

**HERITAGE BANKSHARES, INC.**

**150 Granby Street  
Norfolk, Virginia 23510**

**FOR IMMEDIATE RELEASE**

**Press Release**

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**Heritage Bankshares, Inc. Announces Third Quarter 2015 and First Nine Months 2015 Net Income; Quarterly Dividends**

**Norfolk, Va.: October 28, 2015** – Heritage Bankshares, Inc. (“Heritage”; the “Company”) (OTCQX: HBKS), the parent of Heritage Bank (the “Bank”), today announced unaudited financial results for the third quarter and the first nine months of 2015.

The Company had net income of \$317,000 for the third quarter of 2015, a decrease of \$1,002,000 compared to net income of \$1,319,000 for the third quarter of 2014. In October 2015, Heritage Bankshares, Inc. agreed to merge with Southern BancShares (N.C.), Inc., for which the Company incurred merger related expenses of \$319,000 (net of tax at a year-to-date tax rate of 24.9%), or \$0.14 per diluted common share, during the third quarter of 2015. In the third quarter of 2015, the Company had earnings per diluted common share of \$0.13 compared to \$0.55 per diluted common share for the third quarter of 2014, a decrease of \$0.42 per share.

The Company had net income of \$1,300,000 for the first nine months of 2015, a decrease of \$980,000 from net income of \$2,280,000 for the first nine months of 2014. Earnings per diluted common share were \$0.53 for the first nine months of 2015 compared to \$0.95 for the first nine months of 2014.

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

“On October 21, 2015, Heritage Bankshares, Inc. announced that it would merge with Southern BancShares (N.C.), Inc. As part of the merger process, we incurred \$424,000 in merger expenses during the third quarter of 2015, significantly reducing our net income. Without these expenses, our quarterly income would have been \$636,000.”

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

*Overview.* The Company’s pretax income was \$368,000 for the third quarter of 2015, compared to pretax income of \$1,589,000 for the third quarter of 2014, as a result of an \$869,000 decrease in noninterest income and a \$283,000 increase in noninterest expense.

*Net Interest Income.* The Company's net interest income before provision for loan losses decreased by \$69,000, comparing the third quarters of 2015 and 2014. Average interest-earning assets decreased by \$10.5 million from \$317.5 million in the third quarter of 2014 to \$307.0 million in the third quarter of 2015. Average loan balances decreased by \$7.7 million comparing the two quarters and other interest-earning assets decreased \$2.8 million. The yield on interest-earning assets in the third quarter of 2015 decreased 6 basis points to 3.29% compared to the third quarter of 2014 yield of 3.35%.

Average interest-bearing liabilities decreased by \$24.4 million from \$190.2 million for the third quarter of 2014 to \$165.8 million for the third quarter of 2015 from a \$15.1 million decrease in average money market deposits and a \$10.0 million decrease in average borrowings. Average noninterest-bearing deposits grew \$11.1 million to \$117.8 million during the third quarter of 2015. Overall, the cost of our interest-bearing liabilities decreased by 7 basis points, offsetting the 6 basis point decrease in yield on interest-earning assets. Our spread was 2.88% during the third quarter of 2015 compared to 2.87% during the third quarter of 2014, and our margin was 3.07% for the third quarter of 2015 compared to 3.06% for the third quarter of 2014.

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

*Noninterest Income.* Total noninterest income decreased by \$869,000, comparing the quarter ending September 30, 2015 to the quarter ending September 30, 2014. In the third quarter of 2014, there were nonrecurring proceeds of \$667,000 from bank owned life insurance and a nonrecurring gain on sale of investment securities of \$198,000.

*Noninterest Expense.* Total noninterest expense was \$2,109,000 for the third quarter of 2015, a \$283,000 increase from \$1,826,000 in the third quarter of 2014. A \$424,000 increase in merger related expense was only partially offset by a \$101,000 decrease in compensation expense.

*Income Taxes.* The Company's income tax expense for the third quarter of 2015 was \$51,000, an effective tax rate of 13.8%, compared to income tax expense of \$270,000 for the third quarter of 2014, an effective tax rate of 17.0%.

*Net Income Available to Common Stockholders.* Net income available to common stockholders was \$298,000 for the third quarter of 2015, compared to \$1,299,000 for the third quarter of 2014, a decrease of \$1,001,000, or \$0.42 per diluted common share.

## **Comparison of Operating Results for the Nine Months Ended September 30, 2015 and 2014**

*Overview.* The Company's pretax income was \$1,731,000 for the first nine months of 2015 compared to pretax income of \$2,913,000 for the first nine months of 2014. A \$704,000 decrease in noninterest income and a \$615,000 increase in noninterest expense is partially offset by a \$138,000 increase in net interest income.

*Net Interest Income.* The Company's net interest income before provision for loan losses increased by \$138,000, primarily from a \$134,000 decrease in the cost of interest-bearing liabilities, comparing the first nine months of 2015 and 2014.

Average interest-bearing liabilities decreased by \$9.6 million to \$177.5 million, comparing the first nine months of 2015 to the first nine months of 2014, from a \$5.8 million decrease in average interest-bearing deposits and a \$3.8 million decrease in average borrowings. Our interest rate on average interest-bearing liabilities was 41 basis points in the first nine months of 2015, a decrease of 7 basis points from the first nine months of 2014.

Average balances of interest-earning assets increased \$2.0 million, from \$311.4 million in the first nine months of 2014 to \$313.4 million in the first nine months of 2015. A \$5.7 million increase in average loan balances was offset by a \$3.7 million decrease in other interest-earning assets comparing the two nine-month periods. The 7 basis point decrease in the cost of interest-bearing liabilities more than offset our 2 basis point decrease in yield on interest-earning assets and improved our spread to 2.88% for the first nine months of 2015 from 2.83% for the first nine months of 2014. Net margin increased to 3.06% for the first nine months of 2015 from 3.02% for the same period in 2014.

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

*Noninterest Income.* Total noninterest income decreased by \$704,000, from \$1,328,000 in the first nine months of 2014 to \$624,000 in the first nine months of 2015, primarily as the result of a \$684,000 decrease in income from bank-owned life insurance.

*Noninterest Expense.* Total noninterest expense was \$5,915,000 for the first nine months of 2015, a \$615,000 increase from \$5,300,000 in the first nine months of 2014, primarily from \$424,000 in merger related expense.

*Income Taxes.* The Company's income tax expense for the first nine months of 2015 was \$431,000, an effective tax rate of 24.9%, compared to income tax expense of \$633,000 for the first nine months of 2014, an effective tax rate of 21.7%.

*Net Income Available to Common Stockholders.* Net income available to common stockholders was \$1,242,000 for the first nine months of 2015, compared to \$2,221,000 for the first nine months of 2014, a decrease of \$0.42 per diluted common share.

## **Financial Condition of the Company**

*Total Assets.* The Company's total assets at September 30, 2015 were \$340.9 million, a \$1.6 million decrease from \$342.5 million at September 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, increased by a net of \$7.2 million from \$93.9 million at September 30, 2014 to \$101.1 million at September 30, 2015. A \$14.3 million increase in interest-earning deposits at other banks offsets a \$5.8 million decrease in certificates of deposit at other banks and a \$1.1 million decrease in our security portfolio. During the third quarter of 2015, we have purchased \$4.7 million in certificates of deposit at other banks yielding more than 2.00%, partially replacing the \$11.5 million of certificates of deposit at other banks yielding roughly 1.00% that were redeemed in the first quarter of 2015 to repay borrowings.

*Loans.* Loans held for investment, net, decreased by \$5.2 million from \$223.2 million at September 30, 2014 to \$218.0 million at September 30, 2015. Significant loan repayments during the year 2015 have offset new loan production.

*Asset Quality.* Asset quality remained excellent. Nonperforming assets increased \$18,000 to \$761,000, or 0.22% of total assets, at September 30, 2015, and included one residential mortgage loan and other real estate owned of one bank branch facility that was closed in July 2013.

*Deposits.* Average total deposits increased by \$2.9 million from \$272.2 million for the nine-month period ended September 30, 2014 to \$275.1 million for the nine-month period ended September 30, 2015, primarily from a \$2.2 million increase in certificates of deposit. Average core deposits, which are comprised of noninterest-bearing deposits, money market, NOW and savings deposits, increased \$0.7 million comparing the two nine-month periods. Average noninterest-bearing deposits increased by \$8.7 million, from \$104.0 million in the nine-month period ending September 30, 2014 to \$112.7 million in the nine-month period ending September 30, 2015. As a percentage of average total deposits, average noninterest-bearing deposits increased from 38.2% at September 30, 2014 to 41.0% at September 30, 2015.

Total deposits at September 30, 2015 were \$296.3 million compared to \$273.7 million at September 30, 2014, an increase of \$22.6 million from a \$22.1 million increase in core deposits. Noninterest-bearing deposits increased by \$28.2 million, or 27.0%, comparing the two quarter ends, and were 44.8% of total deposits at September 30, 2015, compared to 38.2% at September 30, 2014.

*Borrowed Funds.* Borrowed funds, which consist of Federal Home Loan Bank of Atlanta advances and customer repurchase agreements, decreased by \$25.4 million, from \$26.5 million at September 30, 2014 to \$1.1 million at September 30, 2015, primarily from repayment of short-term advances at the Federal Home Loan Bank of Atlanta.

*Capital.* Stockholders' equity increased by \$1.0 million, from \$40.3 million at September 30, 2014 to \$41.3 million at September 30, 2015, primarily due to a \$0.5 million increase in retained earnings and a \$0.2 million increase in accumulated other comprehensive income.

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

## **Dividends**

On October 28, 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 November 20, 2015 to common shareholders of record on November 9, 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 or before January 2, 2016 to

the holders of the SBLF preferred stock of record on December 16, 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](http://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)

	<b>At September 30,</b>	
	<b>2015</b>	<b>2014</b>
	(unaudited)	(unaudited)
<b>ASSETS</b>		
Cash and due from banks	\$ 3,943	\$ 4,840
Interest-earning deposits in other banks	18,554	4,234
Federal funds sold	27	151
Total cash and cash equivalents	<u>22,524</u>	<u>9,225</u>
Certificates of deposit in other banks	51,953	57,802
Securities available for sale, at fair value	27,704	28,383
Securities held to maturity, at cost	2,852	3,295
Loans, held for investment, net of allowance for loan losses	218,024	223,203
Accrued interest receivable	519	480
Stock in Federal Reserve Bank, at cost	604	600
Stock in Federal Home Loan Bank of Atlanta, at cost	304	1,432
Premises and equipment, net	8,735	9,096
Other real estate owned	743	743
Bank-owned life insurance	5,617	5,459
Other assets	1,330	2,767
<b>Total assets</b>	<u><u>\$ 340,909</u></u>	<u><u>\$ 342,485</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 132,645	\$ 104,478
Interest-bearing	163,620	169,177
Total deposits	<u>296,265</u>	<u>273,655</u>
Federal Home Loan Bank Advances	-	25,700
Customers repurchase agreements	1,071	763
Accrued interest payable	22	26
Other liabilities	2,267	2,007
<b>Total liabilities</b>	<u>299,625</u>	<u>302,151</u>
<b>Stockholders' equity</b>		
Senior non-cumulative perpetual preferred stock, Series C, 7,800 shares issued and outstanding at September 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 September 30, 2015 and 2014, respectively	11,464	11,406
Additional paid-in capital	7,035	6,850
Retained earnings	14,886	14,383
Accumulated other comprehensive income(loss), net	99	(105)
<b>Total stockholders' equity</b>	<u>41,284</u>	<u>40,334</u>
<b>Total liabilities and stockholders' equity</b>	<u><u>\$ 340,909</u></u>	<u><u>\$ 342,485</u></u>

**HERITAGE BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b> (unaudited)	<b>2014</b> (unaudited)	<b>2015</b> (unaudited)	<b>2014</b> (unaudited)
<b>Interest income</b>				
Interest income and fees on loans	\$ 2,171	\$ 2,277	\$ 6,579	\$ 6,529
Interest on taxable investment securities	125	124	377	395
Other interest and dividend income	201	227	607	636
Total interest income	<u>2,497</u>	<u>2,628</u>	<u>7,563</u>	<u>7,560</u>
<b>Interest expense</b>				
Deposits	167	222	506	639
Borrowings	4	11	35	36
Total interest expense	<u>171</u>	<u>233</u>	<u>541</u>	<u>675</u>
<b>Net interest income</b>	2,326	2,395	7,022	6,885
<b>Provision for loan losses</b>	-	-	-	-
<b>Net interest income after provision for loan losses</b>	<u>2,326</u>	<u>2,395</u>	<u>7,022</u>	<u>6,885</u>
<b>Noninterest income</b>				
Service charges on deposit accounts	35	41	110	122
Late charges and other fees on loans	5	9	41	35
Gain on sale of investment securities	-	198	158	198
Income from bank-owned life insurance	39	710	115	799
Other	72	62	200	174
Total noninterest income	<u>151</u>	<u>1,020</u>	<u>624</u>	<u>1,328</u>
<b>Noninterest expense</b>				
Compensation	845	946	2,818	2,752
Data processing	115	111	340	328
Occupancy	188	184	574	575
Furniture and equipment	151	142	445	433
Taxes and licenses	89	84	256	251
Professional fees	50	62	202	177
FDIC assessment	40	43	125	123
Early withdrawal penalty on redemption of CDs at other banks	9	-	81	-
Merger related expense	424	-	424	-
Loss on sale or disposal of fixed assets	-	20	-	20
Loss on early extinguishment of debt	-	3	-	3
Other	198	231	650	638
Total noninterest expense	<u>2,109</u>	<u>1,826</u>	<u>5,915</u>	<u>5,300</u>
<b>Income before provision for income taxes</b>	368	1,589	1,731	2,913
<b>Provision for income taxes</b>	51	270	431	633
<b>Net income</b>	\$ 317	\$ 1,319	\$ 1,300	\$ 2,280
<b>Preferred stock dividend</b>	(19)	(20)	(58)	(59)
<b>Net income available to common stockholders</b>	<u>\$ 298</u>	<u>\$ 1,299</u>	<u>\$ 1,242</u>	<u>\$ 2,221</u>
<b>Earnings per common share</b>				
Basic	\$ 0.13	\$ 0.57	\$ 0.54	\$ 0.97
Diluted	<u>\$ 0.13</u>	<u>\$ 0.55</u>	<u>\$ 0.53</u>	<u>\$ 0.95</u>
<b>Dividends per share</b>	<u>\$ 0.12</u>	<u>\$ 0.12</u>	<u>\$ 0.36</u>	<u>\$ 0.36</u>
Weighted average shares outstanding - basic	2,292,840	2,281,232	2,292,258	2,280,455
Effect of dilutive equity awards	48,942	66,182	50,793	61,283
Weighted average shares outstanding - diluted	<u>2,341,782</u>	<u>2,347,414</u>	<u>2,343,051</u>	<u>2,341,738</u>

**HERITAGE BANKSHARES, INC.**  
**OTHER SELECTED FINANCIAL INFORMATION**

(Unaudited)

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Financial ratios</b>				
Annualized return on average assets <sup>(1)</sup>	0.39%	1.54%	0.52%	0.92%
Annualized return on average common equity <sup>(2)</sup>	3.76%	16.42%	5.21%	9.66%
Average tangible equity to average assets	12.63%	11.71%	12.34%	11.83%
Tangible equity to assets, at period-end	12.11%	11.78%	12.11%	11.78%
<b>Per common share</b>				
Earnings per share - basic	\$ 0.13	\$ 0.57	\$ 0.54	\$ 0.97
Earnings per share - diluted	0.13	0.55	0.53	0.95
Book value per share	14.60	14.26	14.60	14.26
Dividends declared per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
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	2,292,258	2,280,455
Weighted average shares outstanding - diluted	2,341,782	2,347,414	2,343,051	2,341,738
<b>Asset quality</b>				
Nonaccrual loans	\$ -	\$ -	\$ -	\$ -
Accruing loans past due 90 days or more	18	-	18	-
Total nonperforming loans	<u>18</u>	<u>-</u>	<u>18</u>	<u>-</u>
Other real estate owned, net	<u>743</u>	<u>743</u>	<u>743</u>	<u>743</u>
Total nonperforming assets	<u>\$ 761</u>	<u>\$ 743</u>	<u>\$ 761</u>	<u>\$ 743</u>
Nonperforming assets to total assets	0.22%	0.22%	0.22%	0.22%
<b>Allowance for loan losses</b>				
Balance, beginning of period	\$ 1,947	\$ 1,936	\$ 1,943	\$ 1,930
Provision for loan losses	-	-	-	-
Loans charged-off	-	-	-	-
Recoveries	-	3	4	9
Balance, end of period	<u>\$ 1,947</u>	<u>\$ 1,939</u>	<u>\$ 1,947</u>	<u>\$ 1,939</u>
Allowance for loan losses to gross loans held for investment, net of unearned fees and costs	<u>0.89%</u>	<u>0.86%</u>	<u>0.89%</u>	<u>0.86%</u>

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

<sup>(2)</sup> 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				Nine Months Ended			
	September 30,				September 30,			
	2015		2014		2015		2014	
	Average		Average		Average		Average	
<b>Assets</b>	<b>Balance <sup>(1)</sup></b>	<b>Yield</b>						
<b>Yields on average balances</b>								
Loans <sup>(2)</sup>	220,314	4.00%	228,033	4.05%	225,090	4.00%	219,393	4.07%
Investment securities	29,578	1.68%	26,318	1.88%	29,341	1.71%	26,250	2.00%
Certificates of deposits in other banks	49,503	1.46%	57,703	1.35%	51,274	1.41%	56,132	1.33%
Other investments	7,568	0.94%	5,445	2.26%	7,710	1.12%	9,613	1.08%
Total interest-earning assets	<u>306,963</u>	3.29%	<u>317,499</u>	3.35%	<u>313,415</u>	3.29%	<u>311,388</u>	3.31%
<b>Liabilities</b>								
Noninterest-bearing deposits	<u>117,821</u>	-	<u>106,733</u>	-	<u>112,680</u>	-	<u>103,996</u>	-
Money market	126,660	0.44%	141,722	0.55%	128,147	0.44%	136,022	0.56%
NOW accounts	13,411	0.05%	14,326	0.05%	13,265	0.05%	13,192	0.05%
Savings	3,925	0.15%	3,938	0.15%	3,928	0.15%	4,065	0.15%
Certificates of deposit	16,745	0.58%	15,149	0.55%	17,085	0.58%	14,915	0.52%
Total interest-bearing deposits	<u>160,741</u>	0.41%	<u>175,135</u>	0.50%	<u>162,425</u>	0.42%	<u>168,194</u>	0.51%
Total deposits	<u>278,562</u>		<u>281,868</u>		<u>275,105</u>		<u>272,190</u>	
Other borrowings	<u>5,091</u>	0.31%	<u>15,092</u>	0.30%	<u>15,031</u>	0.31%	<u>18,828</u>	0.25%
Total interest-bearing liabilities	<u>165,832</u>	0.41%	<u>190,227</u>	0.48%	<u>177,456</u>	0.41%	<u>187,022</u>	0.48%
Net interest spread <sup>(3)</sup>		2.88%		2.87%		2.88%		2.83%
Net interest margin <sup>(3)</sup>		3.07%		3.06%		3.06%		3.02%
<b>Capital Ratios <sup>(4)</sup></b>								
<b>Consolidated company</b>								
Total capital to risk-weighted assets	16.54%		15.95%		16.54%		15.95%	
Tier 1 capital to risk-weighted assets	15.80%		15.24%		15.80%		15.24%	
Common equity tier 1 capital to risk-weighted assets	12.82%		12.37%		12.82%		12.37%	
Tier 1 capital to average assets	12.67%		12.23%		12.67%		12.23%	
<b>Bank</b>								
Total capital to risk-weighted assets	14.17%		13.84%		14.17%		13.84%	
Tier 1 capital to risk-weighted assets	13.43%		13.13%		13.43%		13.13%	
Common equity tier 1 capital to risk-weighted assets	13.43%		13.13%		13.43%		13.13%	
Tier 1 capital to average assets	10.93%		10.63%		10.93%		10.63%	

<sup>(1)</sup> The calculations are based on daily average balances.

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

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

<sup>(4)</sup> 3rd quarter 2014 ratios have been restated to conform with Basel III requirements for comparative purposes.