



Excessive and Luxury Expenditure Policy

Policy Objectives

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 bank-wide policy regarding excessive or luxury expenditures. As identified by the Secretary of the Department of the U.S. Treasury, the term “excessive or luxury expenditures” means excessive expenditures on any of the following to the extent such expenditures are not reasonable expenditures for staff development, reasonable performance incentives, or other similar reasonable measures conducted in the normal course of the TARP recipient’s business operations:

- (1) Entertainment or events;
- (2) Office and facility renovations;
- (3) Aviation or other transportation services; and
- (4) Other similar items, activities, or events for which the TARP recipient may reasonably anticipate incurring expenses, or reimbursing an employee for incurring expenses.

Role of the Board of Directors

The Board of Directors is required by the TARP Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30) to adopt a policy regarding excessive and luxury expenditures. The Board has oversight responsibility for Guaranty Bank’s compliance with the requirements of TARP Standards for Compensation and Corporate governance as defined by the Department of the Treasury (31 CFR Part 30).

Role of Executive Management

Executive management is responsible for the effective implementation of this Policy. To that end, executive management shall have the following roles:

1. Monitor expenditures addressed by this Policy and ensure compliance.
2. Document and justify any exceptions to this Policy and report exceptions to the Compensation Committee of the Board.
3. Promptly recommend modifications of this Policy to the Compensation Committee to ensure it remains compliant with the TARP Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30) as it may be amended.
4. Ensure that this Policy is posted on the Guaranty Bank website.

Policy Statement

It is the policy of Guaranty Bank that excessive or luxury expenditures on entertainment or events, office and facility renovations, aviation or other transportation services, and other similar items, activities or events for which the bank may reasonably anticipate incurring expenses or reimbursing an employee for incurring expenses are prohibited to the extent that such expenditures are not reasonable expenditures for staff development, reasonable performance incentives, or other similar reasonable measures conducted in the normal course of business. In the normal course of business, the bank 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 proper documentation requirements, approval processes and timing of reimbursements as employed in existing expense reimbursement practices.

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 or prospective customer, or to further enhance the bank's marketing efforts.

Our expectation is that all expenses incurred by Guaranty Bank would be for bank purposes, and used to generate business for the bank. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, or taking them to other events the customer/prospect would find enjoyable is a necessary part of the bank's marketing efforts and is not deemed as "luxury" or a violation of this Policy. Prior approval of expenditures for this purpose that are consistent with Guaranty Bank's prior practices is not required. However, entertainment and event expenditures anticipated to be in excess of \$1000 must be reviewed with and approved by a member of executive management prior to expenditure. These expenses should continue to be documented and detailed through the normal accounts payable process.

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 the employee's job function. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities. Guaranty Bank will only incur the cost of such educational opportunities if appropriately approved by the employee's direct supervisor or a member of executive management.

Employee Recognition/Holiday Parties

Employee recognition/holiday parties are part of an employee appreciation process. These events should be local in geographic nature, and would include costs for such things as service awards and nominal door prizes. The cost of such meetings must be approved in advance by a member of executive management.

Board/Management Retreats

Retreats should only be used for educational or business planning purposes and should be considered the same as all other expenses for discretionary purposes. Board education is a vital part of maintaining a dynamic director base and this policy should not limit a retreat that is focused on strategic planning or education.

Renovations

Renovations of facilities and office spaces should be relative to the approved project and current profit plan, and tracked appropriately. 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 renovations be done that would have the appearance of being extraordinary, or excessive from a shareholder perspective.

Transportation Services

Transportation for bank personnel to outlying locations, including bank locations, conferences, business development purposes and merger and acquisition research, should be conducted in the most cost appropriate way for the bank. Modes of transportation to be used may consist of vehicle, commercial air or rail service. The selection of transportation services will factor in cost, efficiency and timeliness of travel. Private air services are not allowed without the approval of the Chairman of the Board for Guaranty Bank.

Administration

The chief financial officer (CFO) is responsible for the day-to-day administration of this Policy, and the chief executive officer (CEO) is accountable for overall adherence to this Policy and must approve any exceptions. Strict adherence to this Policy is mandated for all Bank employees. 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 Bank's internal audit staff to confirm policy compliance. Following any approval of private air services by the Chairman, the CFO and the CEO shall certify that such approval was obtained and such certification shall be maintained in the Bank's corporate records. Annually, the CEO and CFO will be required to certify compliance with this policy. Violations of this Policy shall be promptly reported to the Board of Directors.

Applicability

All employees of Guaranty Federal Bancshares, Inc. and Guaranty Bank are required to comply with this policy. Failure to comply with this policy could result in disciplinary action or termination of employment.