

**Harbor Bankshares Corporation and Subsidiaries**  
**Excessive and Luxury Expenditures Policy**

This policy applies to Harbor Bankshares Corporation and to all of its subsidiaries. It has been established in order to comply with the federal American Recovery and Reinvestment Act of 2009 and related regulations of the Department of the Treasury.

1. Harbor Bankshares prohibits excessive or luxury expenditures. In general, excessive or luxury expenditures are those that are unreasonable in relationship to the benefit conferred by them to Harbor Bankshares and its shareholders. All expenditures shall have a business purpose.
2. Following are discussions regarding certain categories of expenditures. However, Harbor Bankshares recognizes that no list of approved or prohibited expenditures can take the place of good judgment and strong internal controls.
  - a. Use of Aircraft. Harbor Bankshares does not own or regularly lease private aircraft. However, expenditures for private air travel are not prohibited when use of commercial flights is impractical or inefficient in the circumstances, as determined and approved by the Board of Directors or the President and CEO.
  - b. Office Facilities and Renovations. The design and appearance of banking offices and other facilities used by Harbor Bankshares customers should be attractive, fulfill their intended business use, and be consistent with the relevant markets. Other facilities should be attractive, well maintained, and facilitate an efficient and pleasant working environment. All facilities should be safe and well maintained.
    - i. All renovations, other than emergency or urgent renovations not anticipated at the time the capital budget is approved, generally should be included in the capital budget in connection with the annual budget process. However, renovations that are not luxury expenditures may be approved by the Board of Directors at any time, or by officers subject to the following table:

Estimated Amount of Expenditure	Approval Authority
Less than \$15,000	Any Executive Officer
Less than \$50,000	Any Executive Officer plus the Treasurer
Less than \$100,000	President and Chief Executive Officer
\$100,000 or more	Board of Directors of Harbor Bankshares or the affected Harbor Bankshares subsidiary

- ii. Plans for possible renovations should be reported to the Board of Directors prior to approval by an officer or officers. Approvals by officers of all capital renovation expenditures greater than \$50,000 should be reported to the Board of Directors at its next meeting.
  - iii. Emergency or urgent renovations expected to cost \$100,000 or less may be approved by the President and CEO or any the Treasurer and any other executive officer and will be presented for review and ratification by the Board of directors at its next meeting. Other than as stated below, an emergency or urgent renovation expected to cost more than \$500,000 will be approved as stated above, provided that, if practical, a special board meeting will be called to consider such expenditure prior to entry of binding contract(s) to effect them.
  - iv. Emergency or urgent repairs that involve the safety or health of employees or customers or as required by law may be authorized by the President and CEO or the Treasurer, and will be presented for review and ratification by the Board of directors at its next meeting.
- c. Entertainment or Events.
- i. All entertainment or events must be business related, which may include expenses for entertainment or events in connection with customer development, charitable and community development, investor relations, and staff development and awards. Authorized entertainment or events, other than those prohibited under reasonableness and business related tests in paragraph 1, include, but are not limited to: Board of Directors or board committee meetings; management or employee meetings called by appropriate officers for legitimate business purposes; business related conferences; investor relations trips, conferences, and meetings; shareholders' meetings; employee recognition programs to motivate or reward employees; costs of attendance of sports events in Harbor Bankshares' market areas at which customers or prospective customers are entertained; expenses and fees of club memberships used for customer development purposes; Harbor Bankshares sponsored or co-sponsored events that advance charitable or civic purposes; and entertainment, events, and club memberships provided as part of reasonable compensation packages for officers or employees. Expenditures for entertainment or events that are not luxury expenditures may be approved by the Board of Directors at any time, or by officers subject to the following table:

Estimated Amount of Expenditure	Approval Authority
Less than \$15,000	Any Executive Officer
Less than \$25,000	The Treasurer plus any other Executive Officer
Less than \$50,000	President and Chief Executive Officer

\$50,000 or more	Board of Directors of Harbor Bankshares or the affected Harbor Bankshares subsidiary
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- ii. Harbor Bankshares encourages officers, staff, and directors to attend conferences that are related to our business and the attendee's business duties.
  - iii. Board retreats are held from time to time for strategic planning, education, and other purposes. Board retreats generally will be held in connection with the regular board meetings and at locations that are reasonable in the circumstances.
3. Taxation. Whether an expenditure is tax deductible or not will be considered in determining whether its cost is reasonable in relationship to the benefit conferred to Harbor Bankshares and its shareholders. Lack of deductibility for tax purposes does not, by itself, cause an expenditure to be categorized as a luxury expenditure.
  4. General Authority of the Board. If the Board of Directors approves an expenditure not otherwise prohibited by this policy, the approval of officers is not required.
  5. Corporate Accounts Payable Policy. Detailed procedures for expense approvals, documentation requirements, and reimbursement are included in Harbor Bankshares' separate Corporate Accounts Payable Policy.
  6. Conflict with other Policies. In the case of any conflict between the terms of this policy and the Corporate Accounts Payable Policy or any other Harbor Bankshares policy or procedure, the terms of this policy will prevail.
  7. Compliance. All officers and employees of Harbor and its subsidiaries are subject to this policy and will be held accountable for compliance with it.

-The Chief Executive Officer and the Chief Financial Officer shall certify each year as to whether the approval of expenditures requiring prior approval by any Executive Officer or by the Board of Directors under this policy was properly obtained.

The Executive Officers are responsible for promptly reporting any violations of this policy to the Executive Vice President and Chief Financial Officer, who is responsible for reporting any such violation to the Board of Directors.