



**VSB BANCORP, INC.
CODE OF ETHICS**

STANDARDS OF PERSONAL CONDUCT

I. PURPOSE

This policy establishes the standards of ethical business behavior and personal conduct by directors, officers and employees of both VSB Bancorp, Inc. and all its subsidiaries, including Victory State Bank, which are sometimes referenced collectively herein as “Bancorp.” The intent of this policy is to maintain and safeguard the Bancorp’s traditions and adherence to the highest moral and social standards of conduct. Management will periodically provide Code of Ethics training to employees, officers and directors as a refresher. The Code of Ethics Policy will be reviewed and updated as needed and re-distributed to all Bank employees on an annual basis.

II. SCOPE

This policy applies to all officers, employees, directors, attorneys, and associates of VSB Bancorp, Inc. and all its subsidiaries, including Victory State Bank.

III. OVERALL POLICY

A commercial bank is a business built upon public trust and confidence and depends upon a favorable perception of the conduct of its business by customers, federal and state regulators, stockholders, and others in both the business and general community. In light of this perception and the widely-publicized questionable practices of a very few high-profile bankers, it is imperative that each individual connected with this Bancorp objectively view his/her business and personal actions and intentions and the impressions that these can make on others. Each of us must ensure that no one observing our actions, intentions, or the impressions created would have reason to believe that even the slightest irregularity in conduct exists or could be implied.

To this end, this policy will address 15 specific areas that need immediate and continuing attention on the part of each officer, employee, director, attorney, or associate, as follows:

1. Protection of Confidential Information
2. Investments
3. Conflicts of Interest



4. Outside Activities
5. Board Directorships and Partnerships
6. Improper Payments
7. Trade Associations and Relations with Competitors
8. Advertising policy
9. Political Action Committees/Corporate Payments
10. Public Statements
11. Recommendations to Customers
12. Financial Responsibility
13. Use of Bancorp Letterhead
14. Personal Conduct
15. Receipt of Gratuities

IV. SPECIFIC POLICIES

1. Protection of Confidential Information

- a. Commercial banks by their very nature are privy to a variety of confidential information, which includes plans, forecasts, decisions, problems, capabilities, intentions, contingencies, and timing of actions by many individual and company clients of the Bancorp and the Bancorp itself. The proper use of this type of information is to enable sound business decisions to be made by Bancorp personnel regarding either the business of a client, prospective client, or the Bancorp itself.
- b. Under no circumstances will confidential information be disclosed or used for one's own or anyone else's personal benefit. To do so violates statutes and the policy of this Bancorp. In addition to the penalties imposed by any statute, such actions, if proven, may subject the person (or persons) to removal from his/her position of trust. The general rule is that such confidential information not be divulged inappropriately to any person outside the Bancorp.
- c. No confidential financial or other information regarding the Bancorp is to be relayed to



any person not employed by the Bancorp.

2. Investments

- a. No investment interest or loan, direct or indirect, in any of the Bancorp's customers or suppliers is permitted except as outlined below in paragraphs (b) and (c). Any exceptions must be approved in advance by the Board of Directors of the Bancorp.
- b. Investments are permitted in companies who are customers and/or suppliers if, such securities are listed on an organized exchange, are traded in the over-the-counter market or if it is otherwise evident and clear that such investments are not being made on any terms that are more favorable than those terms available to the general public.
- c. Investments in "limited partnership interest" will be permitted if it is evident that such investments are not being made on terms more favorable than those that are available to the general public.
- d. Although investments in the Bancorp's own securities may be permitted, speculation in such securities should be avoided.
- e. Personal investments or investments of immediate family members should never involve the use of any confidential information which might be considered to be "insider information," i.e., information not publicly disclosed.
- f. Certain other items are required of each person covered by this policy due to his/her position with our Bancorp:
 - (1) No "in-and-out" or speculative trading in the Bancorp's securities
 - (2) No acceptance of gifts, favors, or preferential treatment from brokerage firms or individuals who are customers of or deal with the Bancorp.

3. Conflicts of Interest

- a. "Conflict of interest" is defined as any situation where an individual has two or more duties or interests that are incompatible. Officers, employees, directors, attorneys, and associates of this Bancorp are expected to conduct their private business and personal activities in a manner that avoids conflict of interest with the Bancorp's best interest, e.g. An individual has a personal financial interest in a business or venture that is involved in or seeks to be involved in a business transaction with the Bancorp so that one's judgment might reasonably be influenced by that non-Bancorp relationship. No lending officer or employee should loan, review a loan, or make any decision regarding a loan of any customer, syndicate, or corporation in which he or she has a present or a prospective financial interest.
- b. A "personal benefit" is defined as any type of gift, favor, service, loan, fee, or other compensation. No officer, employee, director, attorney, or associate nor any member of his/her family shall knowingly solicit, accept, or retain any personal benefit or be an owner, partner, officer or employee of any entity without approval of the Board, from any of the following:
 - (1) A customer of the Bancorp
 - (2) An individual or organization that is or seeks to be a borrower, supplier, or



competitor of the Bancorp; exceptions to these prohibitions are limited strictly to normal business courtesies where there is no concealment and where no improper influence to the performance of the Bancorp's officer, employee, director, attorney, or associate is present or could be implied.

4. Outside Activities

a. Officers, employees, directors, attorneys, and associates are encouraged to be active and involved participants in the community. The person's own interest and reasonable time requirements should limit such activities. Major outside commitments of employees must be approved in advance by the immediate supervisor or other designated member of management.

5. Board Directorships and Partnerships

a. No officer, employee, director, attorney, or associate shall agree to serve as a director of a board of another organization in the same or related type business as the Bancorp or in which the activities might be adverse to the best interests of the Bancorp without prior approval of the Board.

6. Improper Payments

a. All officers, employees, directors, attorneys, and associates are required to comply with all applicable laws and regulations (federal, state, and local). The use of any Bancorp person or resource which is in violation of any federal, state, or local law or regulation is strictly prohibited. The Bancorp's policy is to prohibit any improper payments to any governmental, political, business, or labor organization, or any individual.

7. Trade Associations and Relations with Competitors

a. The Bancorp will act with trade associations and competitors only on behalf of ethical and beneficial social objectives and will not participate in business activities that are or could be construed to be in violation of anti-trust laws.

8. Advertising Policy

a. We will insure that the ethical content and moral impact of any advertising made for, or on behalf of, the Bancorp, shall be in accordance with acceptable social values and be in good taste.

9. Political Action Committees/Corporate Payments

- a. It is the Bancorp's policy not to contribute money, property, or services to any government official, political party, or candidate for public office whether local, state, or federal.
- b. The Bancorp shall refrain from offering or allowing the use of its facilities, equipment, and personnel in connection with any federal, state, or local election or campaign.
- c. Officers, employees, directors, attorneys, and associates may, and are encouraged



individually, to engage in any governmental, regulatory, or elective process in which they are interested. This participation may be on an individual basis, group basis, or as a member of a political action committee. Since the Bancorp is without preference as to political parties, candidates, and opinions, each officer, employee, director, attorney, and associate must act only on his/her own behalf and not give any representation that he/she represents anyone other than himself/herself.

10. Public Statements

- a. Although the Bancorp has a policy of maintaining good relations with all news media and tries to accommodate media inquiries, there is much information concerning the Bancorp that should not be made available to the public. This includes information about corporate customers, which the Bancorp has a responsibility not to divulge, as well as information, which might be valuable to a competitor.
- b. For these and other reasons, any inquiry made relevant to the Bancorp or a customer by the news media should be referred to a supervisor or other designated person.

11. Recommendations to Customers

- a. Officers and employees of the Bancorp in the performance of their duties as such employees shall refrain from recommending individual attorneys, accountants, insurance agents, stock brokers, real estate associates, or similar individuals or companies to customers or others asking the Bancorp's suggestions or guidance. If a recommendation is required, it is appropriate for the individual to provide a list of several suitable candidates and expressly state that it is a personal opinion and not a recommendation of the Bancorp.

12. Financial Responsibility

- a. All officers, employees, directors, attorneys, and associates of the Bancorp should conduct their financial affairs in a prudent and responsible manner. The following list is intended to be a guide to the areas of each person's concern in this regard and in accordance with all applicable laws, regulations and guidelines established by regulatory authorities:
 1. Prompt payment of personal bills and debts
 2. Avoid overdrafts in personal checking accounts
 3. Use of any Bancorp credit cards, expense account reimbursements, equipment, and supplies only for official Bancorp use
 4. Avoidance of salary advances, even if allowed by Bancorp policy
 5. Employee loans are to be in strict compliance with internal lending policies
 6. Incurring indebtedness only for legitimate purposes made in accordance with the requirements of Regulation O and any other applicable laws, regulations, or guidelines

13. Use of Bancorp Letterhead

- a. No officer, employee, director, attorney, or associate will use official Bancorp stationery



for personal or non-job related purposes, particularly when such use would imply endorsement by the Bancorp, or make references to Bancorp employment in matters of personal dispute.

14. Personal Conduct

a. Dishonesty

Every officer, employee and director shall be held to the highest degree of honesty and integrity in their conduct and activities. Any employee or officer who fails to fulfill his/her legal and ethical obligations or who commits an act constituting a breach of trust or dishonesty, e.g. theft, fraud or falsification of Bancorp records, will be subject to disciplinary action and possible termination of employment.

b. Major Infractions

It is the policy of the Bancorp to thoroughly investigate the occurrence of any major infraction, and to discipline appropriately any responsible employee(s), up to and including termination. Major infractions include but are not limited to the following:

1. Violation of any of the policies of the Bancorp;
2. Any action by an officer, employee, director, attorney, or associate which adversely affects the Bancorp's public image;
3. Unauthorized possession, distribution, or use of any drug or illegal narcotic or pornography;
4. Inability to perform work due to consumption of alcohol or any other controlled chemical substance;
5. Fighting;
6. Removal or borrowing of Bancorp property without permission;
7. Willful failure to follow instructions, insubordination, or action which causes embarrassment to the Bancorp or its customers;
8. Willful destruction, or waste of property belonging to the Bancorp, fellow employees and/or customers;
9. Failure to report to work without proper notification to management or leaving the Bancorp without proper authority.

15. Receipt of Gratuities

Purpose:

The purpose of this section of the policy is to prohibit either the solicitation or receipt of benefits by anyone associated with VSB Bancorp that might have a corrupting influence upon the business of the institution.

Scope:

This policy includes officers, employees, directors, attorneys or associates of the Bancorp.

Objectives:

The objectives of this policy are to define and establish:

- a. The complete and total prohibition of the soliciting or receiving of anything of value in



exchange for favorable treatment in connection with any transaction or business of the Bancorp, and

- b. Appropriate circumstances in which gratuities (i.e. gifts, entertainment, etc.) may be received
- c. Limitations on the value of these securities
- d. Procedures for the disclosure of the receipt of certain gifts or gratuities
- e. Awareness of the *Bank Bribery Amendments Act of 1985*, as it may be amended

General Policy

VSBC Bancorp absolutely prohibits the solicitation or receipt of anything of value by its officers, employees, directors, attorneys, or associates in connection with any transaction or business of the institution. Such action by definition constitutes a breach of the fiduciary duty each officer, employee, director, attorney, or associates owes the institution. This policy is not intended to prohibit the receipt of normal business amenities of nominal value in the ordinary course of business; however, no officer, employee, director, attorney, or associates may, under any circumstances, directly or indirectly, solicit any form of gratuity or entertainment.

Benefits Permitted

Officers, employees, directors, attorneys, or associates may receive gratuities of nominal value in situations that facilitate business discussions for this institution. Examples of permitted gratuities include:

1. Reasonable business meals (breakfast, lunch, and dinner), including luncheons and dinners sponsored by trade, professional, charitable, and community organizations
2. Holiday gifts of nominal amounts
3. Entertainment or Athletic Events where the customer or vendor is present

Benefits Not Permitted

By contrast to the benefits permitted above, the following types of benefits are not permitted:

1. Expensive gifts
2. Weekend entertainment events such as hunting or fishing trips, etc.
3. Expensive athletic or entertainment events or tickets where the customer is not present

Value Limitations

The infrequent receipt of meals, entertainment, or gifts of nominal value by our officers, employees, directors, attorneys, or associates is permitted. For purpose of this policy, "nominal value" is defined as not more than \$200.00 per item received.

Social and Family Exceptions

Our policy is to permit the receipt of gifts in any amount from customers who have a pre-existing



social or family relationship with our officers, employees, directors, attorneys, or associates. However, such relationships must be a bona-fide social or family relationship and will be monitored closely by the Board of Directors.

Disclosure

Each time any of our officers, employees, directors, attorneys, or associates receive anything of value (other than that of a nominal value), that individual will report the following information to the President or other officer from time to time designated by the President or Board of Directors:

1. Name of the person giving the gift and his/her company affiliation
2. Nature of the gift
3. Value of the gift

The President or the Executive Vice President shall report to the Board of Directors at its regular meetings all such gifts or gratuities received by any officer, employee, director, attorney, or associates since the last Board meeting.

Penalties for Non-Compliance

1. The receipt of anything of value in exchange for favorable treatment regarding extension of credit or any other transaction or business of this institution shall constitute grounds for immediate dismissal.
2. Deliberate failure to disclose the receipt of gratuities where required shall constitute a violation of this policy. Violations of this nature shall result in the individual's being placed on probation and appropriate notation made in the individual's personnel file. Any further violations during this probationary period shall constitute grounds for immediate dismissal.