

**LUXURY EXPENDITURE POLICY  
FOR  
CAROLINA BANK HOLDINGS, INC., CAROLINA BANK, AND SUBSIDIARIES**

This policy fulfills 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.

Carolina Bank Holdings, Inc. (Company) and its subsidiaries, Carolina Bank, prohibit excessive or luxury expenditures on entertainment and events, aviation or other transportation services or other activities or events that are not reasonable expenditures for conferences, staff development, reasonable performance incentives or other similar measure conducted in the normal course of business.

**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 expectation is that all expenses incurred to the Bank would be for company purposes, and used to drive business to the bank. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, taking them to other events the customer / prospect would find pleasurable is a necessary part of the Company's marketing efforts and is not deemed as "entertainment" or a violation of the Luxury Policy. These expenses should be documented and detailed as to the benefit derived by the Bank and expensed per the standard expense reimbursement policy of the company.

**Luxury Expenditure:**

From time to time, the Company will be asked to sponsor an event. This event will typically be to support a local (within the footprint of Company's operation) charity, educational, or civic endeavor. Any expenditure, which will have as a benefit, a dinner, customer entertainment, or sporting occasion will require Board approval, if greater than \$5,000.00

**Conferences:**

We encourage our staff to attend conferences that are appropriate educational opportunities. These conferences should 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. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities.

This Policy would EXCLUDE reward conferences whether paid for by the Company or other vendors as a violation of this policy if the purpose is meant to be a reward, or would have no value of education to the employee or executive.

**Renovations:**

Renovations of facilities and office space will require full Board approval, except for situations that are for replacement / maintenance needs. These would be for repair of worn carpets, damage to facilities drive-in by errant drivers, and repainting of existing surfaces. In those cases, the CEO is authorized to have those or any other "emergency" needs fixed.

Any new and / or cosmetic upfits will require Board approval, regardless of amount.

The Board has granted approval for fixed asset expenditures up to \$50,000 to the CEO. All fixed assets purchased will continue to be reported monthly to the Board as has been the current practice.

**Holiday Parties:**

We feel that holiday parties are part of an employee appreciation process. Holiday parties should be local in geographic nature, and should not cost the Company more than an average day's payroll per employee, on average. (If the payroll is \$7M annually divided by 260 days, equals \$27K in expense available for an appropriate holiday party).

Board Retreats should only be used for educational 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.

Events and Parties focused on Customers for the purpose of attracting their business would not fall under this policy.

**Aviation Services:**

Transportation for Company staff to outlying locations, including bank locations, conferences, business development purposes and merger and acquisition research, should be conducted in the most cost appropriate way for the Company. Modes of transportation to be used for the analysis, for example may consist of vehicle, commercial air service and private air service. A determination of transportation analysis will factor in cost, efficiency and timeliness of travel.

**Reporting of Violations:**

Any employee, officer, or director that becomes aware of a violation of this Policy shall immediately report such violation to his or her supervisor for reporting to the CFO and CEO. The CEO and CFO, collectively, shall make the initial determination of whether a violation occurred and the proper remedial measure that should be taken. If the CEO and CFO cannot agree on the existence of a violation or the proper remedial measure or if the CEO or CFO is the alleged violator, the Board of Directors shall have the final determination on whether an excessive expenditure has occurred and what the proper remedial measure shall be. A violator may be subject to a wide-variety of remedial measures, up to and including termination of employment.

**Amendment and Interpretation:**

This Policy should be interpreted and amended, as necessary, so as to be in compliance with the Troubled Asset Relief Program's (TARP's) Standards for Compensation and Corporate Governance outlined in Section 111 of the Emergency Economic Stabilization Act of 2008 (EESA), as amended by the American Recovery and Reinvestment Act of 2009 (ARRA), and as interpreted from time to time by the U.S. Department of Treasury.

*Approved – March 17, 2009*

*Updated – July 21, 2009*

*Updated – September 11, 2009*