



## **Luxury Expenditure Policy**

### **Purpose**

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The Board of Directors (the "Board") of Southern Heritage Bancshares, Inc./Bank (the "Bank") has adopted this Luxury Expenditure Policy (the "Policy") to be in compliance with the rules and regulations pursuant to the American Recovery and Reinvestment Act of 2009 ("ARRA") which amended the Emergency Economic Stabilization Act of 2008 ("ESSA"). 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. The Department of the Treasury issued an Interim Final Rule 31 CFR Part 30) on June 15, 2009 providing guidance on the scope and areas subject to the luxury expenditures policy required by ARRA. This Policy is intended to strengthen and supplement existing policy and procedures to ensure that Southern Heritage Bancshares, Inc./Bank, as a participant in the CPP, complies with the United States Department of the Treasury requirement to adopt a luxury expenditure policy

### **Scope**

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This policy applies to all employees of the Bancshares, Inc./Bank and covers the following types of expenditures:

- I. Entertainment, Meetings and Events
- II. Office and Facility Renovations
- III. Aviation and other Transportation Services and Travel Related Expenses
- IV. Other Activities or Events

### **Policy**

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Southern Heritage Bancshares, Inc./ Bank prohibits excessive or luxury expenditures on entertainment, meetings and events, office or facility renovations, aviation or other transportation services and travel related expenses 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 Southern Heritage Bancshares, Inc./Bank. All expenditures by the Bank must have a legitimate business purpose, follow a defined approval process, and be reasonable in nature and amount as determined by management or the Board as required by the Policy.

## **Role and Responsibilities of the Board of Directors**

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The Board of Directors is required by the TARP Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30) to adopt a policy regarding excessive and luxury expenditures. The Board has oversight responsibility for the Bank's compliance with the requirements of TARP Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30). In support of its oversight responsibilities, the Board shall have the following roles:

1. The Executive Committee (the "Committee") of the Board must review and recommend to the full Board of Directors approval of this policy on an annual basis, or, in the event of subsequent amendments to the TARP Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30), in such time frame required by the amendment.
2. The Board of Directors must review and approve this policy on an annual basis, or, in the event of subsequent amendments to the TARP Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30), in such time frame required by the amendment.
3. The Committee shall review any exceptions to this policy at the next regularly scheduled meeting subsequent to the granting of the exception.

## **Role and Responsibilities of Executive Management**

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Executive management is responsible for the effective implementation of this policy. To that end, executive management shall have the following roles:

1. Monitor expenditures addressed by this policy to ensure compliance with this policy.
2. Document and justify any exceptions to this policy and report exceptions to the Compensation Committee of the Board.
3. Promptly recommend modifications of this policy to the Committee to ensure it remains compliant with the TARP Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30) as it may be amended.

Ensure that this policy is posted on the Bank's website – [www.southernheritagebank.com](http://www.southernheritagebank.com)

## **Prohibited and Allowable Expenditures**

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### **I. Prohibited Expenditures**

The following expenditures are deemed excessive and are prohibited:

1. Expenditures for office furnishings, remodeling or redecoration, the aggregate cost of which exceeds \$50,000 for any executive officer considered an SEO according to the CPP, TARP, ARRA or EESA. This prohibition does not extend to a general corporate relocation or remodeling impacting a majority of the corporate offices or a newly constructed branch, branch renovation or branch relocation.

2. Expenditures for use of a private airplane, except in emergency situations with the approval of the Chief Executive Officer who must then provide notice to the Chairman of the Bank's Board as soon as practicable after the occurrence.

## II. Allowable Expenditures

The following expenditures are allowable subject to prior approval or if in the normal course of business and consistent with the Bank's prior practices are not deemed a "luxury" or a violation of this Policy, though prior approval may be necessary or appropriate.

1. **Entertainment** is defined as activities for which an employee or management would use corporate funds for business development purposes relating to current or prospective customers or to enhance the Bank's reputation in the market. Our expectation is that all expenses incurred for these activities would be for corporate purposes with the objective of attracting business to Southern Heritage Bank. Examples of entertainment include taking customers or prospects to restaurants, theater, sports events, concerts, golf, and other activities that the customer/prospect would find enjoyable and provide an opportunity to enhance business relationships. Expenditures for these purposes in the normal course of business are a necessary part of the Bank's marketing efforts and are not deemed as "luxury" or a violation of this Policy. Prior approval of expenditures for this purpose, as long as consistent with the Bank's prior practices, is not required, except as noted below. These expenses should continue to be documented and detailed as to the benefit derived by the Bank through the normal accounts payable process. Entertainment and event expenditures anticipated to be in excess of \$1,000 must be reviewed with and approved by a member of executive management prior to expenditure.
2. **Meetings and 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, Bank organized meetings are held in facilities or locations not owned or leased by the Bank, such as 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 included in the Board approved annual plan. 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 the attendee's job. At times it may be appropriate that a spouse would travel to these conferences with attendees. Typically these conferences are sponsored by vendors, banking associations or other industry related entities. Conference participation is subject to approval by a member of executive management. 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 must be approved in advance by a member of executive management.

3. **Office and Facility Renovations** are permitted only for approved projects that are part of the corporation's Board approved annual financial plan. 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, or to remediate emergency or hazardous conditions, to comply with building codes and ordinances, to satisfy legal, contractual or regulatory requirements, or are expenditures under the Board approved capital budget. Renovations must be in all regards consistent with the Bank's historical standards of utility and finish. At no time should renovations be done that would have the appearance of being extraordinary, or excessive from a shareholder perspective.
4. **Aviation and Other Transportation Services and Travel** related expenses for employees of the Bank to outlying locations, including for conferences, business development purposes and other purposes should be conducted in the most appropriate manner. Permitted modes of transportation include automobiles and commercial air, bus or rail service. The selection of transportation services should include assessment of cost, efficiency and timeliness of travel. Private air services are not allowed without the approval of the Chief Executive Officer, CFO or Board Chairman. The Bank does not own corporate aircraft or own fractional interest in corporate aircraft. The Bank does not provide chauffeured automobiles for everyday use. Employees should adhere to the following guidelines whenever possible:
  - I. When traveling on Bank business, air travel reservations should be made so as to secure the best available fare consistent with the reasonable time of travel and convenience requirements for the trip.
  - II. All air travel should be coach class unless the duration of the trip and the working requirements of the employee or employees on the trip, or available flight schedules necessitate first class or business class travel. All expenditures for first class or business class travel must be approved in advance by the CEO CFO or Board Chairman.
  - III. From time to time, officer workload, scheduling or other circumstances may necessitate a chartered flight in lieu of a commercial flight. The surrounding circumstances requiring a chartered flight, including the estimated cost thereof, should be well-documented and approved in advance by the CEO, CFO or Board Chairman.
  - IV. When needed for Bank business, Bank personnel may, but are not required to, rent a vehicle if it is less expensive than other available modes of transportation such as taxis, limousines and airport/hotel shuttles or when travel requirements necessitate having the flexibility of a rental car. Whenever multiple employees are traveling together, every effort to ride share or carpool should be made.

- V. Bank executive officers may contract for a chauffeured limousine when traveling on Bank business only if the requirements of the trip dictate such need and only with the prior approval of the CEO, CFO or Board Chairman.
  - VI. The standard rate for mileage reimbursement for directors and employees using their personal vehicles for business purposes is the IRS guideline in effect at the time of travel. Mileage should be tracked from the beginning point of travel (home or office) to the point of destination for business of the Bank. Directors and employees will be reimbursed for parking and tolls when these expenses are required in the course of business related travel.
  - VII. Employees and directors are encouraged to avoid overnight stays when one-way travel time for a one day meeting is two hours or less. Exceptions are conferences, group meetings, etc. that have been previously approved by the employee's supervisor, CEO, CFO or Board Chairman. When possible, all lodging should be booked through the appropriate personnel with knowledge of any corporate rates or discounts the Bank has negotiated with selected hotels. Personal expenses not related to Bank business will not be reimbursed by the Bank.
  - VIII. The Bank will reimburse directors and employees for reasonable meal expenses that are incurred during business related travel. The maximum reimbursement for meals is the IRS guideline in effect for that city when incurred during out-of-town business travel that includes overnight lodging. The maximum reimbursement for meals per day when an overnight stay does not occur is \$54. Receipts will be required on meals of \$25 or more. The cost of alcoholic drinks will not be reimbursed.
5. **Other Activities or Events** for which the Bank may incur expenses, or reimburse an employee for incurring expenses, which are not specifically addressed elsewhere in this policy shall be for legitimate business purposes and reasonable in nature and amount. Reasonable expenditures for staff development, performance incentives in accordance with written plans and policies or other similar expenditures incurred in the normal course of business must be approved by the CEO, CFO, or Board Chairman.

## **Reporting Procedures and Certifications**

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The Internal Audit Department shall establish internal controls to ensure compliance with this Policy. The process for approving and reporting expenditures covered by this policy, as well as the actual amount of expenditures incurred, may be subject to audit by the Bank's internal audit staff to confirm policy compliance

No less than annually, the Chief Executive Officer shall provide a report to the Compensation Committee on the status of this Policy.

The CEO and Chief Financial Officer shall certify within 90 days of the completion of each fiscal year of the Bank that the approval of any expenditure under this policy requiring the prior approval of any senior executive officer, any executive officer of a substantially similar level of responsibility, or the Bank's board of directors (or a committee of the board of directors) was

properly obtained with respect to each such expenditure. This certification shall be provided to the Department of the Treasury and to the Bank's primary Federal Regulator.

## **Violations of Policy**

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Any individual who violates this Policy, or knows of any such violation by any other individual, must report the violation immediately to such individual's supervisor, in writing, who shall then report the violation to the CEO or to the Chairman of the Board (if an alleged CEO violation). The CEO or Chairman will discuss the suspected or actual violation at the next regularly scheduled meeting of the Audit Committee. The Audit Committee will investigate the suspected or actual violation of this Policy in accordance with its procedures established for investigating complaints regarding improprieties in the Bank's accounting, internal accounting controls or auditing matters. The Audit Committee will report to the Board at its next regularly scheduled meeting with respect to any reported violations and any recommended corrective actions. Reports of violations received under this Policy, together with any and all documents pertaining to the investigation and resolution of the violation, as well as all records to substantiate each certification, shall be retained by the Bank according to previously established standards for record retention, but for not less than six years after the date of certification.

Violation of this Policy shall subject an employee to discipline up to and including termination.

## **Amendments and Modifications**

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This Policy shall be subject to modification only with the approval of the Board of Directors stating the specific business rationale for the change in policy.

## **Effective Dates**

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This Policy shall be effective September 1, 2009 and shall remain in effect through the last day on which the Bank has an outstanding obligation under the CPP to Treasury (but not including warrants to purchase the common stock of the Bank).

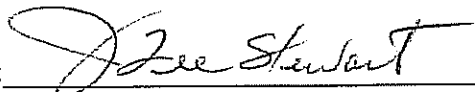
## Certification

Policy: Luxury Expenditure Policy

Revision Date: August 20, 2009

Date Adopted: September 1, 2009

This is to certify that the Luxury Expenditure Policy was presented to the Board of Directors of Southern Heritage Bank at its regularly scheduled meeting held on August 20, 2009.

Attest :   
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J Lee Stewart, President & CEO