Emergency Capital Investment Program Excessive or Luxury Expenditures Policy

Intro

TNB Bancshares, Inc., *a participant in the Emergency Capital Investment Program (ECIP recipient, as defined at 31 CFR 35.21),* and its Subsidiaries ("the Organization") are required to establish and maintain policies designed to eliminate excessive or luxury expenditures.

Any material amendments to this policy must be made in accordance with the provisions set forth in 31
CFR 35.22(d) (Material changes in policies or procedures). If the Organization makes any material amendments to this policy, then the Organization will submit a copy of the amended policy to the Department of the Treasury.

Excessive or Luxury Expenditures Policy

A. Purpose

The purpose of this policy is to establish parameters and internal controls governing the expenditures of the Organization. Expenditures of the Organization should be customary, prudent, consistent with applicable laws and regulations, and reasonably related to the Organization's business objectives and needs. This policy identifies expenditures that are excessive or luxury expenditures, creates processes that are reasonably designed to eliminate such expenditures, and establishes accountability for compliance. Routine operating expenses, capital expenditures, and other expenses customary to the finance industry are not prohibited by this policy.

B. Authority

The Organization has authority to provide compensation and benefits that are reasonable. This policy establishes a prohibition on expenditures that are excessive, or luxury expenditures as required by the Department of the Treasury's Emergency Capital Investment Program regulations (31 CFR Part 35), and as may be required by other statutes and regulations.

C. Responsibility

This policy is the responsibility of the Organization's board of directors (board). The board has approved this policy and will review compliance with this policy no less frequently than annually, and summary data on excessive or luxury expenditures will be reported to the board as part of the compliance review.

D. Scope

This policy applies to all employees, officers, and directors of the Organization regarding any expenditure of the Organization. In making any expenditure on behalf of the Organization, employees, officers, and directors should consider whether the expenditure is an excessive or luxury expenditure that is prohibited under this policy.

E. **<u>ExcessiveorLuxuryExpenditures</u>**

"Excessive or luxury expenditures" means excessive expenditures on any of the following to the extent not reasonable, appropriate, or customary expenditures for business development, customer retention, staff and management development, reasonable performance incentives, or other similar reasonable measures conducted in the normal course of the Organization's business operations:

(1a)Entertainmentorevents

Entertainment is defined as activities for which the Organization's employee would use corporate funds for business development, customer retention and team development purposes relating to current or prospective customers and staff or to enhance the perception of the Organization in the market. This category includes fees, dues, tickets costs related to social, athletic, artistic and dining clubs, activities, and similar expenditures for entertainment purposes. Examples of entertainment activities include taking customers, prospects or staff. to restaurants, sport events, concerts, fishing, hunting and other activities that the customer, prospect, or staff would find enjoyable and provide an opportunity to enhance relationships. Expenditures for charitable contributions and charitable events are not prohibited under this policy. Entertainment expenditures anticipated to be in excess of $2,000 per instance or $5,000 per individual on an aggregate annual basis provided such aggregate annual limit shall be $10,000 for the CEO, President, CFO or COO (referred to hereafter as the Executive Management Team) or in excess of $35,000 per event, must be reviewed and approved by two of the four members of the Executive Management Team. Our expectation is that all expenses incurred for these activities would be for corporate purposes. Expenditures for these purposes in the normal course of business are a necessary part of the marketing and team building efforts of the Organization and are not deemed as "luxury" or a violation of this policy. Prior approval of expenditures for this purpose, that are consistent with Company's prior practices and customary in the finance industry is not required. These expenses should continue to be documented and detailed as to the benefit derived by the Organization and approved through the normal accounts payable process.

(1b) Events, Conferences & Employee Recognition Events

Events are defined to include meetings, conferences and employee recognition events that are intended to provide the board, management and employees with opportunities for individual and team education, development and recognition, business planning, market and industry networking and related business purpose objectives. Meetings may include both those that are internally organized as well as those organized by other banks, trade associations, vendors and similar organizations. Occasionally, meetings are held in restaurants and hotels in order to accommodate the size of the group, facilitate better delivery of the meeting or provide participants with a venue that is most conducive for the meeting's purpose. Directors, management and employees may also participate in meetings hosted by other business partners that have a clear business purpose. The costs associated with meetings must be approved by a member of executive management. Conferences typically offer educational, skill development and industry networking opportunities that enhance participant performance. These conferences should be related to the financial services industry and have a direct correlation to attendee's job. At times it may be appropriate that a spouse would travel to these conferences with Organization attendees. Conference participation in excess of $5,000 is subject to approval by two members of the executive management team. Employee recognition meetings, dinners and events are held occasionally to recognize the contribution of an individual, team or all employees. The cost of such meetings in excess of $5,000 per employee, per instance or in excess of $35,000 in the aggregate per event, must be approved in advance by two members of the Executive Management Team.

(2)Officeandfacilityrenovations

This category includes costs and allowances for office renovation, including expenditures related to furniture, art, office personalization, interior finishing, design and decoration, and similar expenditures. Office and facility renovations should be designed to: enhance operational efficiency; comply with applicable fire codes and ADA requirements; maintain a safe, sanitary and clean working environment; enhance the public image of the Organization; improve employee morale; or such other worthwhile purpose as may be identified by the Organization. Quantitatively office and facility renovations may be deemed excessive if the all-in cost of the renovation exceeds $500 per square foot. By way of example, relocating or adding to movable worker stations, improving the air flow or temperature, altering the wall, ceiling or lighting configuration of a work or storage space, establishing a new headquarters, branch office or sales office are not considered excessive by their very nature. All other office and facility renovations or new construction are permitted only for approved projects by the board. An exception to this policy 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. Renovations must be in all regards consistent with the Organization's historical standards.

(3) Aviation or other transportation services

This category includes charter fees, tickets, slip or docking fees, vehicle installment payments, reservation and travel agent expenses, and similar expenditures associated with transportation services (e.g., airline, train, rental cars, or vans). Aviation and other transportation services for staff to outlying locations, including for conferences, business development purposes and other purposes should be conducted in an efficient and customary manner with all factors considered. Permitted modes of transportation include automobiles and commercial or private air, bus or rail service. The selection of transportation services should include assessment of cost, efficiency, safety and timeliness of travel. Use of Organization's owned, leased, or other interest in car or aircraft are allowed if approved by executive management, and customary in the finance industry.

Expenses for employee use of personal vehicles for Organization's business will be reimbursed at a rate that does not exceed the published Internal Revenue Service mileage rate. Documentation in support of such use must be provided in accordance with applicable policies and procedures. The Organization's lease, ownership and use of an interest in an aircraft in a manner consistent with historic and/or customary practice and in accordance with applicable regulations is permitted under this policy as reasonable and customary expenditures for business development and customer/staff retention.

(4)Taxgross-ups

This category includes any reimbursement of taxes owed with respect to any compensation. This category does not apply to tax equalization agreements for employees subject to tax from a non-U.S. jurisdiction.

(5)Othersimilaritems,activities,oreventsforwhichtheOrganizationmayreasonably anticipateincurringexpensesorreimbursinganemployeeforincurringexpenses.

Expenditures related to other items not listed in the preceding categories anticipated to be in excess of $2,000 per individual, per instance must be reviewed with and approved by two members of executive management team prior to expenditure or reimbursement.

All expenditures covered by this policy shall be documented, reported, supported and subject to audit in accordance with the Organization's policies and procedures.

For the avoidance of doubt, reasonable capital investments in technology, equipment, facilities and similar items that expand the long-term capability of the Organization to provide products and services to its customers and community are not excessive or luxury expenditures. The chief executive officer may establish or delegate to an appropriate executive officer the authority to establish processes for the evaluation and approval of expenditures in the preceding categories that are not luxury or excessive expenditures and that are not otherwise exempt from this policy. These processes must be reviewed by executive management no less frequently than annually, as well as any additional threshold expenditure amounts per item, activity, or event, or a threshold expenditure amount per employee receiving the item or participating in the activity or event under this policy. Such approvals must be reported to the board of directors (which may be in an appropriate summary form) no less frequently than annually.

F. Exceptions or Violations

Any exception or violation of this policy must be promptly reported to the Organization's (i) Chief executive officer, (ii) officer with primary responsibility for the Organization's compliance function, or Exceptions and violations must be reported to the board of directors no less frequently than annually, or more frequently as the nature and severity of violation may warrant. All employees, officers, and directors of the Organization must adhere to this policy and will be held accountable for compliance. Any employee or officer who violates this policy may be subject to disciplinary action up to and including termination of employment.

Any employee or officer that is aware of any circumstance that may indicate a violation of this policy is required to report such circumstance to their supervisor or the Organization's CEO or principal compliance officer. The Organization prohibits retaliation against any employee or officer for making a good faith report of actual or suspected violations of the Organization's code of conduct, laws, regulations, or other Organization policies, including this policy. A finding of retaliation against any such employee or officer may result in disciplinary action up to and including termination. Failure to promptly report known violations by others may also be deemed a violation of the Organization's code of conduct.

Employees and officers may ask questions, raise concerns, or report instances of non-compliance with this policy and/or any of the existing underlying relevant policies by completing the attached Noncompliance Form and emailing it to the following: compliance@texasnational.com

G. Certification

On an annual basis, the Organization will deliver to the Department of the Treasury a certification, executed by two senior executive officers (one of which must be either the Organization's Chief executive officer or Chief financial officer) certifying that (i) the Organization is in compliance with this policy and (ii) the approval of any expenditure requiring the prior approval of any senior executive officer, any executive officer of a substantially similar level of responsibility, or the board of directors (or a committee of such board), was properly obtained with respect to each such expenditure.

Noncompliance Form

Please print and fill out this form completely. We will need a signature and date at the bottom. Once completed please send to: compliance@texasnational.com

Name of Filer: ______________________________

Address of Filer: ______________________________

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Telephone of Filer: ______________________________

Email of Filer: ______________________________

Which section of the policy
are you reporting noncompliance______________________________

Please describe in detail your reason for filing this Non-Compliance Form

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Signature Date