



EXCESSIVE OR LUXURY EXPENDITURES POLICY

**Approved By Board of Directors
August 23, 2011**

Excessive or Luxury Expenditures Policy

SUMMARY

Peoples State Bank (Bank), through its parent, PSB Financial Corporation (Holding Company), has received an investment from the United States Treasury's Community Development Capital Initiative (CDCI). Per the requirements of this investment, the Bank has adopted an Excessive or Luxury Expenditures policy. The policy applies to both the Bank and the Holding Company; any reference to the Bank applies to the Holding Company for this policy only. All employees are subject to provisions in this policy. Violations will be subject to repercussions up to and including termination.

The policy addresses expenditures for (1) entertainment or events, (2) office and facility renovations, (3) aviation or other transportation services, or (4) other activities or events that are not reasonable expenditures for staff development, reasonable performance incentives, or other similar measures conducted in the normal course of the CDCI recipient's business operations. Included in this policy are standards to ensure appropriate review and approval of potentially excessive and luxury expenditures.

The policy (1) identifies the types and categories of expenses prohibited or requiring prior approval; (2) adopts approval procedures for those expenses requiring prior approval; (3) mandates principal executive officer and principal financial officer certification of the prior approval of any expenditures requiring the prior approval of any senior executive officers, other similar executive officers or the board of directors; (4) mandates prompt internal reporting of any violation of the policy; and (5) mandates accountability for adherence to the policy.

This policy will be reviewed annually by the Bank's Board of Directors until the CPP investment is repaid.

EXPENDITURES

Entertainment or Events:

One-time expenditures exceeding \$5,000 for entertainment or events will be considered excessive or luxury expenditures. Expenditures should be considered in aggregate (i.e. season tickets for a sports team should be considered along with program sponsorship, school sponsorship, etc.) Expenditures approved for sporting event and other sponsorships should be done in the Bank's name only; not an individual's name.

Office and Facility Renovations:

Office and facility renovations are covered under the Bank's Fixed Asset Policy. Expenditures, however, for office or facility renovations that will cause the Bank to spend in excess of \$50,000 in aggregate will require that the total cost of the project be estimated prior to approval for funding. Reports of actual versus the estimate total cost of the project will be made to the Bank's Executive Committee at least quarterly with a copy to the Audit Committee.

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Aviation or Other Transportation Services:

Aviation and other transportation services are covered by the Bank's Travel and Reimbursement Policy. Any necessary transportation via aviation or other will be limited to coach class or equivalent. Any variation will be considered excessive or luxury expenditures.

Prohibited Expense:

Other activities or events that are prohibited by this policy include strategic planning retreats where air travel is required or luxury resorts are used. Bank doesn't currently recognize any other specific item as prohibited but reserves the right to refuse any based on analysis.

APPROVAL PROCESS

Approval for any excessive or luxury expenditure should be approved by the Executive Committee. Certification of the approval must be made by the CEO and CFO attaching a completed Appendix A with their signatures and briefly describing the project. A copy of the signed Appendix A should be sent to the Audit Committee prior to funding. The Audit Committee acting through the Internal Auditor will review the Expenditure for Compliance with this policy and will first report any deviations to the CEO and CFO for corrective action. Any expenditure not resolved will be reported to the Executive Committee and Audit Committee.

POLICY RENEWAL

Policy will be updated at least annually and reviewed for approval with the Bank's Board of Directors and remains in effect until the CDCI investment is repaid.

