

First South Bancorp, Inc.

Audit Committee Charter

I. Purpose

The primary function of the First South Bancorp, Inc. (the "Company") Audit Committee (the "Committee") is to assist the Board of Directors (the "Board") in fulfilling its oversight responsibilities by reviewing: the financial reports and other financial information provided by the Company to any governmental body or to the public; the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have established and may establish from time to time; the Company's auditing, accounting and financial reporting processes generally; and all potential conflict of interest situations, including those arising from any related-party transactions. Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices at all levels. The Committee's primary duties and responsibilities are to:

- A. Oversee the accounting and financial reporting processes of the Company and the audits of the Company's financial statements.
- B. Serve as an independent and objective party to monitor the Company's financial reporting process and internal control system.
- C. Review and appraise the audit efforts of the Company's independent accountants and internal auditing.
- D. Provide an open avenue of communication among the independent accountants, senior and financial management, internal auditing, and the Board of Directors.

The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

II. Composition

The Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors, and free from any relationship that in the opinion of the Board would interfere with the exercise of his independent judgment as a member of the Committee. All members of the Committee shall have a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management experience. Audit Committee members shall meet the qualifications of the NASDAQ National Market and such qualifications as may be required by the Securities and Exchange Commission ("SEC").

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board or until their successors shall be duly elected and qualified. Unless the Board elects a Chairman, the Committee members may designate a Chairman by majority vote of the Committee.

III. Meetings

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its duty to foster open communication, the Committee should meet at least annually with management, the internal auditor and the independent accountants in separate executive sessions to discuss any matters the Committee or each of these groups believe should be discussed privately. In addition, the Committee or at least its Chairman should meet with the independent accountants and management quarterly to review the Company's financial statements and earnings press releases consistent with Section IV.4. below.

IV. Duties and Responsibilities

To fulfill its duties and responsibilities, the Committee shall:

A. Documents/Reports Review

1. Review and update this Charter at least annually and as conditions dictate. Submit the charter to the Board of Directors for approval and have the document published at least every three years in accordance with Securities and Exchange Commission (SEC) regulations.
2. Review the Company's annual financial statements and any reports or other financial information submitted to any governmental body, or the public, including any certification, report, opinion, or review rendered by the independent accountants.
3. Review the regular internal audit reports to management prepared by the internal auditor and management's responses.
4. Review quarterly with financial management and the independent accountants the Forms 10-K and 10-Q prior to filing.
5. Review and discuss the types of presentation and information to be included in earnings press releases, and any additional financial information and earning guidance generally provided to analysts and rating agencies.
6. Review and discuss the form and content of the certification documents for the quarterly reports on Form 10-Q and the annual report on Form 10-K with the general auditor, the independent auditor, the chief financial officer and the chief executive officer.
7. Prepare, review and approve the annual proxy disclosure regarding the activities and report of the Audit Committee for the year.

B. Independent Accountants

1. The independent accountants are ultimately accountable to the Audit Committee. Select the independent accountants, considering independence and effectiveness and approve the fees and other compensation to be paid to the independent accountants.
2. On an annual basis, the Committee should review and discuss with the independent accountants all significant relationships they have with the Company in order to determine their independence.

3. Review the performance of the independent accountants and approve any proposed discharge of the independent accountants when circumstances warrant.
4. Periodically consult with the independent accountants out of the presence of management about internal controls and the fullness and accuracy of the Company's financial statements.
5. Review the arrangements for and scope of the annual audit and any special audits.
6. Review the fees charged by the independent accountants for audit and non-audit services.
7. Review, evaluate and approve any non-audit services the independent auditor may perform for the Company and disclose such approved non-auditor services in periodic reports to stockholders.

As required by law, the Audit Committee shall assure the regular rotation of the lead and concurring audit partner, and consider whether there should be a regular rotation of the auditor itself.

C. Financial Reporting Processes

1. In consultation with the independent accountants and the internal auditor, review the integrity of the Company's financial reporting processes, both internal and external.
2. Consider the independent accountants' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting. Consider the effect upon the Company of any changes in accounting principles or practices proposed by management or the independent accountants.
3. Review and discuss with the independent auditor all necessary accounting policies and practices to be used, all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management and the risks of using such alternative treatments, and other material written communications between the independent auditor and management.
4. Consider and approve, if appropriate, major changes in the Company's auditing and accounting principles and practices as suggested by the independent accountants, management or the internal auditor.

D. Internal Audit Function and Legal Compliance

1. Review the budget, plan, changes in plan, activities, organizational structure, and qualifications of the internal audit function, as needed. The internal audit function shall have a direct reporting responsibility to the Board of Directors through the Audit Committee.
2. Review the appointment, performance and replacement of the internal audit function.
3. Review significant reports prepared by the internal auditors together with management's response and follow-up to these reports.

E. Process Improvement

1. Establish regular and separate systems of reporting to the Committee by each of management, the independent accountants and the internal auditor regarding any significant judgments made in management's preparation of the Company's financial statements and the view of each as to appropriateness of such judgments.
2. Upon completion of the annual independent audit, review with each of management, the independent accountants and the internal auditor any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
3. Review any significant disagreements among management and the independent accountants or the internal auditor in connection of the preparation of the Company's financial statements.
4. Review with the independent accountants, the internal auditor and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
5. Review all related party transactions (i.e., transactions required to be disclosed under SEC Regulation S-K, Item 404) for potential conflict of interest situations on an ongoing basis and determine whether to approve any such proposed transaction.

F. Policies, Procedures and Legal Compliance

1. Establish a system to annually review all Company policies and procedures and review management's monitoring of compliance with the Company's policies and procedures.
2. Review the activities, organizational structure, and qualifications of the internal auditor.
3. Review with the Company's legal counsel, compliance with matters including corporate securities trading policies and any legal matter that could have a significant impact on the Company's financial statements.
4. Supervise implementation of the Company's Code of Ethics for Directors, Officers and Employees and review and decide whether to approve any proposed waivers of the provisions of such Code.
5. Establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees regarding questionable accounting or auditing matters.
6. Maintain minutes or other records of meetings and activities of the Committee.
7. Perform any other activities consistent with this Charter, the Company's By-laws and applicable governing law, as the Committee or the Board deems necessary or appropriate.