

FIRST SOUTHWEST BANCORPORATION, INC.

Company Policy: ECIP Excessive or Luxury Expenditures

Responsible Officer: Chief Financial Officer

Approved: December 14, 2022

A. Purpose

The purpose of this policy is to establish parameters and internal controls governing the expenditures of First Southwest Bancorporation, Inc. (together with its subsidiaries and controlled affiliates, referred to hereafter as the Organization). Expenditures of the Organization should be customary, prudent, consistent with applicable laws and regulations, and reasonably related to the Organization's business objectives and needs. This policy identifies expenditures that are excessive or luxury expenditures, creates processes that are reasonably designed to eliminate such expenditures, and establishes accountability for compliance. Routine operating expenses, capital expenditures, and other reasonable expenses are not prohibited by this policy.

B. Authority

The Organization has authority to provide compensation and benefits that are reasonable. This policy establishes a prohibition on expenditures that are excessive or luxury expenditures as required by the Department of the Treasury's Emergency Capital Investment Program regulations ([31 CFR part 35](#)), and as may be required by other statutes and regulations.

C. Responsibility

This policy is the responsibility of the Organization's board of directors (board). The board has approved this policy and will review compliance with this policy no less frequently than annually, and summary data on excessive or luxury expenditures will be reported to the board as part of the compliance review.

D. Scope

This policy applies to all employees, officers, and directors of the Organization with regard to any expenditure of the Organization. In making any expenditure on behalf of the Organization, employees, officers, and directors should consider whether the expenditure is an excessive or luxury expenditure that is prohibited under this policy.

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E. Excessive or Luxury Expenditures

“Excessive or luxury expenditures” means excessive expenditures on any of the following to the extent not reasonable or appropriate expenditures for business development, staff development, reasonable performance incentives, or other similar reasonable measures conducted in the normal course of the Organization's business operations:

(1) ***Entertainment or events.*** This category includes fees, dues, tickets costs related to social, athletic, artistic and dining clubs, activities, celebrations or other events, and similar expenditures. Expenditures for charitable contributions and charitable events are not prohibited under this policy. Entertainment or events expenditures in an amount less than \$10,000 per instance, and \$50,000 on an annual aggregate basis per individual, are exempt from this policy.

(2) ***Office and facility renovations.*** This category includes costs and allowances for office renovation, including expenditures related to furniture, art, office personalization, interior finishing, design and decoration, and similar expenditures. Office and facility renovations expenditures in an amount less than \$25,000 per instance, and \$200,000 on an annual aggregate basis per individual, are exempt from this policy.

(3) ***Aviation or other transportation services.***

(i) This category includes charter fees, tickets, slip or docking fees, vehicle installment payments, reservation and travel agent expenses, and similar expenditures associated with transportation services (*e.g.*, airline, train, rental cars, or vans). Mileage reimbursable according to current Internal Revenue Service mileage rates is exempt from this policy. Transportation services in an amount less than \$3,000 per instance per individual, and \$40,000 on an annual aggregate basis per individual, are exempt from this policy.

(ii) The principal executive officer may establish or delegate to an appropriate executive officer the authority to establish processes for reimbursement of reasonable travel expenditures, which processes must be reviewed by executive management no less frequently than annually.

(4) ***Tax gross-ups.*** Payments consisting of any reimbursement of taxes owed or attributed to any compensation is prohibited. This category does not apply to tax equalization agreements for employees subject to tax from a non-U.S. jurisdiction. Tax gross-ups on de minimis payments to employees under \$250 are not prohibited.

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(5) Other similar items, activities, or events for which the Organization may reasonably anticipate incurring expenses or reimbursing an employee for incurring expenses.

(i) Expenditures related to other items not listed in the preceding categories are exempt from this policy in an amount less than \$5,000 per instance, and together with all expenditures permitted under this policy, may not exceed \$15,000 on an annual aggregate basis per individual.

(ii) For the avoidance of doubt, reasonable capital investments in technology, equipment, and similar items that expand the long-term capability of an ECIP recipient to provide products and services to its customers and community are not excessive or luxury expenditures.

(iii) The principal executive officer may establish or delegate to an appropriate executive officer the authority to establish processes for the evaluation and approval of expenditures in the preceding categories that are not luxury or excessive expenditures and that are not otherwise exempt from this policy. These processes must be reviewed by executive management no less frequently than annually, as well as any additional threshold expenditure amounts per item, activity, or event, or a threshold expenditure amount per employee receiving the item or participating in the activity or event under this policy. Such approvals must be reported to the board of directors (which may be in an appropriate summary form) no less frequently than annually.

F. Exceptions or Violations

(1) Any exception or violation of this policy must be promptly reported to the Organization's

(i) principal executive officer,

(ii) officer with primary responsibility for the Organization's compliance function, or

(iii) officer designated with primary responsibility for overseeing the administration, monitoring, and compliance with this policy. Exceptions and violations must be reported to the board of directors no less frequently than annually, or more frequently as the nature and severity of violation may warrant. All employees, officers, and directors of the Organization must adhere to this policy and will be held accountable for compliance. Any employee or officer who violates this policy may be subject to disciplinary action up to and including termination of employment.

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(2) Any employee or officer that is aware of any circumstance that may indicate a violation of this policy is required to report such circumstance to their supervisor or the Organization's principal compliance officer or compliance group. The Organization prohibits retaliation against any employee or officer for making a good faith report of actual or suspected violations of the Organization's code of conduct, laws, regulations, or other Organization policies, including this policy. A finding of retaliation against any such employee or officer may result in disciplinary action up to and including termination. Failure to promptly report known violations by others may also be deemed a violation of the Organization's code of conduct.

(3) Employees and officers may ask questions, raise concerns, or report instances of non-compliance with this policy and/or any of the existing underlying relevant policies by contacting the following: Chief Executive Officer, Chief Financial Officer, Director of Compliance, Human Resources Director, or the Chair of the Board of Directors..

G. Certification

On an annual basis, the ECIP recipient will deliver to the Department of the Treasury a certification, executed by two senior executive officers (one of which must be either the ECIP recipient's principal executive officer or principal financial officer) certifying that (i) the Organization is in compliance with this policy and (ii) the approval of any expenditure requiring the prior approval of any senior executive officer, any executive officer of a substantially similar level of responsibility, or the board of directors (or a committee of such board), was properly obtained with respect to each such expenditure.

Approved by the board of directors:

December 14, 2022

Certified by:

Michael Coltharp
Board Secretary

FIRST SOUTHWEST BANCORPORATION, INC.

ECIP Excessive or Luxury Expenditures Supplemental Information

A participant in the Emergency Capital Investment Program (First Southwest Bancorporation, Inc., as defined at [31 CFR 35.21](#)) is required to establish and maintain policies designed to eliminate excessive or luxury expenditures. 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 ECIP recipient's business operations: (1) Entertainment or events; (2) office and facility renovations; (3) aviation or other transportation services; (4) tax gross-ups; and (5) other similar items, activities, or events for which the ECIP recipient may reasonably anticipate incurring expenses, or reimbursing an employee for incurring expenses.

(1) To facilitate compliance with this requirement, the Department of the Treasury is making available a model excessive or luxury expenditures policy. An ECIP recipient may refer to this model policy for guidance in satisfying the requirement at [31 CFR 35.22\(c\)](#) to adopt and maintain an excessive or luxury expenditures policy. Alternatively, ECIP recipients may use other forms of, or existing policies relating to, excessive or luxury expenditures, provided that such other forms or policies satisfy all the requirements of the regulation at [31 CFR 35.22\(c\)](#).

(2) An ECIP recipient's luxury or excessive expenditure policy should be posted on the ECIP recipient's website. Any material amendments to an ECIP recipient's excessive or luxury expenditures policy must be made in accordance with the provisions set forth in 31 CFR 35.22(d) (Material changes in policies or procedures). If the ECIP recipient makes any material amendments to this policy, then the ECIP recipient must submit a copy of the amended policy to the Department of the Treasury and post the amended policy on the ECIP recipient's website. ECIP recipients should refer to 31 CFR part 35, subpart B for additional information regarding definitions of terms used in the model policy, disclosure, material changes, certification, and other compliance requirements.