

Excessive or Luxury Expenditure Policy

The Board of Directors and Executive Management of Stearns Financial Services, Inc. and its subsidiaries (collectively SFSI) are committed to complying fully with the requirements of the TARP (Troubled Asset Relief Program) Standards for Compensation and Corporate Governance as defined by the Department of the Treasury (31 CFR Part 30) pursuant to requirements set forth in the Emergency Economic Stabilization Act of 2008 (“EESA”), as amended by the American Recovery and Reinvestment Act of 2009 (“ARRA”) during the period that TNB participates in the TARP Capital Purchase Program.

Objectives and General Policy

SFSI prohibits excessive or luxury expenditures. This includes entertainment and other events, facility renovations, aviation and other travel, and any other activities that are not reasonable expenditures for business development, conferences or staff development. An expenditure is considered “excessive or luxury” if the cost is greater than the benefit derived by the SFSI or if the benefit is at least equal to the cost, but the amount of the expenditure is substantial and might be perceived as disproportionately greater than the benefit. Any expenses that could be considered excessive or luxury require approval by the Chairman and CEO.

It is the policy that SFSI employees utilize corporate assets in a prudent manner and as such are hereby precluded from engaging in excessive or luxury expenditures.

Travel Expenses

All travel expenses shall be incurred and approved in accordance with policies and procedures included in the SFSI Employee Handbook. All travel related expenses incurred by an employee in the ordinary course of business shall be submitted on an employee expense report and approved by such employee’s supervisor before being submitted to Accounts Payable for reimbursement.

Auto: The standard rate for mileage reimbursement for using personal vehicles for business purposes is the IRS guideline in effect at the time of travel.

Lodging: Employees and directors are encouraged to avoid overnight stays whenever possible. All overnight stays require approval by the employee’s supervisor or the CEO. When possible, all lodging should be booked through the appropriate personnel with knowledge of any corporate rates or discounts.

Meals: The Bank will reimburse employees for reasonable meal expenses that are incurred during business related travel as detailed in the SFSI Employee Handbook. All meal costs must be substantiated with a valid receipt and submitted for reimbursement on the employee’s expense report.

Air and other Transportation: All transportation must be conducted in the most cost appropriate way for SFSI, depending on cost, efficiency, availability, and timeliness of travel. All air fares and reservations should be booked in a method to facilitate obtaining the lowest reasonable rate. Travel by commercial carrier should be in coach class unless approved by the Chairman and CEO. The Chairman and CEO must approve all chartered flights. Rental cars and taxi service, if necessary, should be arranged through the Executive Administration Assistant.

Office and Facility Improvements and Renovations

SFSI strategy and objectives for fixed assets is to minimize costs to promote a strong efficiency ratio. Renovations of facilities and office spaces should be proportionate to the need and the current profit and strategic plans. At no time should renovations be done that would have the appearance of being extraordinary or excessive. All fixed asset expenditures over \$5,000 require approval of the Chairman and CEO.

Events and Entertainment

All meetings and entertainment costs must serve a legitimate business purpose. All meetings or events with a cost exceeding \$1,000 require approval by the CEO. Entertainment expenses include use of corporate funds relating to a current or prospective customer. Occasional events, such as taking prospects golfing, meals or other similar events are not considered “Luxury or Excessive.” Discretion should be used and it is recommended that employees utilize existing bank season sporting events tickets if available. All event and entertainment expenses must be documented and approved on the employee expense report.

Other Activities

Staff training events, holiday parties and employee-appreciation events may be held. These events are expected to be nominal in cost and if an event cost exceeds \$1,000 must be approved by the CEO.

Reporting of Violations

Any individual who knows a violation of this Policy must report the violation immediately to such individual's supervisor who shall then report the violation to the CEO. Any employee who engages in extravagant spending shall be subject to disciplinary action.

Certification

The respective CEO and the Chief Financial Officer of Stearns and SFSI shall certify to the Board annually that the provisions of this Policy are being enforced and are sufficient to provide reasonable assurance that the expenditures for such purposes are not excessive.

Amendments and Modifications

This Policy shall be subject to modification only with the approval of the Board stating the specific business rationale for the change in policy.