

**CODE OF CONDUCT FOR DIRECTORS & OFFICERS
OF
PATRIOT STATE BANK**

The trust and support of the customers, employees, communities, and shareholders of Patriot State Bank (the “Bank”) will be critical to the Bank’s business success. The Bank can preserve that trust and support only by maintaining the highest ethical, moral, and legal standards in its business dealings.

Directors and officers of financial institutions are held to higher standards of conduct, by both regulatory agencies and the public, than are the directors and officers of other types of corporations. It is, therefore, important that the directors and officers of the Bank adhere to the same high standards that the Bank imposes on itself. To that end, this Code of Conduct (the “Code”) has been adopted by the Board of Directors of the Bank as a general guide to the standards of conduct expected of all directors and officers of the Bank.

DEFINITIONS

As used below, the term “Bank” refers collectively to Patriot State Bank, each of its subsidiary corporations, and each subsidiary of its subsidiaries, if any; a “Director” is any member of the Board of Directors of Patriot State Bank or any such subsidiary corporation; an “Officer” is any person designated an officer of Patriot State Bank or any such subsidiary corporation; and a Director’s or Officer’s “Related Parties” include any member of the Director’s or Officer’s immediate family, or any corporation, partnership or other entity owned or controlled by or otherwise affiliated with the Director or Officer.

CONFIDENTIALITY

Directors & Officers

As a financial institution, there is no principle more critical to maintaining public trust than that of the confidentiality of the Bank’s relationship with its customers. In the course of their service, Directors and Officers routinely obtain information about the Bank’s customers and suppliers (including financial information and information about their business activities). While that information is a part of the Bank’s business records, it is the Bank’s policy that such information be kept in confidence, be used only for the Bank’s business purposes, and not be discussed with any person outside the necessary course of the Bank’s business. Even within the Bank, such information should be shared or discussed only with those who have a legitimate business need. The improper disclosure of confidential information about a customer or supplier, or the use of any such information to further the personal interest of a Director, Officer or one of his or her Related Parties, can severely damage the Bank’s reputation and, under certain circumstances, may result in the risk of civil liability.

By virtue of their positions with the Bank, Directors and Officers are routinely given financial and other information about the Bank and its business. Frequently, such financial information, or the details of events or trends in the Bank’s business, are provided to and discussed with

Directors or Officers prior to any disclosure to the Bank's shareholders or to the investing public. The proper management of corporate information and its disclosure to the public is of vital importance to the Bank, and "leaks" or the premature disclosure of confidential information can have a materially adverse impact on the Bank. It is the Bank's policy that all information about the Bank given to a Director or Officer in the course of his service as such must be kept confidential and may not be disclosed by the Director or Officer to any other person (including his Related Parties and employees of the Bank who are not already privy to such information) under any circumstances. Likewise, Directors and Officers should not discuss with other persons details of the affairs of the Bank or the substance of events or discussions which transpire at meetings of the Board. Directors and Officers may discuss with other persons financial and other information which has been publicly disclosed by the Bank in the form of its annual and other periodic reports and press releases, but only to the extent that such information actually has been so disclosed to the public and that such information has had time to be disseminated.

Directors may find that as a result of their status of serving on the Board, that direct or indirect contacts or overtures are made to them individually regarding the position of the Bank as to its independence or its interest in affiliating or merging with some third party. Any such third party inquiries of a Director should be immediately reported to the Executive Chairman and/or the President and Chief Executive Officer ("CEO") and the Director receiving such inquiry should make no statement that can be interpreted to indicate that the Board would have any interest whatsoever in entertaining such discussions, and that the matters should be addressed directly with the Executive Chairman and/or the CEO. Directors should be mindful that their position as a Director of the Bank places them in a position where comments by the Director, either meaningful or otherwise, could signal improperly the stated position of the Board with regard to the Bank's mission and purpose. In addition, non-Officer Directors shall refrain at all times from initiating any contact, directly or indirectly, with any unrelated third party regarding that party's or some other party's interest in engaging in discussions with the Bank to affect a combination, share exchange, merger and the like unless the Director has this responsibility directly delegated to him by the Executive Chairman, CEO or the full Board of Directors. The Board of Directors, acting as a corporate body, has the ultimate fiduciary duty to its shareholders in matters of this nature and no individual non-Officer Director should entertain or initiate any discussions that would run counter to the established position of the Board as to the future course of the Bank. In light of the increasing consolidation in the financial services industry, the issue of independence or affiliation has become increasingly sensitive and any breach of this policy should be considered to be a breach of that Director's fiduciary duty to the Bank and reason for the Nominating Committee to consider such Director's suitability for renomination once such Director's term expires.

DUTY OF LOYALTY

Directors

Among their other duties, Directors have a "duty of loyalty" under North Carolina law which requires that they act in a manner they reasonably believe to be in the best interests of the Bank. A "conflict of interest" is a situation in which a personal interest of a Director (or of one of his Related Parties) conflicts with, or appears to conflict with, the interest of the Bank or one of its

customers. If the conflict is between the Director's interest and the interest of the Bank, the law prohibits the Director from using his position to further his own personal interest at the expense or to the detriment of the Bank, and a violation by the Director puts him at risk of liability for damages incurred by the Bank. If the Director's interest conflicts with the interest of one of the Bank's customers related to his or its dealings with the Bank, then the Bank's policy of integrity and fairness suggests that the Director not further his own personal interest to the detriment of the Bank's customer. A violation of such policy does damage to the Bank's reputation for fair dealing with its customers (and, because such conduct may result in the risk of civil liability on the part of the Bank, the Director's action also conflicts with the best interest of the Bank).

While all conflicts of interest cannot be avoided, Directors should attempt to plan their business and personal affairs so as to avoid conflicts (or the appearance of a conflict) to the greatest extent possible, and, in those cases where a conflict cannot be avoided and is material, Directors should fully disclose the circumstances of the conflict to such committee of the Board that will oversee the transaction giving rise to the conflict and abstain from participation in any decision-making by the Bank in connection with any transaction giving rise to the conflict.

Listed below are certain common examples of situations which may pose a conflict of interest or the appearance of a conflict for a Director. While these examples by no means are intended as a statement of all situations in which a conflict or the appearance of a conflict will arise, they will provide general guidance as to the types of situations in which Directors must be sensitive to their duties and obligations.

Self Dealing

A Director's duty of loyalty requires that, at all times, he act in a manner he reasonably believes to be in the best interests of the Bank, and that he not use his position for his own personal gain to the detriment of the Bank. Self dealing by a Director violates his duty of loyalty and is aggressively dealt with by banking regulators.

Sales of Goods or Services to the Bank. Directors or their Related Parties often are in the business of supplying goods and services of a type which are used by the Bank. No law prohibits Directors or their Related Parties from selling goods and services to the Bank; however, such transactions involve an inherent conflict of interest and should be conducted only on the same basis and terms as an unrelated party and in a manner which is fair to the Bank. A Director should disclose fully to the appropriate committee the nature of his interest in any such transaction with the Bank. Any such transaction which is not routine or conducted in the ordinary course of the Bank's business, or which is material to the Bank, should be approved by the Bank's full Board of Directors before being effected.

Purchases of Property or Assets from the Bank. Purchases of property or assets by a Director or one of his Related Parties from the Bank should be made on the same basis and terms as an unrelated party and in a manner which is fair to the Bank, and may only be made after full disclosure by the Director of the nature of his interest in the transaction and after approval of the transaction by the appropriate committee.

Purchases of property or assets of a loan customer of the Bank which are being sold through a foreclosure or repossession sale, or which have been acquired by the Bank at such a sale or otherwise in the course of liquidating a customer's loan are discouraged and should be avoided. However, there are circumstances (such as the lack of other willing purchasers) under which such a purchase may benefit the Bank. In those cases, a purchase by a Director or his Related Parties may be appropriate, but only after consideration by and the pre-approval of the appropriate committee. The same procedures will apply regarding purchases of assets by a Director or one of his Related Parties directly from a distressed borrower.

Use of the Bank's Assets, Facilities and Personnel. The Bank's equipment and facilities, and the services of its personnel, are valuable assets. The unauthorized use of such assets by a Director or one of his Related Parties for personal or other purposes which do not further the business interests of the Bank and without compensation for such use is a misuse of corporate assets. At a minimum, such misuse of assets may constitute a violation of the Director's duty of loyalty. At its extreme, such misuse may constitute a misapplication or misappropriation of assets by the Director. From time to time the Bank may extend the use of certain of its equipment or facilities, or the services of certain of its personnel, to Directors in the course of their service to the Bank. However, Directors should avoid any unauthorized use of such assets.

“Hidden” Conflicts

Directors also must be sensitive to “hidden conflicts” which may arise as a result of indirect interests (financial or otherwise) they or their Related Parties have in transactions between the Bank and some other person. In other words, a Director could be perceived as misusing his position in connection with a transaction to further his own personal interest even if he or one of his Related Parties is not involved in the transaction, and even if his personal interest is not of a financial nature. For example, a Director may be considered to have an indirect personal interest in:

- a loan by the Bank to any person which could be said to relate to or facilitate a separate business transaction or business relationship between the loan customer and a Director or one of his Related Parties (such as a loan that will enable the customer to purchase some property or service from, pay a debt owed to, or that otherwise would have some bearing on that person's personal or business dealings with, a Director or one of his Related Parties);
- a loan by the Bank to, or a purchase of property or services by the Bank from, any person with whom a Director or one of his Related Parties has a special personal or other relationship (such as a transaction with a Director's personal friend or business associate, or a loan to a community, charitable or political organization in which a Director is involved); or

- any other loan or business transaction in which a Director or one of his Related Parties will derive some indirect benefit, whether of a financial or personal nature.

While the foregoing examples are not intended to discourage Directors from recommending relationships between the Bank and personal friends, business associates, charities Directors are involved in or the like where the Director may have an indirect personal or financial interest, it should be noted that potential conflicts of interest resulting from such transactions are subject to the same “self dealing” considerations as are those transactions in which a Director is a direct participant or has a direct interest. Directors should fully disclose to the appropriate committee any indirect interest they have in any such transaction, such committee should assess the potential conflict, and, if material, the Director should abstain from participation in the Bank’s decision-making process relating to, and should not attempt to influence the terms of, such a transaction.

Investments

Directors should be sensitive to the effect or appearance of an effect that personal investments may have on their actions or judgments as Directors. As a part of the duty of Directors to disclose to the Bank their direct and indirect interests in the Bank’s business transactions, each Director should disclose to the Executive Committee the direct or indirect beneficial ownership by him or one or more of his Related Parties of:

- more than 5% of the outstanding shares of any class stock of any publicly traded company; or
- any stock or other equity interest in the business of any customer, supplier or competitor of the Bank (other than interests of less than 5% in publicly traded companies).

Other Directorships

A Director’s duty of loyalty requires that he not compete with the Bank or engage in activities that adversely affect the Bank’s reputation, encroach on the time or attention he devotes to his duties as a Director of the Bank, or adversely affect the quality of service he renders as a Director. While Directors of the Bank are not prohibited from serving as directors of other entities, under certain circumstances such service may pose potential conflicts of interest or violations of the Director’s duty of loyalty to the Bank. Directors should notify the Executive Committee if they accept a position, or agree to allow their names to be placed in nomination for election, as a director of any other entity (other than charitable, civic or other non-profit entities).

Under most circumstances, Federal law prohibits a Director from serving as a “management official” (including service as an officer, director or advisory director) of any other “depository organization” (including any depository institution or other organization that owns a depository institution).

BANKING AND LOAN TRANSACTIONS

Directors & Officers

It is anticipated that, whenever possible, Directors and Officers will utilize the banking and lending services of the Bank, and that they will recommend the Bank to others, including their Related Parties. While Directors and Officers should expect to be treated as well as any other customer similarly situated, they should not expect or attempt to arrange more favorable treatment for themselves or for their Related Parties. Directors and Officers must be sensitive to and use all best efforts to avoid circumstances in which they may be accused of self dealing or of attempting to misuse their positions or influence. All transactions between the Bank and a Director, Officer or one of his or her Related Parties should be conducted on the same basis and terms as an unrelated party in accordance with the Bank's standard policies and procedures, with full disclosure of the Director's or the Officer's interest, and in such a manner as to avoid the appearance of self dealing. Furthermore, interested Directors should abstain from any participation in the decision-making process related to any such transaction. All loan transactions between the Bank and a Director, Officer or one of his or her Related Parties must be conducted in strict compliance with state and Federal laws and regulations which apply to such loans.

GIFTS AND GRATUITIES

Directors & Officers

The receipt by a Director or a Related Party of any gift or gratuity from an existing or prospective customer or supplier of the Bank may create, at a minimum, the appearance of a conflict of interest and breach of the Director's duty of loyalty, and, at its extreme, a violation of state and Federal laws, including the Bank Bribery Act, which strictly prohibit the acceptance of bribes by bank directors and officers. A "gift" includes any type of gratuity, favor, service, discount or price concession, loan, legacy or inheritance, or any type of compensation or fee, including cash, securities or other property, or any other thing having a monetary value.

Directors, as well as officers, employees, agents and attorneys of the Bank may not:

- (1) Solicit anything of value for themselves or for any third party in return for any business, service or confidential information of the Bank.
- (2) Accept anything of value (other than their bona fide salary or wages) from anyone in connection with the business of the Bank, either before or after a transaction is discussed or consummated.

Because of this rule, Directors, Officers and their Related Parties should not accept any "gift" from an existing or prospective customer or supplier of the Bank if the gift is in any manner related to or given in connection with the Bank's business with that customer or supplier or if the gift is motivated by a desire to influence the Directors or Officers in connection with the Bank's business activities or a business transaction to which the Bank is or will be a party. It is recognized that some gifts offered to Directors and Officers are not connected with the Bank's business even though they may be given by customers or suppliers, and that Directors and

Officers, under appropriate circumstances, should be permitted to accept such gifts. Such circumstances include the following: (1) acceptance of gifts, gratuities, amenities or favors based on obvious family or personal relationships (such as those between the parents, children or spouse of a bank official) where the circumstances make it clear that it is those relationships rather than the business of the bank concerned which are the motivating factors; (2) acceptance of meals, refreshments, entertainment, accommodations or travel arrangements, all of reasonable value, in the course of a meeting or other occasion, the purpose of which is to hold bona fide business discussions or to foster better business relations, provided that the expense would be paid for by the bank as a reasonable business expense if not paid for by another party; (3) acceptance of loans from other banks or financial institutions on customary terms to finance proper and usual activities of bank officials, such as home mortgage loans, except where prohibited by law; (4) acceptance of advertising or promotional material of reasonable value, such as pens, pencils, note pads, key chains, calendars and similar items; (5) acceptance of discounts or rebates on merchandise or services that do not exceed those available to other customers; (6) acceptance of gifts of reasonable value that are related to commonly recognized events or occasions, such as a promotion, new job, wedding, retirement, holiday or birthday (if under \$200.00 in value); or (7) acceptance of civic, charitable, educational, or religious organization awards for recognition of service and accomplishment (if under \$200.00).

While the acceptance of certain gifts may not be prohibited, the potential for the *appearance* of a conflict of interest is still present. Any such gift of *more than nominal value* (more than \$200.00) offered to or received by a Director, an Officer or a Related Party from an existing or prospective customer or supplier of the Bank should be disclosed to the Executive Committee. Written records of such reports should be maintained by the Bank, and should be reviewed in order to determine whether or not the gift violates the Bank Bribery Act or poses a threat to the integrity of the Bank.

State and Federal banking laws prohibiting the offer or acceptance of bribes, including the Bank Bribery Act, are aggressively enforced and the penalties for violations are severe. Any offer of a bribe to a Director, Officer or Employee of the Bank should immediately be reported to the Chairman of the Audit Committee.

CIVIC, CHARITABLE AND POLITICAL ACTIVITIES

Directors & Officers

Directors and Officers are encouraged to be active citizens in their respective communities and to actively participate in civic, community and charitable affairs, as their good works in those areas reflect favorably on the Bank. However, such activities should be undertaken by Directors or Officers as private citizens. While the Bank takes seriously its obligations as a corporate citizen and lends its support, financial and otherwise, to make worthwhile civic, community and charitable causes, there are financial and other considerations which must enter into a decision by the Bank to support any such cause. Unless authorized by the Board of Directors, a Director or Officer should not commit the Bank as a sponsor of or a contributor to, or use or commit to the use of the Bank's name, equipment, facilities or personnel on behalf of, any civic, community or charitable cause without the permission of the Executive Chairman or CEO.

State and Federal law strictly prohibits the Bank from using its funds or assets in support of political candidates, campaigns or parties. Except as may be permitted by laws applicable to the activities of a political action fund, in no event may political contributions be made in the Bank's name or with its funds, nor may the Bank's name, equipment, facilities or personnel be used, directly or indirectly, in support of any political candidate, campaign or party. To avoid any appearance of corporate support or endorsement, no Director or Officer should state or imply that the Bank supports or will support, or identify the Bank in any manner with, any political candidate, campaign or party, and any political activities by Directors or Officers should be conducted away from the Bank's premises.

SELECTED COMPLIANCE ISSUES FOR DIRECTORS

Directors of the Bank are affected by numerous legal requirements. Described below are certain of those requirements which are particularly sensitive due to the fact that innocent and unintentional violations by Directors can result in significant personal liability, and due to the fact that the Bank to some extent is dependent on information supplied by Directors in order to prevent violations.

A. Transactions in Bank Common Stock

The following are legal restrictions or requirements on transactions by the Bank Directors and certain of their related parties which involve Bank common stock. **For the reasons outlined below, Directors should contact the Bank's Executive Chairman, CEO or Corporate Secretary before any transaction involving Bank common stock "beneficially owned" by them is effected, whether the transaction is effected by them or by any other person.**

1. **Section 16(a) Reporting.** Ordinarily, any transaction that involves a change in his "beneficial ownership" of Bank common stock (including without limitation any purchase, sale, gift, inheritance, stock dividend or split, transfer into or receipt from an estate or trust, purchase by dividend reinvestment, receipt of shares in lieu of fees, etc.) **must be reported by the Director to the FDIC under Rule 16(a)** within two business days of the date on which the transaction occurs. Director late reports and failures to report are required to be disclosed in the Bank's proxy statement each year.

In addition to transactions effected by a Director himself, transactions effected by various other persons will change the Director's "beneficial ownership" of Bank stock (and, therefore, will be reportable under Rule 16(a) by the Director). A Director is the "beneficial owner" of any stock in which he is considered to have a "pecuniary interest". This includes, without limitation, shares held by (i) certain members of the Director's immediate family, (ii) certain corporations, partnerships or other entities in which the Director is involved, (iii) certain trusts in which the Director or a member of his immediate family is involved as trustee or beneficiary, and (iv) shares which the Director or other family member or entity may acquire through the exercise or conversion of a "derivative security" such as an option, warrant or convertible security.

The Bank routinely prepares and files required Rule 16(a) reports for Directors. However, Directors should notify the Bank of a stock transaction **before** the transaction is effected so that the required report can be prepared, signed and filed before the applicable filing deadline.

2. **Section 16(b) "Short-Swing Profit Liability.** A purchase or sale of Bank common stock "beneficially owned" by a Director that occurs within 6 months **before or after** any "matching transaction" (a sale or purchase of "beneficially owned" stock) will result in personal liability on the part of the Director under Section 16(b) for any "short-swing profits". A "short-swing profit" will exist if the price at which stock is sold exceeds the

price at which it is purchased within any 6-month period. For liability to be imposed, it is sufficient that stock “beneficially owned” by a Director be the subject of “matching transactions” within a 6-month period, even if the Director himself is not directly involved in one or either of those transactions. Therefore, a Director may incur liability for transactions effected by other persons or entities so long as those transactions involve stock “beneficially owned” by the Director.

The Bank routinely evaluates Directors’ stock transactions under Section 16(b). However, for that evaluation to prevent liability in the case of any particular stock transaction, it must take place **before** the transaction is effected.

3. **Insider Trading Conditions.** It is illegal for a Director to buy or sell securities of the Bank or any other company based on material non-public information about the Bank or that other company. Also, it is illegal for a Director to engage in “tipping” by disclosing any such information to any other person who buys or sells.

It is the policy of the Bank’s Board of Directors that:

(a) A Director who has material, non-public information about the Bank, or who has such information about any other company given to him in the course of his service as a Director, **may not** (i) buy or sell any securities of the Bank or of that other company, or engage in any other action to take advantage of, or which would create the appearance of taking advantage of, such information, (ii) cause or allow members of his or her immediate family or any corporation or other entity (including a trust, estate, etc.) affiliated with the Director to buy or sell such securities, or to engage in any other action to take advantage of, or which would create the appearance of taking advantage of such information, (iii) or disclose or pass such information on to any other person:

(b) Even following the public disclosure (by press release or otherwise) of material events or information about the Bank, Directors (and members of their immediate families and any corporations or other entities affiliated with them) should not engage in transactions involving the Bank’s securities until a period of at least two (2) business days has elapsed to assure full public dissemination of that information.

A Director may be in possession of material, non-public information without knowing it or without recognizing the significance of the information he or she has. Also a Director may be accused of having such information merely because of his or her position. The Bank routinely assists Directors to reduce “insider trading” risks by evaluating proposed stock transactions in light of the existence or materiality of recent events within the Bank and any undisclosed corporation information. However, for that evaluation to reduce a Director’s risk of liability in the case of any particular stock transaction, it must take place **before** the transaction is effected.

B. Loan Transactions with the Bank.

With certain exceptions, Federal Reserve Board Regulation O provides that extensions of credit by the Bank to a Director of the Bank or to any “related interest” of the Director, must (i) be approved in advance by the Bank’s board of Directors, (ii) be made on substantially the same terms, including interest rate and collateral, as, and following credit underwriting procedures that are not less stringent than, those prevailing at the time for comparable transactions by the Bank with other persons, **and** (iii) to not involve more than normal risk of repayment or present other unfavorable features. A Director’s “related interests” generally include **any** corporation **or other** entity controlled by the Director, or any political or campaign committee controlled by the Director or the funds of which will benefit the Director.

A Director is prohibited from “knowingly” receiving (or from “knowingly” permitting any of his or her “related interests” to receive), directly or indirectly, any extension of credit which does not comply with Regulation O. The Bank is required to maintain a listing of Directors’ related interests, and Directors at least annually are asked to disclose to the Bank the identities of their related interests.

While the Bank’s lending personnel obviously know the identities of its and the Bank’s Directors, from time to time they may know the identities of all related interests of Directors. **Before any “related interest” of a Director obtains any extension of credit from the Bank, the Director should notify the Bank’s lending officer that the borrower is a “related interest” and that the extension of credit must comply with the requirements of Regulation O.**

C. Management Interlocks

With certain exceptions, the Management Interlocks Act prohibits a Director of the Bank from also serving as a “management official” of any other, unaffiliated depository institution or a depository institution holding company.

A “management official” is an employee or officer with management functions, a Director (including an advisory or honorary Director), or any person who has a nominee serving in any such capacity. A “depository institution” is a commercial bank, savings bank, trust company, savings and loan, credit union or similar deposit taking institution. A “depository holding company”, is a bank holding company or savings and loan holding company.

Directors should contact the Bank’s Executive Chairman or CEO before accepting any position with any other depository institution or holding company, or with any company that has a subsidiary that is a depository institution or holding company.