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## **EXCESSIVE AND LUXURY EXPENDITURES POLICY**

### **BACKGROUND & PURPOSE**

The Board of Directors (the “Board” or “Board of Directors”) of Heritage Bankshares, Inc. and Heritage Bank (together the “Company”) have adopted this Excessive and Luxury Expenditures Policy (the “Policy”) to comply with the rules and regulations promulgated under the American Recovery and Reinvestment Act of 2009 (“ARRA”), which amends the Emergency Economic Stabilization Act of 2008. The ARRA requires any recipient of funds in the TARP Capital Purchase Program (“CPP”) to, among other things, adopt a company-wide policy regarding excessive and luxury expenditures. On June 15, 2009, the Department of the Treasury issued an Interim Final Rule on TARP Standards for Compensation and Corporate Governance (the “Interim Final Rule”) providing guidance on, among other ARRA rules, the luxury expenditures policy required by ARRA. As a participant in the CPP, the Company is required to establish and maintain an excessive and luxury expenditures policy.

### **SCOPE & APPLICABILITY**

Pursuant to ARRA and the Interim Final Rule issued thereunder, the Board of Directors has adopted this Policy to address expenditures which are required to be identified and for which policies must be codified for (1) aviation or other transportation services; (2) office and facility renovations; (3) entertainment or events; 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 applies to all directors, officers and other employees of the Company and its subsidiaries. This Policy also specifies responsibility for certification requirements and the reporting of violations with respect to covered expenditures.

Support of the communities served by the Company, through service to and financial contributions for the benefit of those communities, is one of the Company’s core operating principles, and expenditures associated with such community support (typically civic sponsorships and charitable contributions) are not covered by this Policy.

### **GENERAL POLICY STATEMENT**

All expenditures covered by this Policy shall be reasonable and appropriate and incurred for staff development, reasonable performance incentives or similar measures conducted in the normal course of the business operations of the Company.

## **PROHIBITED EXPENDITURES**

### **1. Certain Office and Facility Renovations.**

Expenditures for office furnishings, remodeling or redecoration, the aggregate cost of which exceeds \$25,000 for any single officer or employee are deemed excessive and are prohibited. For clarity, this prohibition does not extend to a general corporate relocation or remodeling impacting a majority of the corporate offices or to any newly constructed branch, branch or office renovation or branch or office relocation.

### **2. Certain Aviation or Other Transportation Services.**

Expenditures for use of a chartered or private airplane, except in emergency situations with the approval of the Chairman of the Board, are deemed excessive and are prohibited.

## **EXPENDITURES REQUIRING PRIOR APPROVAL**

### **1. Aviation and Other Transportation Services.**

#### **Air Travel**

As noted above, use of chartered or other private planes is prohibited by this Policy absent extenuating circumstances. Use of commercial airlines must be approved by the Chairman of the Board, or the Chief Executive Officer (“CEO”) or Chief Financial Officer (“CFO”) of the Company, as appropriate in light of the requesting Company personnel. All plane fares and reservations should endeavor to obtain the lowest reasonable rate after taking into account practical considerations such as availability of direct flights, etc.; however, more expensive refundable plane fares may be appropriate and acceptable in circumstances where it is not entirely certain that the proposed travel will ultimately be required.

#### **Automobile**

Where appropriate in connection with the performance of their employment duties for the Company, the Company provides certain employees with a vehicle allowance and/or use of a company vehicle.

The standard rate for mileage reimbursement for directors and employees using their personal vehicles for business purposes is the IRS guideline in effect at the time of travel. Mileage should be tracked from the appropriate beginning point of travel (home or office) to the point of destination for business of the Company. Directors and employees, other than employees who receive vehicle allowance and/or use of a company vehicle, will be reimbursed for parking and tolls when these expenses are required in the course of business related travel.

The use of rental cars for business purposes may be necessary under certain circumstances. Reservations for car rentals should endeavor to take advantage of any available corporate rates. Taxi fares will be reimbursed if incurred during the normal course of business.

## **Lodging**

Employees and directors are encouraged to avoid overnight stays when one-way travel time for a one-day meeting is two hours or less; however, overnight stays may be appropriate and acceptable in circumstances where a one-day meeting begins early in the morning and/or continues for a large portion of the business day. Exceptions are conferences, group meetings, etc. that have been previously approved by the employee's supervisor or the CEO, as appropriate in light of the requesting Company personnel. Expenses such as spas, fitness facilities, in-room movies, laundry and dry cleaning services, etc., will not be reimbursed by the Company.

The foregoing policies regarding lodging do not apply to the Company's director retreat program or to the Advisory Board Campaign, which are described and covered below under "Entertainment and Events".

## **Meals**

The Company will reimburse directors and employees for reasonable meal expenses that are incurred during business related travel. The maximum reimbursement for meals is \$100 per day when incurred during out-of-town business travel that includes overnight lodging. The maximum reimbursement for meals per day when an overnight stay does not occur is \$50. Receipts will be required on meals of \$25 or more.

The foregoing policies regarding meals do not apply to the Company's director retreat program, the Advisory Board Campaign, pre-approved conventions and appropriate client entertainment, which are described and covered below under "Entertainment and Events".

## **Spouse/Travel Expenses**

The Company does not pay the expenses of a spouse, a guest or a family member accompanying a director or employee who is attending Company related functions, unless the attendance is required or expected by the Company (this would normally include only the Advisory Board Campaign, conventions and other major social events). Reimbursement of these expenses must be requested and approved prior to the convention or event by the Chairman of the Board, the CEO or the CFO, as appropriate in light of the requesting Company personnel.

## **Procedure for Reimbursement**

All travel related expenses incurred by an employee in the ordinary course of business shall be submitted by the employee on an employee expense report and approved by such employee's supervisor before being submitted for reimbursement. Reimbursement requests by the CEO in excess of \$1,000 or otherwise outside the ordinary course of business must be submitted to the Chairman of the Board of Directors for approval.

All travel related expenses incurred by a director in the ordinary course of business shall be submitted to the CEO on an employee expense report. The CEO will be responsible for

making sure all documentation is appropriately completed and will submit all approved expenses for reimbursement.

Any travel expenditures that are not covered by the foregoing provisions must be approved in writing by the Chairman of the Board (if requested by a director, the CEO or the CFO) or the CEO (if requested by an employee) prior to being incurred.

## **2. Entertainment and Events.**

### **Types of Expenses**

Legitimate expenditures for entertainment and events may include, but are not limited to, expenditures for the following:

- Annual shareholders meetings.
- Board of directors meetings, both on and offsite, including the Company's annual offsite director retreat program.
- Management or employee meetings called by the CEO or an Executive Vice President for legitimate business purposes.
- Recognition programs to motivate and reward employees, officers, directors and advisory board members for achievement and/or productivity, including the Company's annual Advisory Board Campaign described below.
- Conferences, schools or other professional development activities.
- Training and staff development meetings to improve participants' skills and/or their familiarity with the Company's products or services, procedures and policies, and corporate values.
- Customer meetings or Company sponsored events to offer the Company's products or services, obtain feedback, show appreciation to customers or for other legitimate business purposes.

### **Approval Procedures**

All expenditures for entertainment and events must be for legitimate business purposes and reasonable in nature and amount. Expenditures in excess of \$500 must be approved in advance by an Executive Vice President or higher ranking executive officer. Expenditures in excess of \$2,000 must be approved in advance by the CEO or CFO. Expenditures in excess of \$20,000 must be approved by the Board of Directors and supported by a written proposal identifying the specific business purpose and the anticipated benefits to the Company, which written proposal shall be submitted to the Board of Directors for approval before such expenditure is incurred.

The foregoing approval procedures do not apply to the Advisory Board Campaign described below.

The CEO and CFO shall be responsible for implementing adequate controls to ensure that all entertainment and/or event expenses paid by the Company are for legitimate business purposes, are reasonable in nature and amount and are not excessive. All entertainment

and/or event expenses shall be properly documented. The more substantial the expenditure, the more thorough the documentation required. Any entertainment and/or event expense that does not serve a legitimate business purpose or is not reasonable in nature and amount shall not be approved under any circumstance.

### **Advisory Board Campaign.**

The Company's primary marketing initiative is its annual Advisory Board Campaign. The Advisory Board Campaign is a business development incentive program for members of the Company's various "advisory boards", which are predominantly comprised of local business and community leaders, but also include Board members. Under the Campaign, advisory board members are eligible to participate in a Company-sponsored offsite retreat if (and only if) their business development activities contribute in a material and significant manner to the Company's operating results for the applicable year, as measured against objective criteria. (A limited number of Company officers may also attend the retreat to facilitate activities for participating advisory board members.) The annual budget for each Advisory Board Campaign is approved in advance by the Board of Directors, which affords the CEO additional incremental discretion on expenditures. The Company has concluded that the Advisory Board Campaign effectively motivates advisory board members to contribute to the Company's growth and success in a meaningful manner, and that the expenses associated with recognition of advisory member achievement under the Campaign are reasonable and appropriate expenditures for such performance incentives.

### **3. Office and Facility Renovations.**

All proposed office and facility capital improvements and/or renovations with a cost exceeding \$5,000 must be approved in writing, prior to the commencement of any such activities, by (i) the CEO, in the case of such expenditures for the benefit of any officer or employee other than the CEO, or (ii) the Chairman of the Board, in the case of such expenditures for the benefit of the CEO.

Any other proposed office or facility improvements and/or renovations (i.e., with a cost of \$5,000 or less) must be (i) approved by the Executive Vice President supervising the department for which the specified improvements and/or renovations will be provided, and (ii) within the allocated budget for the fiscal year for such improvements and/or renovations or otherwise approved by the CEO.

### **4. 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 Chairman of the Board, the CEO or the CFO, as appropriate in light of the requesting Company personnel.

## **REPORTING OF VIOLATIONS & ACCOUNTABILITY**

Any individual who violates this Policy, or knows of any such violation or suspected by any other individual, whether the violation is intentional or inadvertent, 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). In addition, the process for approving and reporting expenditures covered by this Policy, as well as the actual amount of expenditures incurred, may be subject to audit by the Company's internal audit staff to confirm policy compliance.

Any employee or director who engages in extravagant spending in violation of this Policy shall be subject to discipline up to and including termination of employment or removal from or omission of re-nomination to the Board.

## **CERTIFICATION**

Within 90 days of the completion of each fiscal year of the Company, the Principal Executive Officer (*i.e.*, CEO) and Principal Financial Officer (*i.e.*, CFO) of the Company shall certify that the appropriate approval of any expenditure requiring prior approval under this Policy has been properly obtained. This certification shall be provided to the Department of the Treasury and on Exhibit 99.1 in the Company's annual report on Form 10-K.

## **AMENDMENTS AND MODIFICATIONS**

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

Approved by  
Heritage Bankshares, Inc.  
Board of Directors  
October 28, 2009