

## Commonwealth Bancshares

### Excessive or Luxury Expenditures Policy

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**Last Board Approval Date:**

**February 16, 2011**

**Policy Maintenance Responsibility:**

**Chief Financial Officer**

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#### Statement of Purpose

The American Recovery and Reinvestment Act of 2009 (ARRA) requires each recipient of funds under the Capital Purchase Program (CPP) of the Troubled Assets Relief Program (TARP) to have in place an enterprise-wide policy regarding excessive or luxury expenditures pursuant to 111(d), §302.12 (Q-12).

The Board of Directors and Management of Commonwealth Bancshares (Company) and its subsidiaries, Commonwealth Bank & Trust Company, First Security Trust Bank, and SMC Capital understand the necessity of using corporate assets in a prudent manner and are precluded from engaging in excessive or luxury expenditures. Strictly prohibited are excessive or luxury expenditures on office or facility renovations, entertainment, events or conferences, aviation and other transportation services, and other activities that are not reasonable expenditures for the normal course of business operations.

#### Policy Objective

This Policy's objective is to adhere to all requirements of the CPP.

#### Coordination of Policies

The Board recognizes the interrelationship among a number of its policies. Accordingly, the Board expects a coordination of this Policy with other Company policies, as applicable.

#### Identification of Categories

Excessive or luxury expenditures can occur in the following areas:

- Office and facility renovations
- Entertainment
- Events and conferences
- Aviation and other transportation services
- Other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives, or other similar measures conducted in the normal course of business

All expenditures in these areas must be reasonable and appropriate.

#### *Renovations*

Renovations must be in accordance with the Board approved capital expenditure budget. An exception is allowed if an emergency situation develops, such as an act of nature, and circumstances dictate that expenditures are necessary to make the facility operable. At no time will renovations be done that would appear to be extravagant or excessive.

#### *Entertainment*

Entertainment is defined as employees or directors using corporate funds for business development purposes. Business development includes activities related to current customers or prospective customers, as well as those designed to further enhance the Company's marketing efforts. Funds expended must be reasonable and in line with amounts budgeted to retain and attract business. Entertainment expenses will be documented and include details describing the derived business benefit.

#### *Events and Conferences*

All proposed events organized by the Bank must serve one or more legitimate business purposes, which includes employee appreciation. The cost of each proposed event must be reasonable and included in the Board approved budget.

Employees may attend conferences and events that are appropriate educational opportunities. The associated expenses are usually included in a Board approved operating budget. These activities must relate to the financial services industry and should correlate to job responsibilities. Employees must follow standard operating procedures to obtain authorization for attendance and must complete a detailed expense report to obtain reimbursement.

*Aviation and Other Transportation Services*

The Company will not own an airplane, and employees requiring air transportation will use commercial airlines. If private aviation services are used, the employee or director will be reimbursed only for an amount that is equivalent to reasonable commercial air fare available to and from the destination for the same time period.

Employees or directors using their personal vehicles for business purposes will be reimbursed based on the IRS standard mileage rates in effect at the time of travel. Parking and toll fees will be reimbursed when they are incurred in the course of business related travel.

Reimbursement for transportation related expenses incurred by an employee or director in the ordinary course of business must be documented on an expense reimbursement form or similar document and approved by the employee's immediate supervisor or other authorized individual. The Finance Department must receive an appropriately documented and authorized form before reimbursing the employee or director.

*Other Activities*

All other activities or events that are not reasonable expenditures for staff development, performance incentives in accordance with written plans, business development, or incurred in the normal course of business must be approved in advance by the CEO, COO, or CFO.

Other Requirements

In accordance with ARRA, a copy of this Policy will be provided to the Treasury Department and placed on appropriate websites.

Policy Compliance

The Internal Audit will monitor compliance with this policy based on Audit Schedule.

Violations

All employees and directors must strictly adhere to this policy. Any employee or director who violates this Policy will be subject to disciplinary action up to and including termination of employment or removal from the Board of Directors, respectively. Any individual who violates this Policy, or knows of any violation by another individual, must report the violation immediately to the Internal Audit Department. Internal Audit will investigate the allegation and report its findings to the Audit Committee.