

LUXURY EXPENDITURES POLICY

This policy fulfills the requirements under the American Recovery and Reinvestment Act of 2009 (ARRA) enacted February 17, 2009. ARRA requires each recipient of funds under the Capital Purchase Program (CPP) of the Troubled Assets Relief Program (TARP) to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Department of the U.S. Treasury. All employees of the company and its subsidiaries are subject to and will be held accountable for compliance with this policy.

The Board of Directors of Security State Bancshares, Inc (Bank) prohibits excessive or luxury expenditures on entertainment and events, office or facility renovations, aviation or other transportation services or other activities or events that are not reasonable expenditures for conferences, staff development, reasonable performance incentives or other similar measures conducted in the normal course of business operations of the Bank.

Renovations:

Renovations of facilities and office spaces should be relative to the approved strategic plan and tracked within the capital expenditure policy of the Bank. An exception to this can be allowed if management must deal with an emergency situation, such as an act of nature, and the expenditure is necessary to make the facility operational for customer use. At no time should renovations be done that would have the appearance of being extraordinary or excessive from a shareholder perspective.

Entertainment:

Entertainment is defined as an activity that an Employee or Executive would use corporate funds for business development purposes relating to a current customer(s) or prospective customer(s) or to further enhance the Bank's marketing efforts.

Our expectation is that all expenses incurred to the Bank would be for Bank purposes and used to drive business to the Bank. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, taking them to other events the customer/prospect would find pleasurable is a necessary part of the Bank's marketing efforts and are not deemed as "entertainment" or a violation of Policy. These expenses should be properly documented on any expense report submitted.

Costs for entertainment and events that exceed \$1,000.00 per participant must receive prior approval by submitting a written narrative detailing the benefit to be derived by the bank to a Community Bank President or above.

Companywide, region wide and branch events for employees are considered an important part of the employee appreciation process and necessary for maintaining the positive

corporate culture at Focus Bank. Events such as these should be organized in a quality manner while keeping expenses reasonable.

Recognized trade association conferences, conventions and training, off-site planning meetings and off-site board of directors meetings are considered a normal part of the successful operation of the company and are not considered entertainment events. Procedures for these activities are covered in the Conferences section below.

Conferences:

We encourage our staff to periodically attend conferences that are appropriate educational opportunities. These conferences should be related to the financial services industry and have a direct correlation to their job responsibilities. At times, it may be appropriate for a spouse to travel to a conference with a Bank employee. However, the portion of expense related directly to the spouse, *i.e.*, meals, should be paid personally by the employee. Typically these conferences are sponsored by vendors, banking associations or other industry related entities.

This Policy would exclude reward conferences whether paid for by the Bank or other vendors as a violation of this policy if the purpose is meant to be a reward or would have no value of education to the employee or executive.

Employee Recognition and Holiday Parties:

We feel that employee recognition and holiday parties are part of an employee appreciation process. Holiday parties should be local in geographic nature, and should not cost the Bank more than an average day's payroll per employee, on average.

Board Retreats should only be used for educational purposes, and should be kept in consideration, and analyzed in the same view and discretion as all other expenses. Board education is a vital part of maintaining and keeping a dynamic director base and this policy should not limit the retreat that is focused on strategic planning or education.

Events and parties focused on prospects for the purpose of attracting their business would not fall under this policy.

Aviation Services:

Transportation for Bank staff to outlying locations, including bank locations, conferences, business development purposes and merger and acquisition research, should be conducted in a cost appropriate way for the Bank. The accounting department will maintain, when appropriate, an analysis of trips to determine which mode of transportation is the most appropriate for the Bank and its shareholders. Modes of transportation to be used for the analysis, for example, may consist of vehicle, commercial air service and private air service. A determination of transportation analysis will factor in cost, efficiency and timeliness of travel.

Enforcement:

Any employee, member of management or member of the Board of Directors should submit any suspected violations of this policy promptly in writing to the Internal Auditor for investigation.