

Carolina Bank Code of Conduct

Policy:

This Code of Conduct is offered as a guideline for the activities of Bank Officials (agents, attorneys, directors, officers, and employees) of Carolina Bank that will promote, train, and encourage adherence in business and personal affairs to a high ethical standard. This will also help to maintain the Bank as an institution that serves the public with honesty, integrity, and fair-dealing.

This Code of Conduct is designed to comply with the Federal Bank Bribery Law and the Bank Bribery Amendments of 1985, which provides guidelines in connection with breaches of fiduciary duty, dishonest efforts to undermine financial institution transactions, and the intent to corrupt or reward a Bank Official by influence in connection with the business of the Bank. This Code is intended to be in complete compliance with all other Federal and State Statutes.

General Ethical Standards:

A. Gifts and Gratuities:

1. It is the Bank's policy to prohibit any Bank Official from offering, giving, seeking, or accepting anything of value for themselves or a third party with the intent to corruptly influence or reward one in return for any business, service, or confidential information of the Bank, either before or after a transaction is discussed or consummated. Bona fide salary, wages, fees, expenses, or other compensation paid or reimbursed in the normal course of business are acceptable.
2. If a Bank Official is offered or receives value from a customer beyond what is authorized in the Policy, the Bank Official should disclose that fact to the Bank's Executive Committee. Records of all such occurrences shall be on the basis of a full disclosure of all relevant factors. Contemporaneous written reports of all disclosures and approvals will be retained along with the determination that what was accepted is reasonable and does not pose a threat to the integrity of the Bank.
3. This policy will not be considered violated by normal and reasonable business entertainment or by gifts relating to events or occasions at which gifts are a customary and accepted practice. In these cases, the gift should be unsolicited and not given to influence a Bank Official.
4. Amendments to the Crime Control Act make it a crime for Bank Officials to directly or indirectly solicit or accept value from anyone in connection with a transaction or business of the Bank. If the value of

the item given or received exceeds \$100, the violation is a felony with a fine of not more than \$5,000 or three times the value of the item given or received, whichever is greater, and up to five years in prison. If the value of the item given or received does not exceed \$100, the violation is a misdemeanor with a fine of not more than \$1,000 or up to one year in prison or both.

Officials should exercise due care in complying with the Statute. If there is any indication of impropriety or even the appearance of questionable activity, the individual should abstain from such conduct. The confidence of the public and of those who do business with the Bank is a crucial factor in service to our community and customers. Any activity which could possibly destroy this confidence and damage the reputation of the Bank will not be tolerated.

No threat of a violation of the Federal Bank Bribery Law exists if the benefit is available to the general public under the same conditions on which it is available to the Bank Official.

For further information on the Bank Bribery Law, contact can be made through the Division of Bank Supervision in Washington, DC, at 202-898-6986.

B. Exceptions to the Prohibition of Accepting Gifts

1. Specific exception to the prohibition regarding acceptance of unsolicited items of value in connection with the business of the Bank are listed below. These exceptions should be normal, accepted business practices which need to comply with the spirit of the law, and care should be exercised whenever a Bank Official accepts or gives any gift.

- Gifts based on family or personal relationships independent of business of the Bank.
- Benefits which would be paid for by the Bank as a reasonable business expense if not paid for by another party.
- Loans from banks or financial institutions on customary terms to finance proper and usual activities of Bank Officials, except where prohibited by law.
- Advertising or promotional material of reasonable value.
- Discounts or rebates on merchandise or services that do not exceed those available to others.
- Civic, charitable, educational, or religious organization awards for recognition of service and accomplishment.

On a case by case basis, situations when a Bank Employee or Officer is involved in the acceptance of any item of over \$100 in value, situations which seem vague, requests for exceptions not stated in this Policy, or situations which need clarification may be approved by the Executive Committee. The approval should be in writing on the basis of a full written disclosure and be consistent with the Bank Bribery Statute. The Executive Committee should review and keep the written reports of all such situations and determine that what is accepted is reasonable and does not pose any threat to the integrity of the Bank and that corrupt intent does not exist.

C. Confidential Information

1. The safeguarding of the confidential nature of information about the Bank's transactions, customers, and shareholders is essential to the proper conduct of the Bank's business. Such information obtained by Bank Officials should be kept confidential and should be shared only with those who have a legitimate right and need to know. Aside from routine credit and personnel inquiries, confidential information concerning a customer, shareholder, or particular business transaction may be released only with the consent of the individual or organization involved, or in response to legal process.
2. Confidential information obtained as a result of employment by the Bank shall not be used for the purpose of advancing any private interest or of making personal gain.
3. While the successful operation of the Bank depends upon the orderly flow of legitimate information throughout the organization, special care shall be exercised to prevent the misuse of confidential information between departments. The Bank recognizes the dangers and urges its Officials to cultivate and maintain an awareness of the confidential nature of the Bank information and that misuse of such information could violate confidence and bring discredit upon the Bank.

D. Preferential Treatment

1. The Bank recognizes the principles that under some circumstances the granting of preferential treatment, including preferential rates of interest on loan, to some Bank Officials, constitutes legitimate employee benefits. However, such preference shall be rooted in a policy of uniform standards as to amount, rate, and credit considerations, applicable to all members of the same class and in compliance with all Federal and State Statutes.

2. Loans to directors, executive officers and their affiliated interests shall be made upon terms and at rates that are commensurate with those accorded other comparable credit risks.
3. Loans to officers and employees of the Bank's corporate customers shall be made upon terms and at rates that are commensurate with those accorded other comparable credit risks, except as preference is uniformly given to a class as a fringe benefit.
4. The Bank shall not offer or extend to the officers or directors of any other bank any personal or individual preference or benefit on account of that bank's correspondent relationship. No Bank Official should seek or accept any personal or individual preferential treatment from another bank on the account of a correspondent relationship. Any such transactions shall be treated on the basis of other comparable risks, rates, security, and circumstances without regard to any correspondent relationship between banks.
5. The Bank recognizes that in some circumstances, the personal use of Bank property by a Bank Official is not only appropriate but desirable, such personal use constituting legitimate compensatory benefits connected with employment. However, where such personal use constitutes preferential treatment rather than an integral part of one's employment, it shall be rooted in a policy of uniform standards applicable to all members of the same class.

E. Community Involvement

1. The Bank's continued success is dependent upon involvement in worthwhile community affairs, and the Bank encourages its Officials to participate actively in all matters directed to the public interest.
2. Among the areas in which the Bank can make a valuable and needed contribution to the general welfare is that of charitable contributions. The Bank is dedicated to the making of charitable contributions in such amounts and to such charitable organizations as shall be determined from time to time.

F. Political Involvement

1. It is the Bank's policy to adhere strictly to the law affecting its participation in political processes. The gift or the gratuitous use of the Bank's funds, property, equipment, supplies, and facilities, directly or indirectly, to or for the benefit of any political party, candidate, or political committee is absolutely prohibited. Although this policy does not prohibit a contribution by a Bank Official, acting upon his own notion as an individual, the Bank shall provide no reimbursement, directly or indirectly, to such Official.

2. Bank Officials may, independently of the Bank, engage in reasonable political activity if such engagement does not utilize the Bank's time, reputation, facilities, or equipment and does not otherwise constitute a violation of the rule against corporate contribution to a political activity. An officer or employee shall obtain prior approval of the Executive Committee before campaigning or running for public office.

G. Personal Conduct

1. The Bank's image and reputation can be no better than that of its Officials and the Bank expects all of its people to conduct their personal lives in such manner as not to bring discredit upon the trust and respect of the bank. The reputation that the Bank will enjoy will be attributable in large part to the fair-dealing, friendliness, and moral rectitude of the Bank's people.
2. Among the most important attributes that a Bank Official can have is a reputation for wise management of his/her personal economic affairs. The Bank encourages its Officials to set an example of adherence to good banking practices by managing their personal affairs in such a manner that they discharge their obligations promptly, and avoiding debt that exceeds their ability to pay.
3. Careless handling of personal or an affiliation's business affairs will be grounds for dismissal. This would include, but not be limited to, excessive gambling, drawing checks against insufficient funds, or delinquent discharge of obligations.
4. Bank Officials should refrain from trading the Bank's stock, or the stock of a customer or supplier based on Bank insider knowledge.

H. Advertising

1. Management of the Bank recognizes the value of advertising and its ability to create lasting impressions. The harm that can result from careless, untruthful and undignified advertising is also recognized. Therefore, policy is to employ advertising media in such a manner that assertions and claims will be honest, truthful, and in keeping with fundamental ethical principles.

Conflicts of Interest

A. General Statement

1. The Bank expects every Official to be constantly vigilant to perceive the dangers inherent in situations that give rise to a conflict of personal interests with those of the Bank. Perfect avoidance of all conflicts is not possible, but the Bank expects the kind of loyalty and ethical consciousness that will motivate an Official to recognize a conflict of interest when it occurs, and if it cannot be reasonable avoided, to disclose it and endeavor to bring about its satisfactory resolution.
2. The sections that follow represent examples of conflicts of interest most likely to arise in banking employment. They do not purport to embrace all situations in which conflicts exist, and it will be incumbent upon each person to exercise his own judgment as to whether or not a conflict exists or is sufficiently substantial and harmful to justify remedial action.
3. In any doubtful situation, or potential conflict, the matter should be fully disclosed, discussed with the Bank's Executive Committee for final determination , and duly noted in the Committee Minutes.

B. Self-Dealing

1. The Bank recognizes the fact that some of its Officials or their firms perform services for the Bank. The Bank has no policy against this, and in fact, encourages this where possible. However, when the duty to protect the Bank's interests and the opportunity for personal gain or benefit both exist, no Official shall vote on the question of his employment or compensation.
2. The Bank, in its own non-fiduciary right, shall not buy or sell any property or services from or to a Bank Official without the expressed approval of the Bank's Executive Committee. This prohibition shall not apply to regular transactions conducted on comparable terms with those accorded other customers of the Bank.
3. In no instance in which a Bank Official has a significant financial interest, influence, or economic benefit shall such Official vote between that business and the Bank.

C. Outside Employment

1. Except as otherwise agreed employment by the Bank of an officer or employee shall be deemed to be "full-time". The Bank recognizes the fact that an officer or employee may be justified under some circumstances in accepting casual

outside employment to be performed after working hours if no conflict with the Bank's interest is involved. However, the determination of the property of such outside employment should be made by the Chief Executive Officer through the employee's Supervisor. Under no circumstances may an officer or employee work for another bank of financial services company.

2. No Bank Official shall own directly or indirectly an interest in any business or enterprise if such ownership would tend to influence adversely any decision of said Official on behalf of the Bank. Ownership by the spouse or unemancipated child of the Official shall be deemed to be an indirect ownership by the Official.
3. No Bank Official shall accept or engage in an activity, business or employment, either during or after working hours which would conflict with the Bank's interest or diminish the ability of the Official to render to the Bank the full, loyal and undivided service which is contemplated in his/her employment by the Bank.

D. Outside Business Interest

1. In some instances, business opportunities may arise which are available to both the Bank and one or more of its Officials. It is the policy of the Bank to discourage any usurpation of corporate opportunity by its Officials as a breach of employment and a breach of the fiduciary relationship that arises between Officials and the Bank. Corporate opportunity shall be referred to the Board of Directors for determination. Prior to any affirmative surrender of corporate opportunity to an Official, and prior to taking ownership in a business, the Board of Directors shall thoroughly examine and analyze the same with respect to prospective profitability, the feasibility of engagement therein by the Bank, and other factors bearing upon the potential advantages to be derived from participation or engagement in the activity.
2. Bank Officials are prohibited from self-dealing or otherwise trading on their position or accepting from one doing or seeking to do business with the Bank, a business opportunity not available to other persons, or that is made available because of such Official's position with the Bank.

E. Outside Directorship

1. The Bank recognizes the value of having Officials serve as directors to corporations who are customers or suppliers and has no policy against such directorships where the circumstances are appropriate and no

real or apparent conflict of interest is involved. However, the acceptance of an outside directorship shall be selective and based upon careful exercise of judgment as to whether the same is in the best interest of the Bank. If there should be any question as to the propriety of serving as director of any corporation, the matter shall be referred to the Executive Committee for determination prior to acceptance of the post. No officer or employee should serve on boards of "for profit" customers due to the potential of lender's liability.

2. Bank Officials should maintain their respective outside relationships with paramount regard for the fairness and individual integrity of each interest and the Bank. All directors, officers, or employees that have any outside business interests where he/she owns, controls, or in any way affects more than 10% of the ownership in any company, will disclose such a relationship to the Board of Directors at the inception of the relationship and will further make an annual statement to the Board of Directors listing any such relationships. Where situations exist that Officials become involved with banking transactions with their interests and it is difficult, impossible, or not in the corporation's best interest to be removed from the situation, then no concessions of availability, rate, term, collateral, or structure will be made without the approval of the Board of Directors.
3. Where an outside directorship does involve a conflict of interest, the same shall be discouraged. The Bank is aware of the increasing tendency of regulatory authorities to eliminate interlocking directorates. The Bank's policy in these matters is to avoid the creation of any interlocks and to abide by all applicable laws, rules, and regulation.
4. No Official serving also as a director of an outside corporation shall vote to approve or disapprove any transaction between the Bank and said outside corporation of his employment or compensation.

F. Individual Transactions with Customers

1. Bank officers and employees should avoid lending or borrowing personal funds from non-lending institution customers of the Bank, not only because of the potential influence on an officer or employee's judgment and decisions, but also because the grant or denial of a loan request imposes an unfair burden on the customer. Accordingly, borrowing by an officer or employee from a customer of the Bank shall be limited to recognized lending institutions, except with the prior approval of the Chief Executive Officer.
2. Officers and employees shall not make a personal investment of a speculative nature or greater than 10% ownership in the business of a

customer or enter into a partnership business with a customer without prior approval of the Executive Committee.

G. Conflicts Between Customers

1. The Bank cannot control or prevent conflicts between its customers; however, the Bank's policy is to maintain an awareness, to the extent possible, of known conflicts between customers and of the inherent dangers of participating therein.
2. If a Bank Official knows of or suspects the existence of a conflict between the Bank's customers, involving matters to which the Bank or any of its Officials are privy, special care shall be taken to preserve confidential information pertaining to each customer in order that no customer shall be armed by the Bank with information that could be used adversely against another customer. In all such cases, it shall be the Bank's policy to remain neutral with respect to any such conflict.
3. The Bank is aware of increasing litigation arising out of bank financing of "takeovers" by one company of another. Although the prevalence of that situation currently is concentrated largely in financial, metropolitan, and highly industrialized areas, Bank Officials should recognize the increasing possibility of its occurrence in any area and avoid any situation in which participation by the Bank is sought in a "take-over" of one customer by another.

H. Appearance of Conflict

Bank Officials should strive at all time to avoid not only actual conflicts of interest but the appearance thereof. In many cases, the appearance of conflict can be as damaging as an actual conflict, and all Officials are encouraged to develop and maintain an attitude of those situations in which an appearance of conflict may arise.

Implementation of Policy

A. Supervision and Control

The adoption and implementation of all Bank policies stem from the authority of the Board of Directors. The Board has authorized the Bank's Executive Committee to perform the functions of an Ethics Committee to interpret the provisions of this Code, to make any necessary changes therein from time to time, to monitor compliance therewith, to advise the staff of any apparent conflicts of interest and to do all other things helpful to the effective administration of this Code on a continuing basis.

B. Dissemination of Statement

1. Since the regulations of the Bank Bribery Law require it, and since a statement of policy and ethics can be no better than the knowledge and awareness of it by those to whom it is directed, a copy of this Code of Conduct shall be made available to every Banking Official. The Official shall acknowledge and agree to the Code in writing. A copy shall be available to every new Official upon his/her employment or affiliation with the Bank, and a written acknowledgment and agreement shall be obtained from him/her at that time.
2. Within a reasonable time after any amendment or revision to this Policy, copies thereof shall likewise be made available.

C. Monitoring

1. The Bank urges all its Officials to cultivate an awareness of circumstances that affect the banking industry and the need to define standards of conduct that contribute to the well-being of the Bank and assist the Bank in complying with accepted rules of conduct and applicable government requirements
2. The Bank also urges its Officials to monitor its practices in the light of changing times and to suggest ways and means of improving the Bank's services to the people of the various communities in which it operates. A good public image is most important to the Bank's future and it can be maintained only through the fair and honest dealings and ethical conduct of its Officials.