

**Bern Bancshares, Inc.**  
**Excessive or Luxury Expenditures Policy**  
**for TARP Compliance**  
**December 29, 2009**

Bern Bancshares, Inc. (the "Company") has applied for and received financial assistance under the Troubled Asset Relief Program ("TARP") of the U.S. Department of the Treasury (the "Treasury"). As a condition of receiving such financial assistance, the Company is required to comply with the Treasury's regulations issued pursuant to TARP (the "TARP Regulations"). The TARP Regulations require that the Company adopt a Company-wide policy regarding excessive or luxury expenditures. Therefore, effective until the last date upon which any obligation arising out of such financial assistance remains outstanding (disregarding any warrants to purchase common stock of the Company that the Treasury may hold), the following rules shall apply to employees and directors of the Company and any other entity that is treated as part of the TARP Recipient (as defined in the TARP Regulations) and all references to the Company shall include any entity that is part of the TARP Recipient, unless the context requires otherwise.

**I. Expenses Which Are Prohibited or Which Require Prior Approval**

Bern Bancshares, Inc (Company) and its subsidiary the State Bank of Bern, prohibit 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 Bern Bancshares, Inc. or the State Bank of Bern.

*A. Entertainment or Events*

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.

Acceptable entertainment or event expenses include meals, drinks, facility or equipment rental, hiring of temporary entertainment staff, or tickets or admission costs associated with entertainment events. Any other type of entertainment or event expense which is not listed in the preceding sentence is subject to approval by the Company.

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 not 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.

*B. Office and Facility Renovations*

No expenses incurred for the renovation of any office or other facility of the Company shall be approved unless such renovation is:

- (1) part of a renovation of all or a part of a facility of the Company necessary to improve the appearance, functionality, or both of such facility in a manner designed to improve service of the Company or attract or retain the business or services of Business Associates.
- (2) solely in the case of repairing damage to such office or facility, to restore such office or facility to a substantially similar working order as it was prior to such damage;
- (3) necessary to update the technology utilized by the facility; or
- (4) used to replace fully depreciated property.
- (5) used to repair or replace due to normal wear and tear.

In no event, however, will the office of any executive officer be constructed and furnished with materials that are substantially disproportionate in cost to the materials or furnishings provided or used generally as part of a facility renovation. The Company reserves the discretion to decline to reimburse or pay for all or part of a renovation that is inconsistent with the foregoing guidelines or if the Company determines that all or such part of such renovation is unduly extravagant or that the cost associated with renovating the office of an executive officer of the Company as part of such renovation is substantially disproportionate to the total cost of the renovation.

At no time should renovations be done that would have the appearance of being extraordinary, or excessive from a shareholder perspective.

### C. *Aviation and Other Transportation Services*

All expenses for aviation and other transportation services are not eligible for reimbursement absent a legitimate business purpose.

The Company shall not maintain, or have on retainer, a private aviation vehicle or service. Expenses for private chartered flights shall not be approved, unless no other means of transportation is reasonably available under the prevailing circumstances. **Expenses for commercial aviation travel shall only be reimbursed for no more than the cost of a coach ticket. Air travel arrangements should be booked through the lowest cost source available, unless circumstances require otherwise.**

Employees and directors may be reimbursed for mileage costs of operating their personal vehicles for business-related travel (not including an employee or director's travel from his or her home to a Company office). Executive officers driving a Company-owned automobile or receiving a car allowance shall not be entitled to mileage reimbursement.

### D. *Other Activities or Events*

Expenses for other activities and events will be reimbursed in the Company's discretion. To be eligible for reimbursement, any such expense must be a reasonable expenditure for sales conferences, staff development, reasonable performance incentives and other similar measures conducted in the Company's normal business operations. All such expenses should serve the purpose of furthering the business goals of the Company and the cost of any such expense should be reasonable in proportion to the benefit to the Company that is expected to be derived from such expense.

### E. *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 and is regarded as a representative for the company. The Company deems that spouses participation in conferences and related activities to be integral to the Company's overall performance. Conference participation by the staff and spouses is subject to pre-approval by the by the Executive Board . 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.

### F. *Holiday Parties*

We feel that holiday parties and employee recognition parties are part of an employee appreciation process. Holiday parties should be local in geographic nature, and generally should not cost the Company more than an average day's payroll per employee

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.

## II. **CEO and CFO Certification**

The Company's Chief Executive Officer and Chief Financial Officer (each as defined in the TARP Regulations) will certify that any expenditure requiring the prior approval of any Senior Executive Officer (as defined in the TARP Regulations), the prior approval of any executive officer of a substantially similar level of responsibility, or the prior approval of the Board of Directors, was properly obtained with respect to each such expenditure.

## III. **Reporting of Violations**

Violations of this Policy must be reported to the Company's Senior Risk Officer (as defined in the TARP Regulations) or to the Board of Directors. No employee or director may be disciplined in retaliation for reporting a violation of this Policy.

#### **IV. Accountability**

By accepting any reimbursement from the Company, an employee or director (1) represents that the expense for which reimbursement is sought is for a legitimate business purpose and is eligible for reimbursement under this Policy; (2) acknowledges that he or she has read and understands this Policy and agrees to return all or a portion of the reimbursement he or she receives if the Company or its designee determines that such expense was excessive, extravagant, unnecessary or unrelated to a legitimate business purpose or was otherwise not eligible for reimbursement; and (3) agrees to be responsible for payment of, or reimbursement to the Company of, any expense that is not approved by the Company or its designee pursuant to this Policy.

The Company's Senior Risk Officer (as defined in the TARP Regulations) or another appropriate officer of the Company will thoroughly investigate any known or reasonably suspected violations of this Policy, including, without limitation, any approval of an expense by the designated officer under Section II that such officer knew was ineligible and any prohibited retaliatory discipline under Section IV. Such officer shall provide a full report to the Company of his or her findings. If the Company determines that a violation has occurred, the Company may authorize such officer to seek reimbursement from the violating employee or director on behalf of the Company or may authorize any appropriate or necessary disciplinary action, up to and including terminating a violating employee's employment, requesting the resignation of a director, or directing the applicable board of directors on which a director serves not to nominate such director for reelection.

Employees and directors shall be apprised of the existence of and terms of the Policy. A copy of the Policy may be provided to any employee or director upon request.

#### **V. Miscellaneous**

The Company shall have the sole and absolute authority to interpret the provisions of this Policy and their determination as to any matter hereunder shall be final and binding on all relevant parties. This Policy may not be amended, revoked, or superseded without the express approval of the Board.

**This Policy is adopted and effective on December 29, 2009.**