

HERITAGE BANKSHARES, INC.

**150 Granby Street
Norfolk, Virginia 23510**

FOR IMMEDIATE RELEASE

Press Release

Contact: Michael S. Ives
Anne F. Vanderberry
Phone: 757-648-1700

Heritage Bankshares, Inc. Announces Second Quarter 2015 and First Six Months 2015 Net Income; Quarterly Dividends

Norfolk, Va.: July 29, 2015 – Heritage Bankshares, Inc. (“Heritage”; the “Company”) (OTCQX: HBKS), the parent of Heritage Bank (the “Bank”), today announced unaudited financial results for the second quarter and the first six months of 2015.

The Company had net income of \$465,000 for the second quarter of 2015, a decrease of \$79,000 over net income of \$544,000 for the second quarter of 2014. In the second quarter of 2015, the Company had earnings per diluted common share of \$0.19 compared to \$0.22 per diluted common share for the second quarter of 2014, a decrease of \$0.03 per share.

The Company had net income of \$983,000 for the first six months of 2015, an increase of \$22,000 over net income of \$961,000 for the first six months of 2014. Earnings per diluted common share were \$0.40 for the first half of 2015 compared to \$0.39 for the first half of 2014.

Michael S. Ives, President and CEO of the Company and the Bank, commented:

“The Company experienced an unusual combination of events in the second quarter that negatively impacted our net income.

“First, we had a significant total increase of \$54,000, after tax, in our noninterest expense from early withdrawal penalties on certificates of deposit redeemed by us, vacation pay accruals, severance and recruiting expenses, comparing the second quarter of 2015 with the second quarter of 2014. Fortunately, we expect these expenses to abate substantially over the remainder of the year.

“Second, in April and May, we experienced large prepayments totaling approximately \$6.3 million from two mortgage loans and one securities loan. The bunching in any one quarter of these three large loan repayments was out of the ordinary and unexpected. These prepayments adversely impacted our net interest income for the quarter, particularly in the month of June.

“Third, late in the first quarter of this year, we redeemed \$10.5 million of certificates of deposit held at other banks and sold \$10.1 million of U.S. government-sponsored agency

securities. This large reduction in our assets negatively impacted our net interest income in the second quarter.”

Comparison of Operating Results for the Three Months Ended June 30, 2015 and 2014

Overview. The Company’s pretax income was \$640,000 for the second quarter of 2015, compared to pretax income of \$755,000 for the second quarter of 2014. Increases in net interest income of \$53,000 were offset by increases to noninterest expense of \$176,000 comparing the two quarters.

Net Interest Income. The Company’s net interest income before provision for loan losses increased by \$53,000, comparing the second quarters of 2015 and 2014. Despite a \$5.4 million decrease in total average balances of interest-earning assets from \$312.0 million in the second quarter of 2014 to \$306.6 million in the second quarter of 2015, interest income remained stable. Average loan balances yielding 3.98% increased by \$7.2 million comparing the two quarters, while other lower-yielding investments decreased \$12.6 million. This shift to higher yielding assets improved total yield by 6 basis points to 3.35% during the second quarter of 2015. The yield in the second quarter of 2015 increased 12 basis points compared to the first quarter of 2015 yield of 3.23%.

Average interest-bearing liabilities decreased by \$16.6 million during the same time period, from \$185.8 million for the second quarter of 2014 to \$169.2 million for the second quarter of 2015. Average noninterest-bearing deposits grew \$7.8 million to \$114.0 million during the second quarter of 2015. Overall our interest rate on our interest-bearing liabilities decreased by 8 basis points, and, combined with the 6 basis point increase in yield on interest-earning assets, produced a 14 basis point increase in our spread, from 2.81% during the second quarter of 2014 to 2.95% during the second quarter of 2015. As well, our margin increased 12 basis points from 3.00% for the second quarter of 2014 to 3.12% for the second quarter of 2015.

Provision for Loan Losses. There were no provisions for loan loss or charge-offs in either quarter ending June 30, 2015 or June 30, 2014.

Noninterest Income. Total noninterest income was stable comparing the second quarter of 2014 to the second quarter of 2015.

Noninterest Expense. Total noninterest expense was \$1,866,000 for the second quarter of 2015, a \$176,000 increase from \$1,690,000 in the second quarter of 2014.

Income Taxes. The Company’s income tax expense for the second quarter of 2015 was \$175,000, an effective tax rate of 27.4%, compared to income tax expense of \$211,000 for the second quarter of 2014, an effective tax rate of 28.0%.

Net Income Available to Common Stockholders. Net income available to common stockholders was \$445,000 for the second quarter of 2015, compared to \$524,000 for the second quarter of 2014, a decrease of \$79,000, or \$0.03 per diluted common share.

Comparison of Operating Results for the Six Months Ended June 30, 2015 and 2014

Overview. The Company's pretax income was \$1,363,000 for the first six months of 2015 compared to pretax income of \$1,323,000 for the first six months of 2014. A \$207,000 increase in net interest income and a \$164,000 increase in noninterest income offset a \$331,000 increase in noninterest expense.

Net Interest Income. The Company's net interest income before provision for loan losses increased by \$207,000, comparing the first six months of 2015 and 2014. Average balances of interest-earning assets increased \$8.4 million, from \$308.3 million in the first six months of 2014 to \$316.7 million in the first six months of 2015. A \$12.5 million increase in average loan balances comparing the two six-month periods improved interest income by \$155,000, stabilizing our six-month yield on average interest-earning assets at 3.29%, on par with the first six months of 2014.

Average interest-bearing liabilities decreased by \$2.0 million to \$183.4 million, comparing the first six months of 2015 to the first six months of 2014, primarily from a \$1.4 million decrease in average interest-bearing deposits. Our interest rate on average interest-bearing liabilities was 41 basis points in the first six months of 2015, a decrease of 7 basis points from the first six months of 2014. This 7 basis point decrease in average cost of funds improved our spread point for point to 2.88% for the first six months of 2015 from 2.81% for the first six months of 2014. Net margin increased to 3.05% for the first six months of 2015 from 3.01% for the same period in 2014.

Provision for Loan Losses. There were no provisions for loan loss or charge-offs in either six-month period ending June 30, 2015 or June 30, 2014.

Noninterest Income. Total noninterest income increased by \$164,000, from \$308,000 in the first six months of 2014 to \$472,000 in the first six months of 2015, primarily as the result of a \$158,000 gain on sale of investment securities in the first six months of 2015 that did not occur in the first six months of 2014.

Noninterest Expense. Total noninterest expense was \$3,805,000 for the first six months of 2015, a \$331,000 increase from \$3,474,000 in the first six months of 2014.

Income Taxes. The Company's income tax expense for the first six months of 2015 was \$380,000, an effective tax rate of 27.9%, compared to income tax expense of \$362,000 for the first six months of 2014, an effective tax rate of 27.4%.

Net Income Available to Common Stockholders. Net income available to common stockholders was \$944,000 for the first six months of 2015, compared to \$922,000 for the first six months of 2014, an increase of \$22,000, or \$0.01 per diluted common share.

Financial Condition of the Company

Total Assets. The Company's total assets at June 30, 2015 were \$329.6 million, an \$11.1 million decrease from \$340.7 million at June 30, 2014.

Investments. Overall investments, including overnight interest-earning deposits in other banks, federal funds sold, certificates of deposit in other banks and investments in securities,

decreased by a net of \$3.0 million from \$90.0 million at June 30, 2014 to \$87.0 million at June 30, 2015. This decrease is the result of a \$10.5 million redemption of certificates of deposit at other banks at the end of the first quarter of 2015 for the purpose of repaying short term borrowings, partially offset by a \$5.9 million increase in interest-earning deposits at other banks.

Loans. Loans held for investment, net, decreased by \$4.9 million from \$224.4 million at June 30, 2014 to \$219.5 million at June 30, 2015. Our commercial real estate loan portfolio increased by 2% year over year, but this increase was offset by the large payoffs of several loans in our residential mortgage loan portfolio and one large securities loan during the second quarter of 2015.

Asset Quality. Asset quality remained excellent. Nonperforming assets were \$743,000, or 0.23% of total assets, at both June 30, 2014 and 2015, and consisted only of other real estate owned of one bank branch facility that was closed in July 2013.

Deposits. Average total deposits increased by \$6.1 million from \$267.3 million for the six-month period ended June 30, 2014 to \$273.4 million for the six-month period ended June 30, 2015. Average core deposits, which are comprised of noninterest bearing deposits, money market, NOW and savings deposits, increased \$3.6 million comparing the two six-month periods, while average CDs increased by \$2.5 million during that same time period. Average noninterest-bearing deposits increased by \$7.5 million, from \$102.6 million in the six-month period ending June 30, 2014 to \$110.1 million in the six-month period ending June 30, 2015. As a percentage of average total deposits, average noninterest-bearing deposits increased from 38.4% at June 30, 2014 to 40.3% at June 30, 2015.

Total deposits at June 30, 2015 were \$284.3 million compared to \$272.8 million at June 30, 2014, an increase of \$11.5 million, primarily from a \$9.7 million increase in core deposits. Noninterest bearing deposits increased by \$22.8 million, or 21.9%, comparing the two quarter ends, and were 44.7% of total deposits at June 30, 2015, compared to 38.2% at June 30, 2014.

Borrowed Funds. Borrowed funds, which consist of Federal Home Loan Bank of Atlanta advances and customer repurchase agreements, decreased by \$24.3 million, from \$26.5 million at June 30, 2014 to \$2.2 million at June 30, 2015, primarily from repayment of short-term advances at the Federal Home Loan Bank of Atlanta.

Capital. Stockholders' equity increased by \$1.7 million, from \$39.4 million at June 30, 2014 to \$41.1 million at June 30, 2015, primarily due to a \$1.5 million increase in retained earnings.

The tables attached to and incorporated within this release present in greater detail certain of the unaudited financial information described above.

Dividends

On July 29, 2015, our Board of Directors declared the Company's regular quarterly dividend of \$0.12 per share on our common stock. The dividend will be paid on August 21, 2015 to common shareholders of record on August 10, 2015.

The Company will pay dividends of \$19,500 on the preferred stock issued in connection with our participation in the SBLF program. This dividend shall be paid on October 1, 2015 to the holders of the SBLF preferred stock of record on September 17, 2015. Currently the sole shareholder of record of the SBLF preferred stock is the Secretary of the Treasury.

About Heritage

Heritage is the parent company of Heritage Bank (www.heritagebankva.com). Heritage Bank has two full-service branches in the city of Norfolk, two full-service branches in the city of Virginia Beach, and one full-service branch in the city of Chesapeake.

Forward Looking Statements

The press release contains statements that constitute “forward-looking statements”. Forward-looking statements address future events, developments or results and typically use words such as believe, anticipate, expect, intend, plan, forecast, outlook, or estimate. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause Heritage’s actual results, performance, achievements, and business strategy to differ materially from the anticipated results, performance, achievements or business strategy expressed or implied by such forward-looking statements. Heritage disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

HERITAGE BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	At June 30,	
	2015	2014
	(unaudited)	(unaudited)
ASSETS		
Cash and due from banks	\$ 4,893	\$ 6,402
Interest-earning deposits in other banks	11,563	5,668
Federal funds sold	44	23
Total cash and cash equivalents	16,500	12,093
Certificates of deposit in other banks	47,064	57,571
Securities available for sale, at fair value	25,270	23,451
Securities held to maturity, at cost	3,046	3,316
Loans, held for investment, net of allowance for loan losses	219,451	224,340
Accrued interest receivable	505	545
Stock in Federal Reserve Bank, at cost	604	600
Stock in Federal Home Loan Bank of Atlanta, at cost	304	1,400
Premises and equipment, net	8,860	9,181
Other real estate owned	743	743
Bank-owned life insurance	5,578	5,850
Other assets	1,673	1,610
Total assets	\$ 329,598	\$ 340,700
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 126,997	\$ 104,186
Interest-bearing	157,300	168,572
Total deposits	284,297	272,758
Federal Home Loan Bank Advances	-	25,000
Customers repurchase agreements	2,227	1,471
Other borrowings	-	-
Accrued interest payable	24	21
Other liabilities	1,912	1,993
Total liabilities	288,460	301,243
Stockholders' equity		
Senior non-cumulative perpetual preferred stock, Series C, 7,800 shares issued and outstanding at June 30, 2015 and 2014, respectively	7,800	7,800
Common stock, \$5 par value - 6,000,000 shares authorized; 2,292,840 and 2,281,232 shares issued and outstanding at June 30, 2015 and 2014, respectively	11,464	11,406
Additional paid-in capital	7,013	6,799
Retained earnings	14,863	13,357
Accumulated other comprehensive income(loss), net	(2)	95
Total stockholders' equity	41,138	39,457
Total liabilities and stockholders' equity	\$ 329,598	\$ 340,700

HERITAGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(audited)
Interest income				
Interest income and fees on loans	\$ 2,191	\$ 2,150	\$ 4,407	\$ 4,252
Interest on taxable investment securities	117	140	252	270
Other interest and dividend income	202	218	406	409
Total interest income	2,510	2,508	5,065	4,931
Interest expense				
Deposits	163	212	338	417
Borrowings	9	11	31	25
Total interest expense	172	223	369	442
Net interest income	2,338	2,285	4,696	4,489
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	2,338	2,285	4,696	4,489
Noninterest income				
Service charges on deposit accounts	38	40	74	82
Late charges and other fees on loans	25	13	36	25
Gain on sale of investment securities	-	-	158	-
Income from bank-owned life insurance	37	47	76	89
Other	68	60	128	112
Total noninterest income	168	160	472	308
Noninterest expense				
Compensation	966	861	1,973	1,807
Data processing	112	110	225	216
Occupancy	183	185	385	391
Furniture and equipment	156	150	295	291
Taxes and licenses	83	81	167	167
Professional fees	78	48	151	115
FDIC assessment	43	42	85	80
Early withdrawal penalty on redemption of CDs at other banks	18	-	72	-
Other	227	213	452	407
Total noninterest expense	1,866	1,690	3,805	3,474
Income before provision for income taxes	640	755	1,363	1,323
Provision for income taxes	175	211	380	362
Net income	\$ 465	\$ 544	\$ 983	\$ 961
Preferred stock dividend	(20)	(20)	(39)	(39)
Net income available to common stockholders	\$ 445	\$ 524	\$ 944	\$ 922
Earnings per common share				
Basic	\$ 0.19	\$ 0.23	\$ 0.41	\$ 0.40
Diluted	\$ 0.19	\$ 0.22	\$ 0.40	\$ 0.39
Dividends per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Weighted average shares outstanding - basic	2,292,840	2,281,232	2,291,966	2,280,067
Effect of dilutive equity awards	50,471	63,649	51,719	58,833
Weighted average shares outstanding - diluted	2,343,311	2,344,881	2,343,685	2,338,900

HERITAGE BANKSHARES, INC.
OTHER SELECTED FINANCIAL INFORMATION

(Unaudited)

(in thousands, except share, per share data, and ratios)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Financial ratios				
Annualized return on average assets ⁽¹⁾	0.57%	0.65%	0.59%	0.59%
Annualized return on average common equity ⁽²⁾	5.58%	6.92%	5.96%	6.17%
Average tangible equity to average assets	12.59%	11.79%	12.20%	11.90%
Tangible equity to assets, at period-end	12.48%	11.58%	12.48%	11.58%
Per common share				
Earnings per share - basic	\$ 0.19	\$ 0.23	\$ 0.41	\$ 0.40
Earnings per share - diluted	0.19	0.22	0.40	0.39
Book value per share	14.54	13.88	14.54	13.88
Dividends declared per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Common stock outstanding	2,292,840	2,281,232	2,292,840	2,281,232
Weighted average shares outstanding - basic	2,292,840	2,281,232	2,291,966	2,280,067
Weighted average shares outstanding - diluted	2,343,311	2,344,881	2,343,685	2,338,900
Asset quality				
Nonaccrual loans	\$ -	\$ -	\$ -	\$ -
Accruing loans past due 90 days or more	-	-	-	-
Total nonperforming loans	-	-	-	-
Other real estate owned, net	743	743	743	743
Total nonperforming assets	\$ 743	\$ 743	\$ 743	\$ 743
Nonperforming assets to total assets	0.23%	0.22%	0.23%	0.22%
Allowance for loan losses				
Balance, beginning of period	\$ 1,946	\$ 1,933	\$ 1,943	\$ 1,930
Provision for loan losses	-	-	-	-
Loans charged-off	-	-	-	-
Recoveries	1	3	4	6
Balance, end of period	\$ 1,947	\$ 1,936	\$ 1,947	\$ 1,936
Allowance for loan losses to gross loans held for investment, net of unearned fees and costs	0.88%	0.86%	0.88%	0.86%

⁽¹⁾ Return is defined as net income, after tax, before preferred stock dividend divided by average total assets.

⁽²⁾ Return is defined as net income, after tax, before preferred stock dividend divided by average common equity.

HERITAGE BANKSHARES, INC.
OTHER SELECTED INFORMATION (continued)
(Unaudited)
(in thousands)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2015		2014		2015		2014	
Yields on average balances	Average		Average		Average		Average	
Assets	Balance ⁽¹⁾	Yield	Balance ⁽¹⁾	Yield	Balance ⁽¹⁾	Yield	Balance ⁽¹⁾	Yield
Loans ⁽²⁾	225,653	3.98%	218,434	4.05%	227,518	3.99%	215,001	4.09%
Investment securities	26,823	1.74%	26,890	2.08%	29,220	1.73%	26,215	2.06%
Certificates of deposits in other banks	46,985	1.56%	57,091	1.35%	52,174	1.39%	55,334	1.32%
Other investments	7,184	1.07%	9,645	1.09%	7,782	1.21%	11,732	0.80%
Total interest-earning assets	306,645	3.35%	312,060	3.29%	316,694	3.29%	308,282	3.29%
Liabilities								
Noninterest-bearing deposits	114,046	-	106,245	-	110,067	-	102,604	-
Money market	123,037	0.44%	134,567	0.57%	128,902	0.44%	133,125	0.57%
NOW accounts	13,417	0.05%	12,375	0.04%	13,190	0.05%	12,616	0.04%
Savings	3,975	0.15%	4,151	0.15%	3,930	0.15%	4,130	0.15%
Certificates of deposit	17,109	0.57%	14,410	0.52%	17,258	0.58%	14,796	0.50%
Total interest-bearing deposits	157,538	0.41%	165,503	0.51%	163,280	0.42%	164,667	0.51%
Total deposits	271,584		271,748		273,347		267,271	
Other borrowings	11,678	0.33%	20,342	0.23%	20,084	0.31%	20,726	0.24%
Total interest-bearing liabilities	169,216	0.40%	185,845	0.48%	183,364	0.41%	185,393	0.48%
Net interest spread ⁽³⁾		2.95%		2.81%		2.88%		2.81%
Net interest margin ⁽³⁾		3.12%		3.00%		3.05%		3.01%
Capital Ratios ⁽⁴⁾								
Consolidated company								
Total capital to risk-weighted assets	16.29%		15.41%		16.29%		15.41%	
Tier 1 capital to risk-weighted assets	15.55%		14.69%		15.55%		14.69%	
Common equity tier 1 capital to risk-weighted assets	15.55%		14.69%		15.55%		14.69%	
Tier 1 capital to average assets	12.59%		11.81%		12.59%		11.81%	
Bank								
Total capital to risk-weighted assets	14.03%		13.78%		14.03%		13.78%	
Tier 1 capital to risk-weighted assets	13.29%		13.06%		13.29%		13.06%	
Common equity tier 1 capital to risk-weighted assets	13.29%		13.06%		13.29%		13.06%	
Tier 1 capital to average assets	10.91%		10.60%		10.91%		10.60%	

⁽¹⁾ The calculations are based on daily average balances.

⁽²⁾ Yields are stated on a taxable-equivalent basis assuming tax rates in effect for the periods presented.

⁽³⁾ Tax equivalency calculations have been included in the computation of net interest margin and net interest spread.

⁽⁴⁾ 2nd quarter 2014 ratios have been restated to conform with Basel III requirements for comparative purposes.