

Excessive Expenditures Policy of Magnolia State Bank

Dated: November 18, 2010

As a participant in the [Capital Purchase Program (the “CPP”)] [Community Development Capital Initiative (the “CDCI”)] being administered by the United States Department of the Treasury (“Treasury”), Magnolia State Bank is adopting this Excessive Expenditures Policy (this “Policy”) pursuant to the requirements of the American Recovery and Reinvestment Act of 2009, as implemented by Treasury at 31 C.F.R. Part 30. Once this Policy has been adopted, a copy of this Policy will be provided to Treasury and the F.D.I.C. and the text of this Policy will be posted on Magnolia State Bank’s Internet website. Moreover, Magnolia State Bank will maintain this Policy during the remainder of its [CPP] [CDCI] participation, and, in the event the Board of Directors adopts any material amendment to this Policy, within 90 days of such amendment Magnolia State Bank will provide the amended policy to Treasury and the F.D.I.C and will post the amended policy on Magnolia State Bank’s Internet website.

I. INTRODUCTION

It is the overall policy of Magnolia State Bank to prohibit 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 Magnolia State Bank’s business operations:

- Entertainment or events;
- Office and facility renovations;
- Aviation or other transportation services; and
- Other similar items, activities, or events for which Magnolia State Bank may reasonably anticipate incurring expenses, or reimbursing an employee for incurring expenses.

This Policy is not intended to apply to *bona fide* business development or marketing expenditures, provided that the expenditure in question does not involve the conferring of a significant benefit on any employee or group of employees of Magnolia State Bank.

The following policies and procedures shall govern such expenditures.

II. PROHIBITED EXPENDITURES

The following types or categories of expenditures are prohibited:

- Entertainment, where the expenditure amount exceeds \$25,000 per item, activity, or event or per employee receiving the item or participating in the activity or event;
- Events or sponsorship of events, where the expenditure amount exceeds \$25,000 per item, activity, or event or per employee receiving the item or participating in the activity or event;

- Office or facility renovations, where the expenditure amount exceeds \$1,000,000 per item, activity, or event or per employee receiving the item or participating in the activity or event;
- Aviation services, where the expenditure amount exceeds \$10,000 per item, activity, or event or per employee receiving the item or participating in the activity or event;
- Other transportation services, where the expenditure amount exceeds \$5,000 per item, activity, or event or per employee receiving the item or participating in the activity or event; and

III. EXPENDITURES REQUIRING PRIOR APPROVAL

The following types or categories of expenditures require prior approval (in accordance with the procedures described in part IV below):

- Entertainment, where the expenditure amount exceeds \$2,500 per item, activity, or event or per employee receiving the item or participating in the activity or event;
- Events or sponsorship of events, where the expenditure amount exceeds \$2,500 per item, activity, or event or per employee receiving the item or participating in the activity or event;
- Office or facility renovations, where the expenditure amount exceeds \$25,000 per item, activity, or event or per employee receiving the item or participating in the activity or event;
- Aviation services, where the expenditure amount exceeds \$2,000 per item, activity, or event or per employee receiving the item or participating in the activity or event;
- Other transportation services, where the expenditure amount exceeds \$1,000 per item, activity, or event or per employee receiving the item or participating in the activity or event

IV. APPROVAL PROCEDURES

Before incurring expenses in an amount exceeding \$1,000 that would fall into any of the categories described in Section III of this Policy, a written request for prior approval of such expenditure (the “Proposed Expense”), including documentation of the business purpose for the Proposed Expense, should be submitted to the President and CEO or Chairman of the Bank for determination if the expenses is an “excessive or luxury expenditure” and for approval of the expense.

V. CEO CERTIFICATION OF APPROVALS

With respect to each expenditure requiring the prior approval as stated above, the Chairman or CEO will certify in writing that the approval of such expenditure was properly obtained.

The CEO, or his designee, will prepare a report of all Approved Expenses to be submitted to the Board of Directors on a regular basis, but at a minimum annually. This report will include the amount of such expense and a statement justifying this amount.

VI. PROMPT REPORTING OF, AND ACCOUNTABILITY FOR, VIOLATIONS

If any employee of Magnolia State Bank becomes aware of a violation of this Policy, he or she must promptly report the violation to the Bank Internal Auditor. Upon receiving such a report, the Bank Internal Auditor must then conduct a discreet investigation, preliminary in nature, of the facts and circumstances giving rise to the allegation. If, after an appropriate investigation, the Bank Internal Auditor concludes there is a substantial likelihood that a violation has occurred, then the Bank Internal Auditor must submit to the Board of Directors a written report describing (i) the alleged violation, (ii) the Internal Auditor's preliminary investigation into the allegation, and (iii) the reasons for the Internal Auditor's conclusion that there is a substantial likelihood that a violation of this Policy has occurred. Upon receiving this written report, the Board of Directors will conduct a full inquiry into the facts and circumstances giving rise to the allegation.

If, after conducting a full inquiry into the facts and circumstances giving rise to the allegation, the Board of Directors determines that a violation of this Policy has occurred, the offending employee must be appropriately held accountable for the violation, in accordance with existing disciplinary policy.