director independence. These standards provide that, to be considered completely independent, a director shall have no material connection to the company other than the board seat.

Although the Funds' may agree with the Proxy Advisory Firm's independence standards, such agreement shall not dictate that a Fund's vote will be cast according to the Proxy Advisory Firm's corresponding recommendation. Further, the application of Guidelines in connection with such standards will apply only when the director's level of independence can be ascertained based on available disclosure. Note: Non-voting directors (*e.g.*, director emeritus or advisory director) shall be excluded from calculations with respect to majority board independence.

### Board Independence

The Funds' policy is that a board should be majority independent or meet the applicable independence requirements of the relevant listing exchange. Therefore, the Fund's will consider non-independent directors standing for election on a **Case-by-Case** basis when the full board is not majority independent or does not meet the applicable independence requirements of the relevant listing exchange.

**WITHHOLD** support from the fewest non-independent directors whose removal would achieve majority independence across the remaining board, except that support may be withheld from additional directors whose relative level of independence cannot be differentiated.

**WITHHOLD** support from all non-independent directors, including the founder, chairman, or CEO, if the number required to achieve majority independence is equal to or greater than the number of non-independent directors standing for election.

Vote **FOR** non-independent directors in the role of CEO, and when appropriate, founder or chairman, and determine support for other non-independent directors based on the qualifications and contributions of the director as well as the Funds' voting precedent for assessing relative independence to management (*e.g.*, insiders holding senior executive positions are deemed less independent than affiliated outsiders with a transactional or advisory relationship to the company).

**WITHHOLD** support from non-independent director or bundled slates if the board's independence cannot be ascertained due to inadequate disclosure.

**WITHHOLD** support from bundled slates which include non-independent directors and where the board's independence does not meet the applicable independence requirements of the relevant listing exchange

Consider non-independent directors on a **CASE-BY-CASE** basis when the Proxy Advisory Firm has raised concerns regarding diminished shareholder value as evidenced by a significant drop in share price, voting with Proxy Advisory Firm's recommendation **AGAINST** such directors when few, if any, outside directors are present on the board AND:

The founding family has retained undue influence over the company despite a history of scandal or problematic controls; and

The directors have engaged in protectionist activities such as introduction of a poison pill or preferential and/or dilutive share issuances; or

Evidence exists regarding compliance or accounting shortfalls.

For companies in *Japan*, generally follow the Proxy Advisory Firm's recommendations in furtherance of greater board independence and minority shareholder protections, including to **WITHHOLD** support from:

At all companies:

The top executive(s) if the board does not include at least one outside director.

At companies with controlling shareholders:

The top executive(s) if the board does not include at least two independent directors.

At companies with a three-committee structure:

Non-independent outside directors if the board is not majority independent.

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

Non-independent directors serving on the nominating committee if the board does not include at least two independent directors.

However, vote **FOR** the top executive at companies in *Japan* if the only reason the Proxy Advisory Firm's **Withhold** recommendation is due to the company underperforming in terms of capital efficiency; i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years.

For companies in *Italy* presenting multiple slates of directors (*voto di lista*), **WITHHOLD** support from all slates until director names are disclosed, and upon disclosure, follow the Proxy Advisory Firm's standards for assessing which slate is best suited to represent shareholder interests.

**WITHHOLD** support from directors or slates of directors when they are presented in a manner not aligned with market best practice and/or regulation, including:

- Bundled slates of directors (*e.g., Canada, France, Hong Kong, or Spain*);

- Simultaneous reappointment of retiring directors (*e.g., South Africa*);

In markets with term lengths capped by regulation or market practice, directors whose terms exceed the caps or are not disclosed; or

Directors whose names are not disclosed in advance of the meeting or far enough in advance relative to voting deadlines to make an informed voting decision.

Consider self-nominated or shareholder-nominated director candidates on a **CASE-BY-CASE** basis, with voting decisions generally based on the Proxy Advisory Firm's approach to evaluating such candidates, except that:

- An unqualified candidate will not be supported simply to effect a "protest vote";

- A candidate will not be supported if the candidate's agenda is not in line with the long-term best interests of the company; and

Cases of multiple self-nominated candidates may be considered as a proxy contest if similar issues are raised (*e.g., potential change in control*).

## Key Committee Independence

**WITHHOLD** support from non-independent directors if:

- They sit on the audit or remuneration (compensation) committee,

- The full board serves as the audit or remuneration (compensation) committee, or

- The company does not have an audit or remuneration (compensation) committee.

**WITHHOLD** support from audit or remuneration (compensation) committee slates that include non-independent directors in the election.

Vote **FOR** non-independent directors who sit on the nominating committee, provided that such committee meets the applicable independence requirements of the relevant listing exchange.

Vote **FOR** nominating committee slates that include non-independent directors in the election.

Vote **FOR** non-independent directors if the full board serves as the nominating committee OR has not created the committee, provided that the company is in compliance with all provisions of the listing exchange in connection with performance of relevant functions (*e.g.*, performance of relevant functions by a majority of independent directors in lieu of the formation of a separate committee).

Consider on a **CASE-BY-CASE** basis the non-independent directors if the company is not in compliance with all required provisions of the listing exchange.

Vote **AGAINST** proposals that permit non-board members to serve on the audit, remuneration (compensation), or nominating committee, provided that bundled slates may be supported if no slate nominee serves on the relevant committee(s) except where market practice otherwise dictates.

Consider other concerns regarding committee members on a **CASE-BY-CASE** basis.

## Shareholder Proposals Regarding Board/Key Committee Independence

### Director Independence

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## Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

Vote **AGAINST** shareholder proposals seeking to redefine director independence or directors' specific roles (*e.g.*, responsibilities of the lead director).

### Majority Independent Board

Vote **AGAINST** shareholder proposals asking that more than a simple majority of directors be independent.

### Increase Key Committee Independence

Vote **AGAINST** shareholder proposals asking that the independence of the nominating committee be greater than that required by the listing exchange.

## Board Composition

### Attendance

**WITHHOLD** support from a director who, during both of the most recent two years, attended less than 75 percent of the board and committee meetings during the director's period of service without a valid reason for the absences.

Vote **FOR** in connection with attendance issues for directors who have served on the board for less than the two most recent years.

**WITHHOLD** support if two-year attendance cannot be ascertained from available disclosure.

The two-year attendance policy shall be applied to attendance of statutory auditors at Japanese companies.

### Over-boarding

Vote **FOR** directors without regard to “over-boarding” issues, unless when in conjunction with attendance issues during the most recent year. Consider such circumstances on a **Case-by-Case** basis.

Vote **AGAINST** shareholder proposals limiting the number of public company boards on which a director may serve.

#### Chairman / CEO

Vote **FOR** directors without regard to recommendations that the position of chairman should be separate from that of CEO, or should otherwise required to be independent, unless other concerns requiring **Case-by-Case** consideration are raised (*e.g.*, former CEOs proposed as board chairmen in markets, such as the United Kingdom, for which best practice recommends against such practice).

Vote **AGAINST** shareholder proposals requiring that the positions of chairman and CEO be held separately, unless significant corporate governance concerns have been cited. Consider such circumstances on a **CASE-BY-CASE** basis.

#### Board Accountability

##### Compensation Practices (U.S. and Canada)

It is the Funds’ policy that matters of compensation are best determined by an independent board and compensation committee. Therefore support may be withheld from compensation committee members whose actions or disclosure do not appear to support compensation practices aligned with the best interests of the company and its shareholders.

The Funds generally will lodge disagreement with a company’s compensation policies or practices by withholding support from the relevant proposal rather than from the compensation committee members. However, where applicable, votes on compensation committee members in connection with compensation practices should be considered on a **Case-by-Case** basis:

Say on pay. If shareholders have been provided with an advisory vote on executive compensation (“say on pay”), and practices not supported under these Guidelines (provisions under Section 2. Compensation) have been identified, the Funds will align with the Proxy Advisory Firm when a vote **AGAINST** the say on pay proposal has been recommended in lieu of withholding support from certain nominees for compensation concerns. Companies receiving negative recommendations on both

Proxy Voting Procedures and Guidelines for the Voya Funds and Advisers

compensation committee members and say on pay (or shareholders have not been provided with a say on pay) regarding issues not otherwise supported by these Guidelines will be considered on a **CASE-BY-CASE** basis.

Say on pay responsiveness. Compensation committee members opposed by the Proxy Advisory Firm for failure to sufficiently address compensation concerns evidenced by significant opposition to the most recent say on pay vote will be considered on a **CASE-BY-CASE** basis, factoring in the following:

If the most recent say on pay vote received majority opposition and the company has not demonstrated an adequate level of responsiveness, **WITHHOLD** support from the compensation committee chair.

If the most recent say on pay vote passed but received significant opposition, vote **FOR** the compensation committee members if a Fund voted FOR that say on pay or did not have voting rights on that proposal. If a Fund voted AGAINST the say on pay and the company has not demonstrated an adequate level of responsiveness, vote **WITHHOLD** support from the compensation committee chair.

If the compensation committee chair is not standing for election under circumstances meriting the chair's opposition, **WITHHOLD** support from the other compensation committee members. If no compensation committee members are standing for election, consider other directors on a **CASE-BY-CASE** basis.

Say on frequency. If the Proxy Advisory Firm opposes directors because the company has implemented a say on pay schedule that is less frequent than the frequency most recently preferred by at least a plurality of shareholders, **WITHHOLD** support from the compensation committee chair. If the compensation committee chair is not standing for election, **WITHHOLD** support from the other compensation committee members. If no compensation committee members are standing for election, consider other directors on a **CASE-BY-CASE** basis.

Tenure. Vote **FOR** compensation committee members who did not serve on the compensation committee during the majority of the time period relevant to the concerns cited by the Proxy Advisory Firm.

Repricing. If the Proxy Advisory Firm recommends withholding support from compensation committee members in connection with their failure to seek, or acknowledge, a shareholder vote on plans to reprice, replace, buy back, or exchange options, **WITHHOLD** support from such directors. (Note: cancellation of options would not be considered an exchange unless the cancelled options were re-granted or expressly returned to the plan reserve for reissuance.)

Commitments. Vote **FOR** compensation committee members receiving an adverse recommendation due to problematic pay practices if the company makes a public commitment (*e.g.*, via a Form 8-K filing) to rectify the practice on a going-forward basis. However, consider on a **CASE-BY-CASE** basis if the company does not rectify the practice by the following year's annual general meeting.

Burn Rate Commitment. If burn rate commitment issues are raised, consider compensation committee members on a **CASE-BY-CASE** basis, taking into account factors such as burn rate history and issuer's rationale and disclosure.

Other. If the Proxy Advisory Firm has raised other considerations regarding poor compensation practices, consider compensation committee members on a **Case-by-Case** basis.

*For all other markets*, consider remuneration committee members on a **CASE-BY-CASE** basis if the Proxy Advisory Firm recommends withholding support from directors in connection with remuneration practices not otherwise supported by these Guidelines (provisions under Section 2. Compensation), including cases in which the issuer has not followed market practice by submitting a resolution on executive compensation.

#### Accounting Practices

Vote **FOR** audit committee members, or the company's CEO or CFO if nominated as directors, who did not serve on the committee or did not have responsibility over the relevant financial function, during the

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majority of the time period relevant to the concerns cited.

Consider the company's CEO and CFO, if nominated as directors, and audit committee members on a **CASE-BY-CASE** basis if poor accounting practice concerns are raised. Vote **FOR** if the company has not yet had a full year to remediate the concerns since the time they were identified or if the company has taken adequate steps to remediate the concerns cited, which would typically include removing or replacing the responsible executives, and if the concerns are not re-occurring.

**WITHHOLD** support from audit committee members if the company has failed to disclose auditors' fees broken down by category.

**WITHHOLD** support from the relevant proposal (provisions under Section 3. Auditor Ratification) rather than from the audit committee members if there are concerns regarding a company's non-audit fees.

Problematic Actions

When the Proxy Advisory Firm recommends withholding support due to assessment that a director acted in bad faith or against shareholder interests in connection with a major transaction, such as a merger or acquisition, or due to other material failures or problematic actions, consider on a **CASE-BY-CASE** basis, factoring in the merits of the director's performance, rationale, and disclosure provided.

If the Proxy Advisory Firm cites concerns regarding actions in connection with a director's service on another board, vote **FOR** the director if the company has provided adequate rationale regarding the appropriateness of the director to serve on the board under consideration.

When the Proxy Advisory Firm recommends withholding support from any director due to share pledging concerns, consider on a **CASE-BY-CASE** basis, factoring in the pledged amount, unwind time, and any historical concerns being raised. Responsibility will be assigned to the pledgor, where the pledged amount and unwind time are deemed significant and, therefore, an unnecessary risk to the company.

Consider directors for whom scandals or internal controls concerns have been raised on a **CASE-BY-CASE** basis, supporting the directors or slates of directors unless:

The scandal or shortfall in controls took place at the company, or an affiliate, for which the director is being considered;

- Culpability can be attributed to the director (*e.g.*, director manages or audits the relevant function); and
- The director has been directly implicated, with resulting arrest and criminal charge or regulatory sanction.

#### Anti-Takeover Measures

Consider on a **CASE-BY-CASE** basis any director responsible for implementing excessive anti-takeover measures, including failure to remove restrictive poison pill features or to ensure a pill's expiration or timely submission to shareholders for vote, unless a company has implemented a policy that should reasonably prevent abusive use of its poison pill. **WITHHOLD** support from the board chair or, if not standing for election, the lead director. If neither is standing for election, **WITHHOLD** support from all continuing directors.

Consider on a **CASE-BY-CASE** basis any directors where the company has failed to opt out of a state law requiring companies to implement a staggered board structure. **WITHHOLD** support from the board chair, or if not standing for election, lead director. If neither is standing for election, **WITHHOLD** support from all continuing directors when the company:

- Demonstrates sustained poor stock performance (measured by one- and three-year total shareholder returns); and
- Has a non-shareholder-approved poison pill in place, without provisions to redeem or seek approval in a reasonable period of time; or
- Maintains a dual class capital structure, imposes a supermajority vote requirement, or has authority to issue blank check preferred stock.

#### Performance Test for Directors

Consider directors failing the Proxy Advisory Firm's performance test, which includes market-based and operating performance measures, on a **CASE-BY-CASE** basis. **WITHHOLD** support from the board

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chair, or if not standing for election, lead director. If neither is standing for election, **WITHHOLD** support from all continuing directors in cases where the directors have received a negative recommendation due to sustained poor stock performance (measured by one- and three-year total shareholder returns) combined with multiple takeover defenses/entrenchment devices if the company:

Is a controlled company or has a non-shareholder-approved poison pill in place, without provisions to redeem or seek approval in a reasonable period of time; or

Maintains a dual class capital structure, imposes a supermajority vote requirement, or has authority to issue blank check preferred stock.

Sustained poor stock performance combined with other takeover defenses/ entrenchment devices will be considered on a **CASE-BY-CASE** basis.

## Board Responsiveness

Consider on a **CASE-BY-CASE** basis any director where the company has failed to implement a majority-approved shareholder proposal. Vote **FOR** if the shareholder proposal has been reasonably addressed or the Funds' Guidelines or voting record did not support the relevant proposal or issue. **WITHHOLD** support from the board chair, or, if not standing for election, from all continuing directors, if the shareholder proposal at issue is supported under these Guidelines and the board has not disclosed a credible rationale for not implementing the proposal.

In the U.S., proposals seeking shareholder ratification of a poison pill may be deemed reasonably addressed if the company has implemented a policy that should reasonably prevent abusive use of the pill.

If the board has not acted upon a director not receiving shareholder support representing a majority of the votes cast at the previous annual meeting, consider directors on a **CASE-BY-CASE** basis. Vote **FOR** directors when:

The issue relevant to the majority negative vote has been adequately addressed or cured, which may include disclosure of the board's rationale; or

The Funds' Guidelines or voting record do not support the relevant proposal or issue causing the majority negative vote.

If the above provisions have not been satisfied, **WITHHOLD** support from the chair of the nominating committee, or if not standing for election, consider other directors on a **CASE-BY-CASE** basis.

## Board-Related Proposals

### Classified/Declassified Board Structure

Vote **AGAINST** proposals to classify the board unless the proposal represents an increased frequency of a director's election in the staggered cycle (e.g., seeking to move from a three-year cycle to a two-year cycle). Vote **FOR** proposals to repeal classified boards and to elect all directors annually.

### Board Structure

Vote **FOR** management proposals to adopt or amend board structures or policies, except consider such proposals on a **CASE-BY-CASE** basis if the board is not majority independent, corporate governance concerns have been identified, or the proposal may result in a material reduction in shareholders' rights.

Vote **AGAINST** shareholder proposals to impose new board structures or policies, except consider such proposals on a **CASE-BY-CASE** basis if the board is not majority independent and corporate governance concerns have been identified.

For companies in *Japan*, generally follow the Proxy Advisory Firm's approach to proposals seeking a board structure that would provide greater independence oversight of management and the board.

### Board Size

Vote **FOR** proposals that seek to fix the size of the board or designate a range for its size.

Vote **AGAINST** proposals that give management the ability to alter the size of the board outside of a specified range without shareholder approval.

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Board Size (International)

Vote **FOR** proposals seeking a board range if the range is reasonable in the context of market practice and anti-takeover considerations. Proposed article amendments in this regard will be considered on a **CASE-BY-CASE** basis.

Director and Officer Indemnification and Liability Protection

Proposals on director and officer indemnification and liability protection should be evaluated on a **CASE-BY-CASE** basis, using Delaware law as the standard.

Vote **against** proposals to limit or eliminate entirely directors' and officers' liability in connection with monetary damages for violating the duty of care.

Vote **against** indemnification proposals that would expand coverage beyond legal expenses to acts that are more serious violations of fiduciary obligation, such as negligence.

Director and Officer Indemnification and Liability Protection (International)

Vote in accordance with the Proxy Advisory Firm's standards for indemnification and liability protection for officers and directors, voting **AGAINST** overly broad provisions.

Discharge of Management/Supervisory Board Members

Vote **FOR** management proposals seeking the discharge of management and supervisory board members (including when the proposal is bundled), unless concerns are raised about the past actions of the company's auditors or directors, or legal or regulatory action is being taken against the board by other shareholders.

Vote **FOR** such proposals in connection with remuneration practices otherwise supported under these Guidelines or as a means of expressing disapproval of broader practices of the company or its board.

#### Establish Board Committee

Vote **FOR** shareholder proposals that seek creation of an audit, compensation, or nominating committee of the board, unless the committee in question is already in existence or the company claims an exemption of the listing exchange (e.g., committee functions are served by a majority of independent directors).

Vote **AGAINST** shareholder proposals requesting creation of additional board committees or offices, except as otherwise provided for herein.

#### Filling Board Vacancies / Removal of Directors

Vote **AGAINST** proposals that provide that directors may be removed only for cause.

Vote **FOR** proposals to restore shareholder ability to remove directors with or without cause.

Vote **AGAINST** proposals that provide that only continuing directors may elect replacements to fill board vacancies.

Vote **FOR** proposals that permit shareholders to elect directors to fill board vacancies.

#### Stock Ownership Requirements

Vote **AGAINST** shareholder proposals requiring directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board.

#### Term Limits / Retirement Age

Vote **FOR** management proposals and **AGAINST** shareholder proposals limiting the tenure of outside directors or imposing a mandatory retirement age for outside directors (unless the proposal seeks to relax existing standards).

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#### **Compensation**

#### Frequency of Advisory Votes on Executive Compensation

Vote **FOR** proposals seeking an annual say on pay and **AGAINST** those seeking a less frequent.

Proposals to Provide an Advisory Vote on Executive Compensation (*Canada*)

Vote **FOR**, with a preference for an **ANNUAL** vote.

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**Executive Pay Evaluation**

Advisory Votes on Executive Compensation (Say on Pay) and Remuneration Reports

Vote **FOR** management proposals seeking ratification of the company's executive compensation structure unless the program includes practices or features not supported under these Guidelines, and the proposal receives a negative recommendation from the Proxy Advisory Firm.

Listed below are examples of compensation practices and provisions, and respective consideration treatment under the Guidelines, factoring in whether the company has provided reasonable rationale/disclosure for such factors or the proposal as a whole.

Consider on a **CASE-BY-CASE** basis:

Single Trigger Equity Provisions

Short-Term Investment Plans where the board has exercised discretion to exclude extraordinary items.

Long-Term Incentive Plans where executives already hold significant equity positions.

Long-Term Incentive Plans where the vesting period is too short

Pay Practices (or combination of practices) that appear to have created a misalignment between CEO pay and performance with regard to shareholder value.

Excessive levels of discretionary bonuses, recruitment awards, retention awards, non-compete payments, severance/termination payments, perquisites (unreasonable levels in context of total compensation or purpose of the incentive awards or payouts).

Vote **AGAINST**:

Provisions that permit repricing, replacement, buy back, or exchange options. (Note: cancellation of options would not be considered an exchange unless the cancelled options were re-granted or expressly returned to the plan reserve for reissuance.)

Retesting in connection with achievement of performance hurdles.

Compensation structures that unreasonably insulate pay from performance conditions.

Single Trigger Cash Severance Provisions in new or materially amended plans, contracts, or payments that do not require an actual change in control in order to be triggered, or such provisions that are maintained in agreements previously opposed by a Fund.

Named executives officers have material input into setting their pay.

Short-Term Incentive Plans where treatment of payout factors has been inconsistent (*e.g.*, exclusion of losses but not gains).

Long-Term Incentive Plans that are inadequately aligned with shareholders because the performance period being measured within the vesting cycle is too short.

Long-Term Incentive Plans that lack an appropriate equity component (*e.g.*, overly cash-based plans). For companies in international markets, plans provide for contract or notice periods or severance/termination payments that exceed market practices, *e.g.*, relative to multiple of annual compensation.

### Equity-Based and Other Incentive Plans

#### Equity Compensation

Votes with respect to compensation and employee benefit plans, or the issuance of shares in connection with such plans, should be determined on a **CASE-BY-CASE** basis. If the Proxy Advisory Firm issues a negative recommendation and one of the reasons provided below is found to be true for the plan or issuance in question, vote **AGAINST** the plan or issuance:

#### Plan Cost

Vote **AGAINST** if the plan exceeds recommended cost (*U.S.* or *Canada*).

Vote **AGAINST** if a cost or dilution assessment may not be possible due to the method of disclosing shares allocated to the plan(s).

#### Dilution

Vote **AGAINST** if the plan exceeds recommended burn rates and/or dilution limits, including cases in

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which dilution cannot be fully assessed (*e.g.*, due to inadequate disclosure).

## Repricing or Replacement of Options

Vote **AGAINST** plans that:

- o Permit repricing of stock options, or any form or alternative to repricing, without shareholder approval, Include provisions that permit repricing, replacement, or exchange transactions that do not meet recommended criteria, or
- o Give the board sole discretion to approve option repricing, replacement, or exchange programs.

Consider on a **CASE-BY-CASE** basis specific proposals to reprice options.

## Discounts

Vote **AGAINST** if there are deep or near-term discounts (or the equivalent, such as dividend equivalents on unexercised options) to executives or directors.

## Vesting or Performance Periods

Vote **AGAINST** if the plan includes vesting or performance periods that do not meet recommended standards.

## Vesting upon Change in Control

Vote **AGAINST** if the plan provides for vesting upon change in control if deemed to evidence a potential conflict of interest or anti-takeover device or if the change in control definition is too liberal.

## Retesting

Vote **AGAINST** if the plan provides for retesting in connection with achievement of performance hurdles.

## Misalignment between CEO Pay and Performance

Vote **AGAINST** if the proposed awards further misaligns the CEO pay and performance with regard to shareholder value, including where pay appears unreasonably insulated from performance conditions and/or awards under the plan are concentrated among named executive officers.

#### Plans Administered by Potential Grant Recipients

Vote **AGAINST**.

#### Awards to Outside Directors

Vote **AGAINST** if the plan provides for retirement benefits or equity incentive awards to outside directors if not in line with market practice.

#### Financial Assistance/Loans to Participants

Vote **AGAINST** if the plan permits financial assistance to executives, directors, subsidiaries, affiliates, or related parties that is not in line with market practice.

#### Long-Term Incentive Plans

Vote **AGAINST** long-term incentive plans that are inadequately aligned with shareholders because the performance period is too short or they lack an appropriate equity component.

In cases where executives already hold significant equity positions, these proposals will be reviewed on a **CASE-BY-CASE** basis.

#### Overly Liberal Change in Control Definition

Vote **AGAINST**. (This refers to plans that would reward recipients even if the event does not result in an actual change in control or results in a change in control but does not terminate the employment relationship.)

#### Inadequate Performance or Vesting Criteria

These proposals will be reviewed on a **CASE-BY-CASE** basis.

#### Post-Employment Vesting or Exercise of Options

Vote **AGAINST** if deemed inappropriate.

Eliminate Existing Shareholder Approval Requirements for Material Plan Changes

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Vote **AGAINST**, unless the company has provided a reasonable rationale and/or adequate disclosure regarding the requested changes.

Material Amendments to Plans

Vote **AGAINST** if the plan allows plan administrators to make material amendments without shareholder approval unless adequate prior disclosure has been provided.

Amendment Procedures for Equity Compensation Plans and Employee Stock Purchase Plans (ESPPs) (Toronto Stock Exchange Issuers)

Vote **AGAINST** if the amendment procedures do not preserve shareholder approval rights.

Contract or Notice Periods or Severance/Termination Payments

Vote **AGAINST** if the plan provides for contract or notice periods or severance/termination payments that exceed market practice, *e.g.*, relative to multiples of annual compensation.

Stock Option Plans for Independent Internal Statutory Auditors (*Japan*)

Vote **AGAINST**.

Matching Share Plans

Vote **AGAINST** if the matching share plan that does not meet recommended standards, considering holding period, discounts, dilution, participation, purchase price, and performance criteria.

Employee Stock Purchase Plans

Consider **CASE-BY-CASE** with voting decisions generally based on the Proxy Advisory Firm's approach to evaluating such proposals.

Capital Issuances in Support of Employee Stock Purchase Plans

Consider **CASE-BY-CASE** with voting decisions generally based on the Proxy Advisory Firm's approach to evaluating such proposals.

OBRA-Related Compensation Proposals

Plans Intended to Qualify for Favorable Tax Treatment under Section 162(m) of OBRA

Vote **AGAINST** if a potential recipient under the plan(s) sits on the committee that exercises discretion over the related compensation awards. Vote **FOR** plans in cases where the only concern cited is lack of board independence, provided that the board meets the independence requirements of the relevant listing exchange. Consider other concerns **CASE-BY-CASE**.

Amendments that Place a Cap on Annual Grants or Amend Administrative Features to Comply with Section 162(m) of OBRA

Vote **FOR**.

Amendments to Add Performance-Based Goals to Comply with Section 162(m) of OBRA

Vote **FOR**, unless the amendments are clearly inappropriate.

Amendments to Increase Shares and Retain Tax Deductions under OBRA

Consider on a **CASE-BY-CASE** basis.

Approval of Cash or Cash-and-Stock Bonus Plans to Exempt the Compensation from Taxes under Section 162(m) of OBRA

Vote **FOR**, with primary consideration given to management's assessment that such plan meets the requirements for exemption of performance-based compensation. However, consider on a **CASE-BY-CASE** basis when broader compensation concerns exist.

Implement 401(k) Employee Benefit Plans for Employees

Vote **FOR**.

## Director Compensation

### Non-Executive Director Cash Compensation

Factor in the merits of the rationale and disclosure provided. Vote **FOR** if the amount is not excessive, there is no evidence of abuse, the recipient's overall compensation appears reasonable, the administrating committee meets exchange or market standards for independence, and other significant

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market standards are met. Otherwise, consider on a **CASE-BY-CASE** basis.

Non-Executive Director Equity Compensation

Consider on a **CASE-BY-CASE** basis.

Bonus Payments (*Japan*)

Vote **FOR** if all payments are for directors or auditors who have served as executives of the company, and against if any payments are for outsiders. Otherwise, consider on a **CASE-BY-CASE** basis.

Bonus Payments – Scandals

Vote **AGAINST** bonus proposals for retiring directors or continuing directors or auditors when culpability can be attributed to the nominee, unless bundled with bonuses for a majority of directors or auditors a Fund is voting **FOR**.

Severance Agreements

Vesting of Equity Awards upon Change in Control

Vote **FOR** management proposals seeking a specific treatment (*e.g.*, double trigger or pro-rata) of equity that vests upon change in control, unless evidence exists of abuse in historical compensation practices.

Vote **AGAINST** shareholder proposals regarding the treatment of equity if:

- The change in control cash severance provisions are double-triggered; and
- The company has provided a reasonable rationale regarding the treatment of equity.

Executive Severance or Termination Arrangements, Including those Related to Executive Recruitment or Retention

Vote **FOR** such compensation arrangements if:

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The primary concerns raised would not result in a negative vote, under these Guidelines, on a management say on pay proposal, the relevant board or committee member(s);

The company has provided adequate rationale and/or disclosure; or  
Support is recommended as a condition to a major transaction such as a merger.

#### Single Trigger Cash Severance Provisions

Vote **AGAINST** new or materially amended plans, contracts, or payments that include single trigger change in control cash severance provisions or do not require an actual change in control in order to be triggered.

#### Compensation-Related Shareholder Proposals

##### Double Triggers

Vote **FOR** shareholder proposals seeking double triggers on change in control cash severance provisions.

##### Executive and Director Compensation

Unless evidence exists of abuse in historical compensation practices, vote **AGAINST** shareholder proposals that seek to impose new compensation structures or policies.

##### Holding Periods

Vote **AGAINST** shareholder proposals requiring mandatory periods for officers and directors to hold company stock.

##### Submit Parachute Arrangements for Shareholder Ratification

Vote **FOR** (with “parachutes” defined as compensation arrangements related to termination that specify change in control events). Vote **CASE-BY-CASE** if the proposal does not include unduly restrictive or arbitrary provisions such as advance approval requirements.

##### Submit Severance and Termination Payments for Shareholder Ratification

Vote **FOR** shareholder proposals to submit executive severance agreements for shareholder ratification, if such proposals specify change in control events, Supplemental Executive Retirement Plans, or deferred executive compensation plans, or if ratification is required by the listing exchange.

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**Audit-Related**

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Auditor Ratification

Except in cases of poor accounting practices or fees for non-audit services exceed 50 percent of total auditor fees, vote **FOR** management proposals to ratify auditors.

In the U.S. and Canada, vote **FOR**; however, consider on a **CASE-BY-CASE** basis if the Proxy Advisory Firm cites poor accounting practices including:

Total non-audit fees exceed the total of audit fees, audit-related fees, and tax compliance and preparation fees (*i.e.*, non-audit services exceed 50 percent of total auditor fees). For purposes of this review, fees deemed to be reasonable, non-recurring exceptions to the non-audit fee category (*e.g.*, significant, one-time events such as those related to an IPO) shall be excluded.

The company has failed to disclose the auditors' fees broken down by category.

Vote **AGAINST** if the company has failed to disclose auditors' fees.

Vote **FOR** shareholder proposals asking the company to present its auditor annually for ratification.

For all other markets, follow the Proxy Advisory Firm's standards.

Consider on a **CASE-BY-CASE** basis if:

The Proxy Advisory Firm raises questions of disclosure or auditor independence;  
Fees for non-audit services exceed 50 percent of total auditor fees and the company has not provided adequate rationale regarding the non-audit fees.

Vote **AGAINST** if the company has failed to disclose auditors' fees.

Remuneration of Auditors

Vote **FOR**, unless there is evidence of excessive compensation relative to the size and nature of the company.

#### Auditor Independence

Consider shareholder proposals asking companies to prohibit their auditors from engaging in non-audit services (or capping the level of non-audit services) on a **CASE-BY-CASE** basis.

#### Audit Firm Rotation

Vote **AGAINST** shareholder proposals asking for mandatory audit firm rotation.

#### Indemnification of Auditors

Vote **AGAINST** the indemnification of auditors.

#### Independent Statutory Auditors (*Japan*)

Vote **AGAINST** if the candidate is affiliated (*e.g.*, if the nominee has worked a significant portion of his career for the company, its main bank, or one of its top shareholders.)

Consider on a **CASE-BY-CASE** basis bundled slates of directors.

Consider on a **CASE-BY-CASE** basis cases where multiple slates of statutory auditors are presented.

Vote **AGAINST** incumbent directors at companies implicated in scandals or exhibiting poor internal controls.

#### Statutory Auditors Remuneration

Vote **FOR** as long as the amount is not excessive (*e.g.*, significant increases should be supported by adequate rationale and disclosure), there is no evidence of abuse, the recipient's overall compensation appears reasonable, and the board and/or responsible committee meet exchange or market standards for independence.

Vote **FOR** management proposals related to advance notice period requirements, provided that the period requested is in accordance with applicable law and no material governance concerns have been identified in connection with the company.

Amendments to Corporate Documents

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Except to align with legislative or regulatory changes or when support is recommended by the Proxy Advisory Firm or relevant Investment Professional(s), vote **AGAINST** proposals seeking to remove shareholder approval requirements or otherwise remove or diminish shareholder rights, *e.g.*, by:

- Adding restrictive provisions;
- Removing provisions or moving them to portions of the charter not requiring shareholder approval; or
- In corporate structures such as holding companies, removing provisions in an active subsidiary's charter that provide voting rights to parent company shareholders.

This policy would also apply to proposals seeking to amend or approve corporate agreements that the Proxy Advisory Firm recommends **AGAINST** because a similar reduction in shareholder rights is requested.

Vote **AGAINST** proposals for charter amendments that support board entrenchment or may be used as an anti-takeover device (or to further anti-takeover conditions), particularly if the proposal is bundled or the board is classified.

Vote **FOR** proposals seeking charter or bylaw amendments to remove anti-takeover provisions.

## Appraisal Rights

Vote **FOR** proposals to restore, or provide shareholders with, rights of appraisal.

## Article and Bylaw Amendments

Consider on a **CASE-BY-CASE** basis all proposals seeking adoption of, or amendments to, the articles of association, bylaws, or related board policies.

Vote **FOR** the proposal if:

- The change or policy is editorial in nature;
- Shareholder rights are protected;
- There is negligible or positive impact on shareholder value;

Management provides adequate reasons for the amendments or the Proxy Advisory Firm otherwise supports management's position;

It seeks to discontinue and/or delist a form of the company's securities when the relevant Fund does not hold the affected security type;

Notice or disclosure requirements are reasonable; or  
The company is required to do so by law (if applicable).

Vote **AGAINST** the proposal if:

It removes or lowers quorum requirements for board or shareholder meetings below levels recommended by the Proxy Advisory Firm;

Restrict shareholders' ability to vote on directors;

It reduces relevant disclosure to shareholders;

It seeks to align the articles with provisions of another proposal not supported by these Guidelines;

It is not supported under these Guidelines, is presented within a bundled proposal, and the negative impact, on balance, outweighs any positive impact; or

It imposes a negative impact on existing shareholder rights, including rights of the Funds, or diminishes accountability to shareholders to the extent that any positive impact would not be deemed to be sufficient to outweigh removal or diminution of such rights.

With respect to article amendments for Japanese companies:

Vote **FOR** management proposals to amend a company's articles to expand its business lines.

Vote **FOR** management proposals to amend a company's articles to provide for an expansion or reduction in the size of the board, unless the expansion/reduction is clearly disproportionate to the growth/decrease in the scale of the business or raises anti-takeover concerns.

If anti-takeover concerns exist, vote **AGAINST** management proposals, including bundled proposals, to amend a company's articles to authorize the Board to vary the annual meeting record date or to otherwise align them with provisions of a takeover defense.

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Follow the Proxy Advisory Firm's guidelines with respect to management proposals regarding amendments to authorize share repurchases at the board's discretion, voting **AGAINST** proposals unless there is little to no likelihood of a creeping takeover or constraints on liquidity (free float of shares is low), and where the company is trading at below book value or is facing a real likelihood of substantial share sales; or where this amendment is bundled with other amendments which are clearly in shareholders' interest.

### Majority Voting Standard

Vote **FOR** proposals seeking election of directors by the affirmative vote of the majority of votes cast in connection with a meeting of shareholders, provided they contain a plurality carve-out for contested elections, and provided such standard does not conflict with state law in which the company is incorporated.

Vote **FOR** amendments to corporate documents or other actions promoting a majority standard. (See also Section 8. Mutual Fund Proxies.)

### Cumulative Voting

Vote **FOR** shareholder proposals to restore or permit cumulative voting.

Vote **AGAINST** management proposals to eliminate cumulative voting if:

The company is controlled;  
Maintains a classified board of directors; or  
Maintains a dual class voting structure.

Proposals may be supported irrespective of classification if a company plans to declassify its board or adopt a majority voting standard.

### Confidential Voting

Vote **FOR** management proposals to adopt confidential voting.

Vote **FOR** shareholder proposals that request companies to adopt confidential voting, use independent tabulators, and use independent inspectors of election as long as the proposals include clauses for proxy contests as follows:

In the case of a contested election, management should be permitted to request that the dissident group honor its confidential voting policy.

If the dissidents agree, the policy remains in place.

If the dissidents do not agree, the confidential voting policy is waived.

#### Fair Price Provisions

Consider proposals to adopt fair price provisions on a **CASE-BY-CASE** basis.

Vote **AGAINST** fair price provisions with shareholder vote requirements greater than a majority of disinterested shares.

#### Poison Pills

Consider on a **CASE-BY-CASE** basis management proposals to approve or ratify a poison pill or any plan or charter amendment (e.g., investment restrictions) that can reasonably be construed as an anti-takeover measure, with voting decisions based on the Proxy Advisory Firm's approach to evaluating such proposals, considering factors such as rationale, trigger level, and sunset provisions. Votes will be cast in a manner that seeks to preserve shareholder value and the right to consider a valid offer, voting **AGAINST** management proposals in connection with poison pills or anti-takeover activities (e.g., disclosure requirements or issuances, transfers, or repurchases) that do not meet the Proxy Advisory Firm's standards.

**DO NOT VOTE AGAINST** director remuneration in connection with poison pill considerations raised.

Vote **FOR** shareholder proposals that ask a company to submit its poison pill for shareholder ratification, or to redeem its pill in lieu thereof, unless:

Shareholders have approved adoption of the plan;

A policy has already been implemented by the company that should reasonably prevent abusive use of the pill; or

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The board had determined that it was in the best interest of shareholders to adopt a pill without delay, provided that such plan would be put to shareholder vote within twelve months of adoption or expire, and if not approved by a majority of the votes cast, would immediately terminate.

Consider on a **CASE-BY-CASE** basis shareholder proposals to redeem a company's poison pill.

## Proxy Access

Consider on a **CASE-BY-CASE** basis proposals to provide shareholders with access to management's proxy material in order to nominate their own candidates(s) to the board, factoring in considerations such as whether significant or multiple corporate governance concerns have been identified.

Vote **FOR** management proposals also supported by the Proxy Advisory Firm.

## Quorum Requirements

Consider on a **CASE-BY-CASE** basis proposals to lower quorum requirements for shareholder meetings below a majority of the shares outstanding.

## Reincorporation Proposals

Consider proposals to change a company's state of incorporation on a **CASE-BY-CASE** basis. Vote **FOR** management proposals not assessed as:

A potential takeover defense; or

A significant reduction of minority shareholder rights that outweigh the aggregate positive impact, but if so assessed, weighing management's rationale for the change.

Vote **FOR** management reincorporation proposals upon which another key proposal, such as a merger transaction, is contingent if the other key proposal is also supported.

Vote **AGAINST** shareholder reincorporation proposals not also supported by the company.

#### Shareholder Advisory Committees

Consider on a **CASE-BY-CASE** basis proposals to establish a shareholder advisory committee.

#### Shareholder Ability to Call Special Meetings

Vote **FOR** shareholder proposals that provide shareholders with the ability to call special meetings when either of the:

- Company does not currently permit shareholders to do so;
- Existing ownership threshold is greater than 25 percent; or
- Sole concern relates to a net-long position requirement.

#### Written Consent

Vote **AGAINST** shareholder proposals seeking the right to act by written consent if the company:

- Permits shareholders to call special meetings;
- Does not impose supermajority vote requirements; and
- Has otherwise demonstrated its accountability to shareholders (*e.g.*, the company has reasonably addressed majority-supported shareholder proposals).

Consider management proposals to eliminate the right to act by written consent on a **CASE-BY-CASE** basis, voting **FOR** if the above conditions are present.

Vote **FOR** shareholder proposals seeking the right to act by written consent if the above conditions are not present.

Consider management proposals to permit shareholders to call special meetings on a **CASE-BY-CASE** basis.

#### State Takeover Statutes

Consider on a **CASE-BY-CASE** basis proposals to opt-in or out of state takeover statutes (including control share acquisition statutes, control share cash-out statutes, freezeout provisions, fair price provisions, stakeholder laws, poison pill endorsements, severance pay and labor contract provisions, anti-greenmail provisions, and disgorgement provisions).

#### Supermajority Shareholder Vote Requirement

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Vote **AGAINST** proposals to require a supermajority shareholder vote and **FOR** proposals to lower supermajority shareholder vote requirements.

Consider on a **CASE-BY-CASE** basis if the company has shareholder(s) with significant ownership levels and the retention of existing supermajority requirements in order to protect minority shareholder interests.

#### Time-Phased Voting

Vote **AGAINST** proposals to implement, and **FOR** proposals to eliminate, time-phased or other forms of voting that do not promote a one share, one vote standard.

#### Unequal Voting Rights

Vote **AGAINST** dual-class exchange offers and dual-class recapitalizations.

#### White Squire Placements

Vote **FOR** shareholder proposals to require approval of blank check preferred stock issues for other than general corporate purposes.

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#### **Capital and Restructuring**

Consider management proposals to make changes to the capital structure not otherwise addressed under these Guidelines on a **CASE-BY-CASE** basis, voting with the Proxy Advisory Firm's recommendation unless a contrary recommendation from the relevant Investment Professional(s) is utilized.

#### **Capital**

#### Common Stock Authorization

Consider proposals to increase the number of shares of common stock authorized for issuance on a **CASE-BY-CASE** basis. The Proxy Advisory Firm's proprietary approach of determining appropriate thresholds will be utilized in evaluating such proposals. In cases where the requests are above the allowable threshold, a company-specific qualitative review (*e.g.*, considering rationale and prudent historical usage) will be utilized.

Vote **FOR** proposals within the Proxy Advisory Firm's allowable thresholds, or those in excess but meeting Proxy Advisory Firm's qualitative standards, to authorize capital increases, unless the company states that the stock may be used as a takeover defense.

Vote **FOR** proposals to authorize capital increases exceeding the Proxy Advisory Firm's thresholds when a company's shares are in danger of being delisted or if a company's ability to continue to operate as a going concern is uncertain.

Notwithstanding the above, vote **AGAINST**:

Proposals to increase the number of authorized shares of a class of stock if the issuance which the increase is intended to service is not supported under these Guidelines (*e.g.*, merger or acquisition proposals).  
Nonspecific proposals authorizing excessive discretion to a board.

#### Dual Class Capital Structures

Vote **AGAINST**:

Proposals to create or perpetuate dual class capital structures unless supported by the Proxy Advisory Firm (*e.g.*, to avert bankruptcy or generate non-dilutive financing, and not designed to increase the voting power of an insider or significant shareholder).

Proposals to increase the number of authorized shares of the class of stock that has superior voting rights in companies that have dual class capital structures.

However, consider such proposals **CASE-BY-CASE** if:

Bundled with favorable proposal(s);  
Approval of such proposal(s) is a condition of such favorable proposal(s); or  
Part of a recapitalization for which support is recommended by the Proxy Advisory Firm or relevant Investment Professional(s).

Consider management proposals to eliminate or make changes to dual class capital structures on a

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**CASE-BY-CASE** basis, voting with the Proxy Advisory Firm's recommendation.

Vote **FOR** shareholder proposals to eliminate dual class capital structures unless the relevant Fund owns a class with superior voting rights.

General Share Issuances (*International*)

Consider specific issuance requests on a **Case-by-Case** basis based on the proposed use and the company's rationale.

Vote **AGAINST** requests to reissue repurchased shares unless a related general issuance request is supported.

Voting decisions to determine support for general issuance requests (with or without preemptive rights), or related requests to repurchase and reissue shares, shall be based on the following, as identified by the Proxy Advisory Firm:

- Their amount relative to currently issued capital;
- Appropriate volume and duration parameters; and
- Market-specific considerations (*e.g.*, priority right protections in France, reasonable levels of dilution and discount in Hong Kong).

Vote **AGAINST** proposals to issue shares (with or without preemptive rights), convertible bonds, or warrants, to grant rights to acquire shares, or to amend the corporate charter relative to such issuances or grants when concerns have been identified by the Proxy Advisory Firm with respect to:

- Inadequate disclosure;
- Inadequate restrictions on discounts;
- Failure to meet the Proxy Advisory Firm's standards for general issuance requests; or
- Authority to refresh share issuance amounts without prior shareholder approval.

Vote **AGAINST** nonspecific proposals authorizing excessive discretion to a board.

Increases in Authorized Capital (*International*)

Unless otherwise provided for herein, voting decisions should be based on the Proxy Advisory Firm's approach, as follows.

Vote **FOR**:

Nonspecific proposals, including bundled proposals, to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less than 30 percent of its new authorization outstanding.

Specific proposals to increase authorized capital, unless:

- o The specific purpose of the increase (such as a share-based acquisition or merger) does not meet these Guidelines for the purpose being proposed; or
- o The increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances.

Vote **AGAINST** proposals to adopt unlimited capital authorizations or the proposal allows the board excessive discretion.

Preemptive Rights

Consider on a **CASE-BY-CASE** basis shareholder proposals that seek preemptive rights or management proposals that seek to eliminate them. In evaluating proposals on preemptive rights, consider the size of a company and the characteristics of its shareholder base.

Adjustments to Par Value of Common Stock

Vote **FOR** management proposals to reduce the par value of common stock, unless doing so raises other concerns not otherwise supported under these Guidelines.

Preferred Stock

Utilize the Proxy Advisory Firm's approach for evaluating issuances or authorizations of preferred stock, taking into account the Proxy Advisory Firm's support of special circumstances, such as mergers or acquisitions, as well as the following criteria:

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Consider proposals to increase the number of shares of preferred stock authorized for issuance on a **CASE-BY-CASE** basis. This approach incorporates both qualitative and quantitative measures, including a review of:

- Past performance (*e.g.*, board governance, shareholder returns and historical share usage); and
- The current request (*e.g.*, rationale, whether shares are blank check and declawed, and dilutive impact as determined through the Proxy Advisory Firm's proprietary model for assessing appropriate thresholds).

Vote **AGAINST** proposals authorizing the issuance of preferred stock or creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock).

Vote **FOR** proposals to issue or create blank check preferred stock in cases when the company expressly states that the stock will not be used as a takeover defense.

Vote **AGAINST** where the company expressly states that, or fails to disclose whether, the stock may be used as a takeover defense.

Vote **FOR** proposals to authorize or issue preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

Consider on a **CASE-BY-CASE** basis proposals to increase the number of blank check preferred shares after analyzing the number of preferred shares available for issue given a company's industry and performance in terms of shareholder returns.

Preferred Stock (*International*)

Voting decisions should generally be based on the Proxy Advisory Firm's approach, including:

- Vote **FOR** the creation of a new class of preferred stock or issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.
- Vote **FOR** the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets the Proxy Advisory Firm's guidelines on equity issuance requests.
- Vote **AGAINST** the creation of:

(1) a new class of preference shares that would carry superior voting rights to the common shares, or

(2) blank check preferred stock, unless the board states that the authorization will not be used to thwart a takeover bid.

#### Shareholder Proposals Regarding Blank Check Preferred Stock

Vote **FOR** shareholder proposals to have blank check preferred stock placements, other than those shares issued for the purpose of raising capital or making acquisitions in the normal course of business, submitted for shareholder ratification.

#### Share Repurchase Programs

Vote **FOR** management proposals to institute open-market share repurchase plans in which all shareholders may participate on equal terms, but vote **AGAINST** plans with terms favoring selected parties.

Vote **FOR** management proposals to cancel repurchased shares.

Vote **AGAINST** proposals for share repurchase methods lacking adequate risk mitigation or exceeding appropriate volume or duration parameters for the market.

Consider shareholder proposals seeking share repurchase programs on a **CASE-BY-CASE** basis, with input from the relevant Investment Professional(s) to be given primary consideration.

#### Stock Distributions: Splits and Dividends

Vote **FOR** management proposals to increase common share authorization for a stock split, provided that the increase in authorized shares falls within the Proxy Advisory Firm's allowable thresholds.

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Reverse Stock Splits

Consider on a **CASE-BY-CASE** basis management proposals to implement a reverse stock split.

In the event the split constitutes a capital increase effectively exceeding the Proxy Advisory Firm's allowable threshold because the request does not proportionately reduce the number of shares authorized, consider management's rationale and/or disclosure, voting **FOR**, but not supporting additional requests for capital increases on the same agenda.

Allocation of Income and Dividends (*International*)

With respect to *Japanese* companies, consider management proposals concerning allocation of income and the distribution of dividends, including adjustments to reserves to make capital available for such purposes, on a **CASE-BY-CASE** basis, voting with the Proxy Advisory Firm's recommendations to support such proposals unless:

- The dividend payout ratio has been consistently below 30 percent without adequate explanation; or
- The payout is excessive given the company's financial position.

Vote **FOR** such proposals by companies in other markets.

Vote **AGAINST** proposals where companies are seeking to establish or maintain disparate dividend distributions between stockholders of the same share class (*e.g.*, long-term stockholders receiving a higher dividend ratio ("Loyalty Dividends")).

In any market, in the event multiple dividend proposals are on the same agenda, consider on a **CASE-BY-CASE** basis.

Stock (Scrip) Dividend Alternatives (*International*)

Vote **FOR** most stock (scrip) dividend proposals, but vote **AGAINST** proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

### Tracking Stock

Consider the creation of tracking stock on a **CASE-BY-CASE** basis, with primary consideration given to input from the relevant Investment Professional(s).

### Capitalization of Reserves (*International*)

Vote **FOR** proposals to capitalize the company's reserves for bonus issues of shares or to increase the par value of shares, unless concerns not otherwise supported under these Guidelines are raised by the Proxy Advisory Firm.

### Debt Instruments and Issuance Requests (*International*)

Vote **AGAINST** proposals authorizing excessive discretion to a board to issue or set terms for debt instruments (*e.g.*, commercial paper).

Vote **FOR** debt issuances for companies when the gearing level (current debt-to-equity ratio) is between zero and 100 percent.

Consider on a **CASE-BY-CASE** basis proposals where the issuance of debt will result in the gearing level being greater than 100 percent, or for which inadequate disclosure precludes calculation of the gearing level, comparing any such proposed debt issuance to industry and market standards, and with voting decisions based on the Proxy Advisory Firm's approach to evaluating such requests.

### Debt Restructurings

Consider on a **CASE-BY-CASE** basis proposals to increase common and/or preferred shares and to issue shares as part of a debt restructuring plan.

### Financing Plans (*International*)

Vote **FOR** the adoption of financing plans if they are in the best economic interests of shareholders.

### Investment of Company Reserves (*International*)

Consider proposals on a **case-by-case** basis.

**Restructuring**

Mergers and Acquisitions

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Vote **FOR** a proposal not typically supported under these Guidelines if a key proposal, such as a merger transaction, is contingent upon its support and a vote **FOR** is recommended by the Proxy Advisory Firm or relevant Investment Professional(s).

Votes on mergers and acquisitions will be reviewed a **case-by-case** basis with voting decisions based on the Proxy Advisory Firm's approach to evaluating such proposals if no input is provided by the relevant Investment Professional(s).

## Corporate Restructurings

Votes on corporate restructuring proposals should be considered on a **CASE-BY-CASE** basis. Such proposals include, but are not limited to:

- Demergers
- Minority squeezeouts
- Leveraged buyouts
- Spinoffs
- Liquidations
- Dispositions
- Divestitures
- Asset sales

## Waiver on Tender-Bid Requirement (*International*)

Consider proposals on a **CASE-BY-CASE** basis seeking a waiver for a major shareholder or concert party from the requirement to make a buyout offer to minority shareholders, voting **FOR** when little concern of a creeping takeover exists and the company has provided a reasonable rationale for the request.

## Related Party Transactions (*International*)

Consider related party transactions on a **CASE-BY-CASE** basis.

Vote **FOR** approval of such transactions unless the agreement requests a strategic move outside the company's charter, contains unfavorable or high-risk terms (*e.g.*, deposits without security interest or guaranty), or is deemed likely to have a negative impact on director or related party independence.

**Environmental and Social Issues**

Environmental and Social Proposals

Boards of directors and company management are responsible for guiding the corporation in connection with matters that are most often the subject of shareholder proposals on environmental and social issues. Such matters may include:

- Ensuring that the companies they oversee comply with applicable legal, regulatory and ethical standards;  
· Effectively managing risk, and
- Assessing and addressing matters that may have a financial impact on shareholder value.

The Funds will vote in accordance with the board's recommendation on such proposals based on the guidelines below.

The Funds will vote **AGAINST** shareholder proposals seeking to:

- Dictate corporate conduct;
- Impose excessive costs or restrictions;
- Duplicate policies already substantially in place; or
- Release information that would not help a shareholder evaluate an investment in the corporation as an economic matter.

Certain instances will be considered **CASE-BY-CASE**. If it appears that both:

- (1) market practice and that of its peers; or the company's having been subject to significant controversies, litigation, fines, or penalties in connection with the relevant issue; and
- (2) The issue is material to the company.

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Approval of Donations (International)

Vote **FOR** proposals if they are for single- or multi-year authorities and prior disclosure of amounts is provided. Otherwise, vote **AGAINST** such proposals.

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**Routine/Miscellaneous**

Routine Management Proposals

Vote **FOR** routine management proposals unless the Proxy Advisory Firm recommends voting **AGAINST**, prompting a **CASE-BY-CASE** consideration.

Authority to Call Shareholder Meetings on Less than 21 Days' Notice

For companies in the *United Kingdom*, consider on a **CASE-BY-CASE** basis, factoring in whether the company has provided clear disclosure of its compliance with any hurdle conditions for the authority imposed by applicable law and has historically limited its use of such authority to time-sensitive matters.

Approval of Financial Statements and Director and Auditor Reports (International)

Vote **AGAINST** if there are concerns regarding inadequate disclosure, remuneration arrangements (including severance/termination payments exceeding local standards for multiples of annual compensation), or consulting agreements with non-executive directors.

Consider on a **CASE-BY-CASE** basis if there are other concerns regarding severance/termination payments.

Vote **AGAINST** if there is concern about the company's financial accounts and reporting, including related party transactions.

Vote **AGAINST** board-issued reports receiving a negative recommendation from the Proxy Advisory Firm due to concerns regarding independence of the board or the presence of non-independent directors on the audit committee.

Vote **FOR** if the only reason for a negative recommendation by the Proxy Advisory Firm is to express disapproval of broader practices of the company or its board.

#### Other Business

Vote **AGAINST** proposals for Other Business, unless the company has provided adequate disclosure regarding the matters to be raised under Other Business. Consider such instances **CASE-BY-CASE**.

#### Adjournment

These items often appear on the same agenda as a primary proposal, such as a merger or corporate restructuring.

Vote **FOR** when the primary proposal is also supported.

If there is no primary proposal, vote **FOR** if all other proposals are supported and **AGAINST** if all other proposals are opposed.

Consider other circumstances on a **CASE-BY-CASE** basis.

#### Changing Corporate Name

Vote **FOR** proposals requesting a change in corporate name.

#### Multiple Proposals

Multiple proposals of a similar nature presented as options to the course of action favored by management may all be voted **FOR**, provided that:

Support for a single proposal is not operationally required;  
No one proposal is deemed superior in the interest of the Fund(s); and  
Each proposal would otherwise be supported under these Guidelines.

Vote **AGAINST** any proposals that would otherwise be opposed under these Guidelines.

#### Bundled Proposals

Vote **FOR** if all of the bundled items are supported by these Guidelines.

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Vote **AGAINST** if one or more items are not supported by these Guidelines, and if the Proxy Advisory Firm deems the negative impact, on balance, to outweigh any positive impact.

Moot Proposals

This instruction is in regard to items for which support has become moot (e.g., an incentive grant to a person no longer employed by the company); **WITHHOLD** support if recommended by the Proxy Advisory Firm.

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**Mutual Fund Proxies**

Approving New Classes or Series of Shares

Vote **FOR** the establishment of new classes or series of shares.

Authorizing the Board to Hire and Terminate Sub-Advisers Without or Without Shareholder Approval

Vote **FOR** these proposals.

Master-Feeder Structure

Vote **FOR** the establishment of a master-feeder structure.

Establish Director Ownership Requirement

Vote **AGAINST** shareholder proposals for the establishment of a director ownership requirement.

The matters below should be examined on a **CASE-BY-CASE** basis:

Election of Directors  
Converting Closed-end Fund to Open-end Fund  
Proxy Contests

- Investment Advisory Agreements
- Preferred Stock Proposals
- 1940 Act Policies
- Changing a Fundamental Restriction to a Non-fundamental Restriction
- Change Fundamental Investment Objective to Non-fundamental
- Name Rule Proposals
- Disposition of Assets/Termination/Liquidation
- Changes to the Charter Document
- Changing the Domicile of a Fund
- Change in Fund's Sub-classification
- Distribution Agreements
- Mergers
- Reimburse Shareholder for Expenses Incurred
- Terminate the Investment Adviser
- Majority Voting Proposals.

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Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) (1) **Portfolio Management.** Set forth below is information regarding the members of the investment team that are primarily responsible for the management of the Fund's portfolio. The team consists of investment professionals with a variety of specializations. It is expected that each investment management team member listed below will play a role in the management of the Fund's portfolio from the inception of the Fund.

*Manu Vandebulck* is a Senior Investment Manager within IIMA's value team at Voya Investment Management. Previously, Manu was senior manager of equities and balanced portfolios at IIMA. Prior to joining the firm, he was a private equity analyst for FLV Fund (Technology). He began his career as a fixed income manager. He has a degree in economics from the University of Antwerp, is a Certified European Financial Analyst, and has 15 years of investment experience.

*Robert Davis* is a Senior Portfolio Manager within the Voya Equity Value Boutique focusing on the team's Emerging Market High Dividend strategy. Previously, Mr. Davis was within the Voya Global Research Team specializing in the Telecommunications sector. Mr. Davis' telecom experience began in 1997 when he joined Orange in London, carrying out investor relations and corporate finance roles. In 2000 he moved to Lehman Brothers' European Telecoms Equity Research team and became Executive Director running its Wireless sector coverage. In 2007 Mr. Davis joined boutique broker Bryan Garnier to head its European Telecoms research, leaving in 2011 for the firm. He has a degree in Business Studies (Finance Specialism) from Brighton Business School and is a Fellow of the Chartered Institute of Management Accountants (FCMA). Mr. Davis has 20 years of investment experience.

*Nicolas Simar* is the head of the IIMA's value team at Voya Investment Management. Nicolas is responsible for all strategies within IIMA's equity value boutique. He has managed the euro high dividend strategy on the value team since its inception in April 1999. Nicolas started his career at the Banque Bruxelles Lambert (bought by the firm) as investment manager of fixed income. Nicolas holds a degree in civil engineering from the Université Catholique de Louvain and a degree in business administration from the Institut Français du Pétrole, Paris. He has 16 years of investment experience.

*Willem van Dommelen* is head of the investment managers' team of the systematic beta column in the structured investment strategy department at Voya Investment Management. Previously, Willem was a senior investment manager on the firms structured investments department, responsible for the management of a broad range of structured mutual funds and the advice and implementation of hedging activities for firm affiliates. Willem began his career as a portfolio manager at Voya Investment Management, where he advised and serviced around 80 institutional clients. Willem obtained his master's degree in economics from Tilburg University, specializing in accountancy and investment theory. He holds a RBA degree (registered investment analyst).



**(a)(2)(i-iii) Other Accounts Managed**

The following table shows the number of accounts and total assets in the accounts managed by the portfolio managers of the Sub-Adviser as of February 28, 2015, unless otherwise indicated.

<b>Voya Asia Pacific High Dividend Equity Income Fund (IAE)</b>	<b>Portfolio Manager</b>	<b>Mutual Funds</b>	<b>Trusts, Sep Accts and Stable Value Other Pooled Investment Vehicles and Alternative</b>	<b>Other Account</b>
		<b>Registered Investment Companies Number of Accts / Total Assets (rounded to nearest million)</b>	<b>Number of Accts / Total Assets (rounded to nearest million)</b>	<b>Number of Ac Total Assets (rounded to ne</b>
	Manu Vandenbulck	4 accounts/\$481 million	4 accounts/\$1,008 million	0/0
	Robert Davis	4 accounts/\$481 million	3 account/\$479 million	0/0
	Nicholas Simar	6 accounts/\$1,492 million	1 account/\$1,138 million	0/0
	Willem van Dommelen	5 accounts/\$1,639 million	4 accounts/\$469 million	0/0

(a) (2) (iv) **Conflicts of Interest**

NNIP investment teams are responsible for managing and executing trades on behalf of multiple clients including other registered funds, legal entities, other accounts, including proprietary accounts, separate accounts, and other pooled investment vehicles. An investment team may manage a portfolio or separate account, which may have materially higher fee arrangements than the Fund and may also have a performance based fee. The management of multiple funds and/or other accounts may raise potential conflicts of interest relating to the allocation of investment opportunities and the aggregation and allocation of trades. NNIP has adopted compliance procedures which are reasonably designed to address these types of conflicts.

(a) (3) **Compensation**

Within NNIP, the portfolio managers' compensation typically consists of a base salary and a bonus. Portfolio managers are evaluated on their one-year and three-year performance annually. The bonus scheme for our investment professionals in place, which is largely quantitative based and linked to the individual and team performances, is mainly targeted at consistency and stability in excess return. If a manager has good performance, the variable pay (partly in stock) will be spread over the next two or three years. There will be a consistency premium paid, if managers can continuously produce good results. If the performance deteriorates in subsequent years, a portion of the bonus will be subject to a claw back clause. In so doing, we aim to achieve a longer-term orientation of our investment managers and better align the program with the interest of our customers. In addition, the portfolio managers may be offered long-term equity awards, such as stock and/or stock options, which are tied to the performance of the Sub-Adviser's parent company, ING Groep. The overall design of the NNIP annual incentive plan was developed to closely tie compensation to performance, structured in such a way as to drive performance and promote retention of top talent. As with base salary compensation, individual target awards are determined and set based on external market data and internal comparators. Investment performance is measured on both relative and absolute performance in all areas. NNIP has defined indices and set performance goals to appropriately reflect requirements for each investment team. The measures for each team are outlined on a "scorecard" that is reviewed on an annual basis. These scorecards reflect a comprehensive approach to measuring investment performance versus benchmark(s) over a one year period. The results for overall NNIP scorecards are calculated on an asset weighted performance basis of the individual team scorecards. Investment professionals' performance measures for bonus determinations are typically weighted by 20% being attributable to the overall NNIP performance and 60% attributable to the funds/clients performance (objective) and 20% attributable to their contribution to the team's results (subjective).

(a)(4) Ownership of Securities

The following table shows the dollar range of shares of the Trust owned by each team member as of February 28, 2015, including investments by their immediate family members and amounts invested through retirement and deferred compensations plans.

Ownership:

<b><u>Portfolio Manager</u></b>	<b>Dollar Range of Trust Shares Owned</b>
Manu Vandenbulck	None
Robert Davis	None
Nicholas Simar	None
Edwin Cuppen	None
Willem van Dommelen	None

## Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers

<b>Period*</b>	<b>(a) TOTAL NUMBER OF SHARES (OR UNITS) PURCHASED</b>	<b>(b) AVERAGE PRICE PAID PER SHARE (OR UNIT)</b>	<b>(c) TOTAL NUMBER OF SHARES (OR UNITS) PART OF PUBLICLY ANNOUNCED PLANS OR PROGRAMS</b>	<b>(d)* MAXIMUM NUMBER  (OR APPROXIMATE DOLLAR VALUE) OF SHARES (OR UNITS) THAT MAY YET BE PURCHASED UNDER THE PLANS OR PROGRAMS</b>
MARCH 1-31, 2009	54,541	\$ 9.64	54,541	1,170,459
APRIL 1-30, 2009	0	—	0	1,170,459
MAY 1-31, 2009	0	—	0	1,170,459
JUNE 1-30, 2009	0	—	0	1,170,459
JULY 1-31, 2009	0	—	0	1,170,459
AUGUST 1-31, 2009	0	—	0	1,170,459
SEPTEMBER 1-30, 2009	0	—	0	1,170,459
OCTOBER 1-31, 2009	0	—	0	1,170,459
NOVEMBER 1-30, 2009	0	—	0	1,170,459
DECEMBER 1-31, 2009	0	—	0	1,170,459
JANUARY 1-31, 2010**	n/a	n/a	n/a	n/a
FEBRUARY 1-28, 2010**	n/a	n/a	n/a	n/a
TOTAL	54,541			

The Registrant's repurchase program, which authorized the repurchase of 1,225,000 shares, was announced on \*December 5, 2008. Any repurchases made by the registrant pursuant to the program were made through open-market transactions.

\*\* The repurchase program expired on December 31, 2009

## Item 10. Submission of Matters to a Vote of Security Holders.

The Board has a Nominating Committee for the purpose of considering and presenting to the Board candidates it proposes for nomination to fill Independent Trustee vacancies on the Board. The Committee currently consists of all Independent Trustees of the Board (6 individuals). The Nominating Committee operates pursuant to a Charter

approved by the Board. The primary purpose of the Nominating Committee is to consider and present to the Board the candidates it proposes for nomination to fill vacancies on the Board. In evaluating candidates, the Nominating Committee may consider a variety of factors, but it has not at this time set any specific minimum qualifications that must be met. Specific qualifications of candidates for Board membership will be based on the needs of the Board at the time of nomination.

The Nominating Committee is willing to consider nominations received from shareholders and shall assess shareholder nominees in the same manner as it reviews its own nominees. A shareholder nominee for director should be submitted in writing to the Fund's Secretary. Any such shareholder nomination should include at a minimum the following information as to each individual proposed for nomination as trustee: such individual's written consent to be named in the proxy statement as a nominee (if nominated) and to serve as a trustee (if elected), and all information relating to such individual that is required to be disclosed in the solicitation of proxies for election of trustees, or is otherwise required, in each case under applicable federal securities laws, rules and regulations.

The Secretary shall submit all nominations received in a timely manner to the Nominating Committee. To be timely, any such submission must be delivered to the Fund's Secretary not earlier than the 90th day prior to such meeting and not later than the close of business on the later of the 60th day prior to such meeting or the 10th day following the day on which public announcement of the date of the meeting is first made, by either disclosure in a press release or in a document publicly filed by the Fund with the Securities and Exchange Commission.

#### Item 11. Controls and Procedures.

(a) Based on our evaluation conducted within 90 days of the filing date, hereof, the design and operation of the registrant's

disclosure controls and procedures are effective to ensure that material information relating to the registrant is made known to the certifying officers by others within the appropriate entities, particularly during the period in which Forms N-CSR are being prepared, and the registrant's disclosure controls and procedures allow timely preparation and review of the information for the registrant's Form N-CSR and the officer certifications of such Form N-CSR.

There were no significant changes in the registrant's internal controls that occurred during the second fiscal quarter (b) of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a) (1) Code of Ethics pursuant to Item 2 of Form N-CSR is filed and attached hereto as EX-99.CODE ETH.
- (a) A separate certification for each principal executive officer and principal financial officer of the registrant as
- (2) required by Rule 30a-2 under the Act (17 CFR 270.30a-2) is attached hereto as EX-99.CERT.
- (b) The officer certifications required by Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto as EX-99.906CERT. Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant): Voya Asia Pacific High Dividend Equity Income Fund

By/s/ Shaun P. Mathews  
Shaun P. Mathews  
President and Chief Executive Officer

Date: May 6, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By/s/ Shaun P. Mathews  
Shaun P. Mathews  
President and Chief Executive Officer

Date: May 6, 2015

By/s/ Todd Modic  
Todd Modic  
Senior Vice President and Chief Financial Officer

Date: May 6, 2015