LUXURY EXPENDITURE POLICY

A. Purpose

The purpose of this policy is to establish parameters and internal controls governing the expenditures of Security Federal Corporation (together with its subsidiaries and controlled affiliates, referred to hereafter as the Company). Expenditures of the Company should be customary, prudent, consistent with applicable laws and regulations, and reasonably related to the Company'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 Company 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 Company'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 Company with regard to any expenditure of the Company. In making any expenditure on behalf of the Company, employees, officers, and directors should consider whether the expenditure is an excessive or luxury expenditure that is prohibited under this policy.

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 Company'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.

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.

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.

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 above.

All reimbursements for employee entertainment expenses must be approved by the CEO or as delegated to the appropriate level of management as outlined in the “Approval Procedures” below. Any CEO entertainment expenses exceeding $2,000 must be approved by the Chairman of the Board. Each proposed meeting or event with a cost exceeding $10,000 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*. 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 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.

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

a. *Charter Aircraft* - No aircraft may be chartered without the prior express consent of the Chairman of the Board.
b. *Rental Cars* - In no event shall a luxury, specialty or performance car be rented.
c. *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.)

(4) *Tax gross-ups*. This category includes any reimbursement of taxes owed with respect to any compensation. This category does not apply to tax equalization agreements for employees subject to tax from a non-U.S. jurisdiction.

(5) *Other similar items, activities, or events for which the Company may reasonably anticipate incurring expenses or reimbursing an employee for incurring expenses.* All other activities or events that are not reasonable expenditures for staff development, performance incentives in accordance with written plans and policies or other similar expenditures incurred in the normal course of business must be approved by the CEO or the Chairman of the Board.

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

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

Any exception or violation of this policy must be promptly reported to the Company's (i) principal executive officer, (ii) officer with primary responsibility for the Company'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 Company 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.

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 Company's principal compliance officer or compliance group. The Company prohibits retaliation against any employee or officer for making a good faith report of actual or suspected violations of the Company's code of conduct, laws, regulations, or other Company 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 Company's code of conduct.

Employees and officers may ask questions, or raise concerns with this policy and/or any of the existing underlying relevant policies by contacting 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).

G. 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. All expenditures requiring prior approval pursuant to this policy must be submitted in writing to the appropriate person at least 30 days before the proposed expenditure.

H. Certification

On an annual basis, the Company will deliver to the Department of the Treasury a certification, executed by two senior executive officers (one of which must be either the Company's principal executive officer or principal financial officer) certifying that (i) the Company 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.