

FIRST SOUTH BANCORP, INC.  
FIRST BANK  
**Excessive and Luxury Expenditure Policy**

This policy fulfills the requirements under the American Recovery and Reinvestment Act of 2009 (ARRA) enacted February 17, 2009. ARRA requires each recipient of funds under the Capital Purchase Program (CPP) to have in place, within 90 days after closing of the CPP funding, a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Department of the U.S. Treasury.

First South Bancorp, Inc. (the “Company”) and its wholly-owned subsidiary First Bank (the “Bank”) each prohibits excessive or luxury expenditures on entertainment and events, office or facility renovations, aviation or other transportation services or other activities or events that are not reasonable expenditures for conferences, staff development, reasonable performance incentives or other similar measure conducted in the normal course of business operations. This policy is not intended to limit or restrict ordinary and customary expenditures incurred by the Company or the Bank, or their respective officers and employees incurred in normal course of business operations.

**Renovations:**

Renovations of Company or Bank facilities and office spaces should be relative to the approved project and current profit plan, and tracked within the capital expenditure policy of the Company or Bank as the case may be. An exception to this can be allowed if management must deal with an emergency situation, such as an act of nature, and the expenditure is necessary to make the facility operational for customer use. Office and facility renovations should be designed to: enhance operational efficiency, comply with applicable fire codes and ADA requirements, maintain a safe, sanitary and clean working environment, enhance the public image of the organization, improve employee morale, or such other worthwhile purpose as may be identified by the Company or the Bank, as the case may be. By way of example, relocating or adding moveable work stations, improving the air flow or temperature, altering the wall, ceiling or lighting configuration of a work or storage space, establishing a new branch office or sales office shall not be considered “excessive” by their very nature. At no time should renovations be done that would have the appearance of being extraordinary, or excessive from a shareholder perspective.

**Entertainment:**

Entertainment is defined as an activity that an Employee or Executive would use corporate funds for business development purposes relating to a current customer or prospective customer, or to further enhance the Company's (or Bank's) marketing efforts.

Company sponsorship of excessive or luxury expenditures on entertainment or events is strictly prohibited. Prior written approval from the CEO, COO or the CFO of the Company or the Bank, as the case may be, shall be required for all expenditures where the per capita expenditure exceeds \$1,000. By way of example, off-site planning meetings and off-site board of directors meetings are considered a normal part of the successful operation of the Company and are not considered luxury or excessive events.

Our expectation is that all expenses incurred by the Company or the Bank, as the case may be (or reimbursable by the Company or the Bank), as the case may be are for business purposes, and are

incurred to drive business to the Company/Bank. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, or taking them to other events is a necessary part of the Company's/Bank's marketing/business development efforts and is not deemed as "luxury" or a violation of this Policy. These expenses must be documented and detailed as to the benefit derived by the Company or the Bank, as the case may be through the normal accounts payable process.

**Conferences:**

We encourage our staff to attend conferences that are appropriate educational and/or business development opportunities. These conferences should be related to the financial services industry and have a direct correlation to their job. At times it may be appropriate that a spouse would travel to these conferences with Company or Bank attendees. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities.

**Employee Recognition/Holiday Parties:**

We feel that employee recognition/holiday parties are part of an overall employee appreciation/retention process. These events should be local in geographic nature, and would include costs for such things as service awards and nominal door prizes. An event should not cost the sponsoring business unit more than an average day's payroll per employee.

**Board/Management Retreats:**

Retreats should only be used for educational and/or business planning purposes, and should continue to be viewed as appropriate business expenses. Board education is a vital part of maintaining, and keeping a dynamic director base, and this policy should not limit a retreat that is focused on strategic planning or education.

**Aviation Services:**

Transportation for staff to outlying locations, including bank locations, conferences, business development purposes and merger and acquisition research, should be conducted in the most cost appropriate way for the Company or the Bank, as the case may be. Modes of transportation to be used may consist of vehicle, commercial air or rail service. The selection of transportation services will factor in cost, efficiency and timeliness of travel. Private air services are not allowed without the approval of the Chairman of the Board of Directors of the Company or The President and CEO of the organization.

Adopted – September 24, 2009