

## LUXURY EXPENDITURE 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.

Frontier Bancshares (Company) and its subsidiaries, Horizon Bank and Self-Directed IRA Services, prohibit excessive or luxury expenditures on entertainment and events, office or facility renovations, aviation or other transportation services, conferences, staff development, performance incentives or other similar measures conducted in the normal course of the business operations of Frontier Bancshares, Horizon Bank and/or Self-Directed IRA Services.

### **Renovations**

Renovations of facilities and office spaces should be consistent with the current approved strategic plan and tracked within the capital expenditures policy of the Company. An exception to this rule will be allowed if management must deal with an emergency situation, such as an act of God, and the expenditure is necessary to make the facility operational for customer use.

At no time should renovations be made that might appear extraordinary or excessive from a shareholder perspective.

### **Entertainment**

Our expectation is that all entertainment expenses incurred by the Bank will be for business development purposes. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, or taking them to other events that they might find enjoyable is a necessary part of the Company's marketing efforts and is not deemed as "entertainment" or a violation of the Luxury Policy. These expenses and the benefit derived by the bank should be documented.

### **Conferences**

We encourage our staff to attend appropriate educational conferences. These conferences should be related to the financial services industry and have a direct correlation to the employee's job. At times it may be appropriate that a spouse would travel to these conferences with Company attendees. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities.

This Policy prohibits reward conferences, whether paid for by the Company or a vendor, if the purpose is meant to be a reward, or would have no job related educational value to the employee or executive.

**Holiday Parties**

Holiday parties are considered to be an important part of our employee appreciation program. Holiday parties are to be local in geographic nature and should not cost the Company more than an average day's payroll per employee. For example, a payroll of \$3.5m annually, divided by 260 days, would equal \$13k in available funds for a holiday party.

Board Retreats should only be used for appropriate educational purposes and should be viewed with the same 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 retreats that are focused on strategic planning or education.

Events and Parties focused on prospective or existing clients for the purpose of attracting or retaining their business would not fall under this policy.

**Transportation**

Transportation for Company staff to offsite locations, including travel to other bank branches, conferences, or travel for business development purposes and/or merger and acquisition research, should be conducted in the most cost appropriate way. The accounting department will maintain, when appropriate, an analysis of the cost of the various modes of transportation to determine which is the most appropriate and cost effective. Modes of transportation to be used for the analysis may consist of automobile, commercial air service and/or private air service. The transportation analysis will factor in cost, efficiency and timeliness of travel.