



Excessive or Luxury Expenditures Policy

January 2012

Fidelity Federal Bancorp
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A. PURPOSE

The Board of Directors of Fidelity Federal Bancorp (the “Company”) adopted this Excessive or Luxury Expenditure Policy (“Policy”) to be in compliance with the requirements under the American Recovery and Reinvestment Act of 2009 (ARRA) enacted February 17, 2009. ARRA requires each recipient of funds under the Capital Purchase Program (CPP) of the Troubled Assets Relief Program (TARP) to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Department of the U.S. Treasury.

It is the Company’s policy and that of its subsidiary, United Fidelity Bank, fsb (the “Bank”), to prohibit excessive or luxury expenditures with respect to the following:

1. entertainment and events,
2. office and facility renovations,
3. aviation or other transportation services, and
4. other activities or events that are not reasonable expenditures for conferences, staff development, reasonable performance incentives, or other similar measures conducted in the normal course of our business operations.

This Policy applies to all employees of the Company and the Bank. Additionally, this Policy specifies prohibited expenditures, approval procedures for expenditures which require prior approval, certification requirements of the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), the reporting of actual or suspected violations, and compliance monitoring.

B. SCOPE OF POLICY

The types and categories of expenditures covered by this Policy are as follows:

Entertainment:

Entertainment is defined as an activity that an Employee or Executive would use corporate funds for business development purposes relating to a current customer(s) or prospective customer(s) or to further enhance the Company’s marketing efforts.

Our policy is that all expenses incurred for these activities would be for Company purposes with the objective of attracting business. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, or taking them to other events the customer/prospect would find pleasurable is a necessary part of the Company’s marketing efforts and not deemed as “luxury” or a violation of this Policy. These expenses should be documented and detailed as to the benefit derived by the Bank through the normal accounts payable process.

Events and parties focused on customers for the purpose of attracting their business would not fall under this Policy.

Conferences:

We encourage our staff to attend conferences that are appropriate educational opportunities. These conferences must be related to the financial services industry and have a direct correlation to their job. At times it may be appropriate that a spouse would travel to these conferences with Company attendees. The Company does not pay

additional expenses incurred in connection with spousal travel. Typically these conferences are sponsored by vendors, banking associations, or other industry-related entities.

Employee Recognition/Holiday Parties:

Meetings, employee recognition events, and holiday parties are intended to provide the Board, management and employees with opportunities for individual and team education, development and recognition, business planning, market and industry networking, and related business purpose objectives.

We also feel that employee recognition, picnics, and holiday parties are part of an employee appreciation process. These events should be local in geographic nature and reasonable in cost.

Board/Management Retreats:

Retreats shall only be used for educational or business planning purposes, and should be kept in consideration and looked at, in the same view and discretion as all other expenses. Board education is a vital part of maintaining, and keeping a dynamic director base, and this Policy should not limit a retreat that is focused on strategic planning or education.

Renovations:

Office and facility renovations should be designed to:

- 1) Enhance operational efficiency;
- 2) Comply with applicable fire codes and ADA requirements;
- 3) Maintain a safe, sanitary and clean working environment;
- 4) Enhance the public image of the Company;
- 5) Improve employee morale;
- 6) Other worthwhile purposes as may be identified by the Company.

An exception to this can be allowed if management must deal with an emergency situation, such as an act of nature, comply with a regulatory requirement, or is necessary to make the facility operational for customer use. At no time should renovations be done that would have the appearance of being extraordinary, or excessive. Office and facility renovations are permitted only for projects approved by the CEO or Board.

Aviation or Other Transportation Services:

Transportation for Company or Bank staff to outlying locations, including bank locations, conferences, business development purposes, and merger and acquisition research, should be conducted in a cost-appropriate way for the Company. Modes of transportation to be used may consist of vehicle, bus, rail, or commercial air service. The selection of transportation services will factor in cost, efficiency, and timeliness of travel. Expenditures for the use of an automobile by the Bank's officers must be reasonable. Company expenditures for the use of a private airplane, costing in excess of \$5,000, are prohibited without prior approval of the Chairman of the Executive Committee. The Company has not utilized the services of a private aircraft in the last five years.

Other Activities:

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.

C. EXPENDITURES REQUIRING PRIOR APPROVAL

Any expenditure in an amount exceeding \$5,000 in any of the following categories requires the pre-approval of the CEO:

1. entertainment, conferences, board/management retreats, or other 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;
5. any other in accordance with Company operating practices.

D. ADMINISTRATION

The CFO is responsible for the day-to-day administration of this Policy, and the CEO is accountable for overall adherence to this Policy and must approve any exceptions. Strict adherence to this Policy is mandated for all Company employees. Violations of this Policy shall be promptly reported to the Board of Directors. Following any approval of private air services by the Chairman of the Executive Committee, the CEO shall certify that such approval was obtained and such certification shall be maintained in the Company's corporate records.

This Policy, and any amendments hereto, shall be posted on the Company's Internet website and provided to the U.S. Department of the Treasury and the Office of Thrift Supervision.

Reporting of Violations

Any individual who violates this Policy, or knows of any such violation by any other individual, must report the violation immediately to such individual's supervisor who shall then report the violation to the CEO or to the Chairman of the Board (if an alleged CEO violation). Any employee or director who engages in extravagant spending shall be subject to discipline up to and including termination of employment or removal from or omission of re-nomination to the Board.

Certification

The CEO and the Chief Financial Officer of the Company shall certify to the Board at least annually that the provisions of this Policy are being enforced and are sufficient to provide reasonable assurance that the Bank's expenditures for such purposes are not excessive.

Amendments and Modifications

This Policy shall be subject to modification only with the approval of the Board of Directors stating the specific business rationale for the change in policy.

Internet Website

The Fidelity Federal Bancorp Excessive and Luxury Expenditure Policy is posted and maintained at:
<http://www.unitedfidelity.com>