

FIRST STATE BANK
LUXURY EXPENDITURE POLICY

APPROVED: June 23, 2009

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.

First State Bank, Mobeetie, Texas, 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 measure conducted in the normal course of business operations of First State Bank, Mobeetie, Texas.

Renovations:

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 \$200 per square foot. By way of example, relocating or adding to movable worker stations, improving the air flow or temperature, altering the wall, ceiling lighting configuration of a work or storage space, establishing a new branch office or sales office are not considered excessive by their very nature.

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 company's marketing efforts.

Our expectation is that all expenses incurred to the Bank would be for company 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 Company's marketing efforts and is deemed as "entertainment" or a violation of the

Luxury Policy. These expenses should be documented and detailed as to the benefit derived by the Bank.

Conferences:

We encourage our staff to 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. 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 would EXCLUDE reward conferences whether paid for by the Company 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.

Holiday Parties:

We feel that holiday parties are part of an employee appreciation process. Holiday parties should be local in geographic nature and should not cost that Company 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 looked at 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 a retreat that is focused on strategic planning or education.

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

Aviation Services:

Transportation for Company staff to outlying locations, including bank locations, conferences, business development purposes and merger and acquisition research, should be conducted in the most cost appropriate for the Company.