

Luxury Expenditure Policy

In compliance with Section 111(d) of the Emergency Economic Stabilization Act of 2008, as amended, the Board of Directors (“Board”) of Security Federal Corporation (the “Company”) has adopted this Policy, which is intended to set limits on excessive or luxury expenditures. The Policy applies to the Company and its subsidiaries, including Security Federal Bank. 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 course of the Company’s business operations:

1. Entertainment or events;
2. Office and facility renovations;
3. Aviation or other transportation services; and
4. Other similar items, activities or events for which the Company may reasonably anticipate incurring expenses, or reimbursing an employee for incurring expenses.

This policy prohibits excessive or luxury expenditures in each of these categories, as explained in further detail below. Reasonable expenditures for staff development, performance incentives or other similar measures conducted in the normal course of business operations are permitted.

Prohibited Expenditures

1. Entertainment or events

All proposed entertainment, meetings, events and incentive/recognition travel organized by the Company or its employees must serve one or more demonstrated legitimate business purposes. Appendix A contains examples of legitimate business purposes. Sponsorship of excessive entertainment, meetings, events and incentive/recognition travel is prohibited. The Chief Executive Officer (“CEO”) is authorized to approve expenditures for special events and entertainment which are not listed in Appendix A.

All reimbursements for employee entertainment expenses exceeding \$1,000 must be approved by the CEO, and CEO entertainment expenses exceeding \$2,000 must be approved by the Chairman of the Board. Each proposed meeting or event with a cost exceeding \$25,000 must be supported by a written business case identifying the specific business purpose and approved by the CEO (if an employee or senior executive officer meeting or event) or the Chairman of the Board (if a CEO meeting or event).

2. Office and facility renovations

Office and facility renovations should be designed to: enhance operational efficiency; comply with applicable law (including the Americans with Disabilities Act); maintain a safe and sanitary working environment; enhance a favorable public image of the Company; improve employee morale; or such other worthwhile purpose identified by the Company. Except as

provided below, no new facilities may be constructed without the express approval of the Board.

3. Aviation and other transportation services

Excessive aviation or other transportation services are prohibited. Transportation for Company staff to all locations should be conducted in the most cost effective way, taking into account the cost, efficiency and timeliness of travel. The Company does not own any jets, airplanes or other aviation equipment, and the Company shall not own any such equipment. When employees or directors of the Company travel by air, the Company will pay for reasonable related expenses such as coach class airfare, except under unusual and justifiable circumstances.

Charter Aircraft. No aircraft may be chartered without the prior express consent of the Chairman of the Board.

Rental Cars. In no event shall a luxury, specialty or performance car be rented.

Spouse/Travel Expenses. The Company will not pay the expenses of a spouse, a guest or a family member accompanying an employee who is attending Company-related functions unless the attendance is required or expected (e.g., conventions and other major social events.)

Approval Procedures

The Company has an expense reimbursement process in place whereby the employee's supervisor is required to approve all company expenses. The completed and authorized expense reimbursement is forwarded to Accounts Payable for reimbursement. Capital, travel, entertainment, advertising, charitable contributions and public relations expenditures are carefully reviewed and approved by senior management and the Board approves the annual budget annually.

Administration

All employees shall be responsible for compliance with this policy. Failure to comply with all policies and procedures may result in disciplinary action, up to and including termination of employment. Questions regarding this policy should be reported to an immediate supervisor or the CEO. Any violation or suspected violation of this policy must be reported promptly to the CEO or to the Chairman of the Board (if an alleged CEO violation).

Adopted by the Board on the 20th day of August 2009.

**Examples of Legitimate Business Purposes for Entertainment,
Meetings, Events, Incentive/Recognition and Travel**

As with all business expenditures authorized in these challenging circumstances, all proposed expenditures for entertainment, meetings, events, incentive/recognition and travel should be made to strengthen the Company's competitive position and position the Company for the creation of long-term value and growth. Below is a representative list of legitimate business purposes for entertainment, meetings, events, incentive/recognition and travel.

1. Entertainment of a current or prospective customer for business development purposes, including playing golf, dining out or treating the customer to other events he or she would find pleasurable but not extravagant.
2. Effective product launches to educate sales force, channel partners and customers.
3. Sales conferences and employee meetings to align vision, objectives, strategy and tactics.
4. Training and staff development meetings – learning environments conducive to adult learning and professional development, improving participants' skills at their trade and/or their familiarity with the company's products or services.
5. Employee recognition programs to motivate and reward employees for achievement and productivity.
6. Professional conferences that provide networking, education and best practice sharing across companies and industries.
7. Performance incentives with clear rule structures that are designed to motivate and reasonably reward high performers for exceeding established goals that generate incremental revenue and profit growth for their respective organizations and that are beyond the investment in the program.
8. Corporate-sponsored events that further charitable purposes.
9. Strategic, business and financial planning and review meetings.