

LONE STAR BANK
Houston, Texas

Limitation on Luxury Expenditures Policy

July 2011

Section 111 of the Emergency Economic Stabilization Act of 2008 (12 U.S.C. 5221) requires that recipients of TARP investments develop a written policy placing certain limitations on what certain individuals or government agencies may deem to be luxury expenditures. This policy is not intended in any way to limit or restrict the normal and customary expenditures for business development, employee moral or training or the ongoing operation of the bank or the company.

Sponsorship of excessive entertainment or events is prohibited. This includes both foreign and domestic junkets that do not serve a demonstrated business purpose. Excessive entertainment or an excessive event is quantitatively defined as any single occurrence or event where the per capita expenditure exceeds \$2,000. By way of example, the Sheshunoff CEO Roundtable, recognized trade association conferences, conventions and training, off-site planning meetings and off-site board of directors meetings are considered a normal part of the successful operation of the bank and the company and are not considered excessive events.

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 or lighting configuration of a work or storage space, establishing a new branch office or sales office are not considered excessive by their very nature.

Excessive aviation or other transportation services expenditures are prohibited. The organization will not purchase or enter into a lease of greater than 12 months on any fixed wing aircraft, rotary-wing aircraft, watercraft, rail car, or over the road vehicle with seating for eight or more individuals without prior board approval.

Expenses for activities or events should enhance staff development, provide reasonable performance incentives for employees, or otherwise be conducted in the normal course of the operation of the business. Expenditures of this type maybe made in the sole discretion or the chief executive officer, the president or their designated agent and are not considered excessive.