

**BNB FINANCIAL SERVICES CORPORATION  
AND  
BNB NATIONAL BANK**

**EXCESSIVE OR LUXURY EXPENDITURES POLICY**

**Effective September 14, 2009**

## **EXCESSIVE OR LUXURY EXPENDITURES POLICY**

It is the policy of BNB Financial Services Corporation (the “Parent”) and its bank subsidiary, BNB National Bank (the “Bank”) (collectively the “Company”) to adhere to the following principles and practices related to excessive or luxury expenditures.

It is the policy of Company that excessive or luxury expenditures, defined as expenditures that are not reasonable expenditures for staff development, reasonable performance incentives or other similar reasonable measures conducted in the normal course of the Company's business, shall be prohibited.

All expenditures by the Company 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 of directors as required herein.

In the normal course of business, the Company provides expense reimbursement to employees for business related expenses in reasonable amounts. To be reimbursed for such legitimate business expenses, the employee must comply with such proper documentation requirements, approval processes and timing of reimbursements as may be established by the Company from time to time.

This Excessive or Luxury Expenditures Policy is intended ensure compliance with United States Department of the Treasury standards prohibiting excessive or luxury expenditures as applicable to the Company.

### **I. Entertainment and Events.**

Entertainment is defined as an activity that an associate would use corporate funds for business development purposes relating to a current customer or prospective customer, or to further enhance the Company’s marketing efforts.

Legitimate expenditures for entertainment and events may include, but are not limited to, the following:

- Investor relations trips, conferences and meetings.
- Annual shareholders meetings.
- Board of directors meetings, both on and offsite.
- Management or employee meetings called by appropriate Company personnel for legitimate business purposes.
- Conferences, schools, or other professional development activities.
- Training and staff development meetings to improve participants' skills and/or their familiarity with the Company's products or services, procedures and policies, and corporate values.
- Employee recognition programs to motivate and reward employees for achievement and/or productivity.

- Customer meetings or Company sponsored events to offer the Company's products or services, obtain feedback, show appreciation to customers or for other legitimate business purposes.
- Company sponsored events that advance charitable or civic purposes where the Company can enhance its public image while supporting the local community and fulfilling its obligation for good corporate citizenship.
- Employee meetings as a result of Company mergers and/or acquisitions.
- Company-sponsored holiday parties for all associates, which parties should be local in geographic scope.

All such expenditures must be for legitimate business purposes and reasonable in nature and amount. Expenditures shall be approved by the CFO or the CEO. Additionally, certain expenditures related to the above must be approved in advance by the board of directors or by the Executive Committee of the board as follows:

- A. Any corporate event such as a shareholder meeting, board meetings, holiday parties or any other corporate event sponsored by the firm where the objective of the event is for client, shareholder, investor or associate appreciation or development and the aggregate cost of the event is anticipated to exceed \$5,000. Normally, these expenses will be paid by the Company directly through its accounts payable procedures and not through associate reimbursement.
- B. Any individual expenditure for business related travel (including costs for transportation, lodging, meals, tuition, registration, etc.) whereby the associate expects the firm to reimburse the associate for costs incurred and the aggregate expenditure is anticipated to exceed \$5,000.

The CEO and CFO shall be responsible for implementing adequate controls to assure that all entertainment and/or event expenses paid by the Company are for legitimate business purposes, are reasonable in nature and amount and are not excessive. All entertainment and/or event expenses shall be properly documented. The more substantial the expenditure, the more thorough the documentation required. Matters related to expenditures requiring board of directors or a designated committee of the board approval shall be documented in the minutes of the board or committee meeting along with the business purpose(s) and the anticipated benefits to the Company before such expenditure is incurred. Any entertainment and/or event expense that does not serve a legitimate business purpose or is not reasonable in nature and amount shall not be approved under any circumstance.

## **II. Office and Facility Renovation.**

Any office and facility renovations shall be undertaken pursuant to board-approved capital expenditure policies and procedures, including board or designated board committee approval of expenditures above \$10,000. 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. At no time should individual offices or renovations be done that would appear to be excessive relative to the Company's business or from a shareholder's perspective.

## **III. Aviation or Other Transportation Services.**

The Company does not own corporate aircraft or own fractional interest in corporate aircraft. The Company does not provide for everyday use either chauffeured automobiles or personal luxury vehicles

- When traveling on Company 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.
- All air travel must be coach class unless authorized by the CEO or CFO to travel otherwise.
- When needed for Company business, Company personnel may, but are not required to, rent a vehicle if the cost to do so (including fuel, insurance and operating costs) 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.
- Company executive officers may contract for a chauffeured limousine when traveling on company business only if the requirements of the trip dictate such need.
- At times it may be appropriate that a guest (including spouse, family members and other guests) would travel to these conferences with company attendees. In these situations, a good faith effort should be made to separate guest expenses from the company personnel expenses. This should include any incremental cost associated with travel, lodging, meals, entertainment, etc. Costs allocated to guest travel should be paid out of pocket or reimbursed within 30 days of the event.

## **IV. Other Activities or Events.**

Other similar items, activities or events for which the Company may incur expenses, or reimburse an employee for incurring expenses, which are not specifically addressed elsewhere in this policy (e.g. performance incentives) shall be for legitimate business purposes and reasonable in nature and amount. All meetings, conferences or events attended by senior executives (as defined by

applicable Treasury Department guidelines) and/or board members shall be devoted to specific business purposes and well-documented and the cost for such event, item or activity shall not be excessive or unreasonable. Participating senior executives and board members shall be responsible for any expenses incurred for non-business related activities, and shall promptly reimburse the Company for any such expenses if paid by the Company.

### **Required Reporting**

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 Company's internal audit staff to confirm policy compliance.

Any violations or departures from policy requirements shall be promptly reported to the CEO or CFO. In such cases, the CEO or CFO will determine if a violation or departure occurred and if so, report such violation or departure to the board of directors or the firm's audit committee. The CEO or CFO shall keep a record of all matters reported to them pursuant to this policy and submit the record to the firm's internal audit staff for review with the policies herein. Violations or departures from this policy by the CEO or CFO should be promptly reported to the board of directors through any member of the audit committee of the board of directors.

The CEO and CFO, as applicable, shall certify, at least annually, 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 Company's board of directors (or a committee of the board of directors) was properly obtained with respect to each such expenditure.