

FIRST SOUTH BANCORP, INC.
CODE OF ETHICS
FOR
DIRECTORS, OFFICERS AND EMPLOYEES

GENERAL PHILOSOPHY

The honesty, integrity and sound judgment of our directors, officers and employees is essential to First South Bancorp's reputation and success.

This Code of Ethics governs the actions and working relationships of directors, officers and employees of First South Bancorp, Inc. and its subsidiaries and affiliates (collectively, "First South Bancorp") with current and potential customers, consumers, fellow employees, competitors, government and self-regulatory organizations, the media, and anyone else with whom First South Bancorp has contact. These relationships are essential to the continued success of First South Bancorp as a financial services provider.

This Code of Ethics:

- Requires the highest standards for honest and ethical conduct, including proper and ethical procedures for dealing with actual or apparent conflicts of interest between personal and professional relationships.
- Requires full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by First South Bancorp with governmental and regulatory agencies.
- Requires compliance with applicable laws, rules, and regulations.
- Addresses potential or apparent conflicts of interest and provides guidance for directors, officers and employees to communicate those conflicts to First South Bancorp.
- Addresses misuse or misapplication of First South Bancorp property and corporate opportunities.
- Requires the highest level of confidentiality and fair dealing within and outside the First South Bancorp environment.
- Requires reporting of any illegal behavior.

IDENTIFICATION OF SENIOR EXECUTIVE AND FINANCIAL OFFICERS

Certain provisions of this Code of Ethics apply to senior executive and financial officers but not to other employees. For purposes of this Code of Ethics, First South Bancorp's senior executive and financial officers shall consist of all officers with the title of Executive Vice President or higher, as well as First South Bank's Treasurer/Controller. Except where otherwise specifically stated herein, this Code of Ethics applies to all directors, officers and employees.

POLICY REGARDING ACCEPTING GIFTS AND CONFLICTS OF INTEREST

Directors, officers and employees are advised that they are required to comply with the First South Policy Regarding Accepting Gifts and Conflicts of Interests (the "Conflicts Policy"). The Conflicts Policy is considered an integral part of this Code of Ethics. Any violations of the Conflicts Policy will be considered a violation of this Code of Ethics, and any director, officer or employee seeking a waiver from any provision of the Conflicts Policy must comply with the requirements of this Code of Ethics set forth under "Administration and Waiver of Code of Ethics" below.

CORPORATE OPPORTUNITIES

Directors, officers and employees are prohibited from:

- (i) Personally benefiting from opportunities that are discovered through the use of First South Bancorp property, contacts, information or position.
- (ii) Accepting employment or engaging in a business (including consulting or similar arrangements) that may conflict with the performance of your duties or First South Bancorp's interest.
- (iii) Soliciting, demanding, accepting or agreeing to accept anything of value from any person in conjunction with the performance of your employment or duties at First South Bancorp.
- (iv) Acting on behalf of First South Bancorp in any transaction in which you or your immediate family has a significant direct or indirect financial or other interest.

There are certain situations in which employees may accept a personal benefit from someone with whom you transact business. These situations are described in the Conflicts Policy.

INSIDER TRADING

It is both unethical and illegal to buy, sell, trade or otherwise participate in transactions involving First South Bancorp common stock or other security while in possession of material information concerning First South Bancorp that has not been released to the general public, but which when released may have an impact on the market price of the First South Bancorp common stock or other equity security. It is also unethical and illegal to buy, sell, trade or otherwise participate in transactions involving the common stock or other security of any other company while in possession of similar non-public material information concerning such company. Directors, officers and employees are advised that they are required to comply with the First South Bancorp, Inc. Policies and Procedures Governing Trading in Securities (the "Insider Trading Policy"). Any questions concerning the propriety of participating in a First South Bancorp or other company stock or other security transaction should be directed to the Chief Financial Officer at (252) 940-5017. Copies of the Insider Trading Policy are available from First South Bancorp's Chief Financial Officer.

OUTSIDE BUSINESS RELATIONSHIPS

Directors and senior executive and financial officers should disclose all new directorships or potential directorships to the Chairman of the Audit Committee of the Board of Directors in order to avoid any conflicts of interest. Senior executive and financial officers of First South Bancorp are prohibited from holding outside employment. Other employees should notify their supervisors of outside directorships or employment to ensure it does not create a conflict of interest.

First South Bancorp encourages civic, charitable, educational and political activities as long as they do not interfere with the performance of your duties at First South Bancorp.

FAIR DEALING

Each director, officer and employee should undertake to deal fairly with First South Bancorp's customers, suppliers, competitors and employees. Additionally, no one should take advantage of another through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair-dealing practices.

Senior executive and financial officers and other employees must disclose prior to or at their time of hire the existence of any employment agreement, non-compete or non-solicitation agreement, confidentiality agreement or similar agreement with a former employer that would in any way restrict or prohibit the performance of any duties or responsibilities of their positions with First South Bancorp. Copies of such agreements should be provided to the Human Resources Manager to permit evaluation of the

agreement in light of the employee's position. In no event shall an employee use any trade secrets, proprietary information or other similar property, acquired in the course of his or her employment with another employer, in the performance of his or her duties for or on behalf of First South Bancorp.

Directors, officers and employees should not directly or indirectly accept bequests under a will or trust if such bequests have been made to them because of their employment or service with First South Bancorp.

PROTECTION AND PROPER USE OF FIRST SOUTH BANCORP PROPERTY

All directors, officers and employees should protect First South Bancorp's property and assets and ensure their efficient and proper use. Theft, carelessness and waste can directly impact First South Bancorp's profitability, reputation and success. Permitting First South Bancorp property (including data transmitted or stored electronically and computer resources) to be damaged, lost, or used in an unauthorized manner is strictly prohibited. Directors, officers and employees may not use corporate, bank or other official stationery for personal purposes.

COMPLIANCE WITH LAWS, RULES AND REGULATIONS

This Code of Ethics is based on First South Bancorp's policy that all directors, officers and employees comply with the law. While the law prescribes a minimum standard of conduct, this Code of Ethics requires conduct that often exceeds the legal standard.

PREPARATION OF PERIODIC REPORTS FILED WITH GOVERNMENTAL AND REGULATORY AGENCIES

Particular care is required in the preparation of First South Bancorp's filings ("Securities Reports") with the Securities and Exchange Commission ("SEC") pursuant to the Securities Act of 1933, as amended and the Securities Exchange Act of 1934, as amended and the rules and regulations of the SEC thereunder (collectively, the "Securities Laws"), as well as First South Bancorp's filings and communications (collectively, "Regulatory Reports") with federal and North Carolina bank regulatory authorities. It is essential that First South Bancorp's Securities Reports contain full, fair, accurate, timely and understandable disclosure and otherwise comply with the letter and spirit of the Securities Laws for the protection of First South Bancorp and its stockholders and to engender public confidence in the information provided by First South Bancorp in its Securities Reports. Similarly, it is essential that First South Bancorp's Regulatory Reports contain full, fair, accurate, timely and understandable disclosure and otherwise comply with the letter and spirit of applicable federal and state banking laws and

regulations (“Banking Laws”). Accordingly, the directors, senior executive and financial officers and other officers and employees involved in the preparation of Securities Reports and Regulatory Reports must use their best efforts to ensure that First South Bancorp’s Securities Reports and Regulatory Reports and other public communications made by First South Bancorp contain full, fair, accurate, timely and understandable disclosure and that First South Bancorp at all times complies in all material respects with the letter and spirit of the Securities Laws and the Banking Laws.

REPORTING OF ILLEGAL OR UNETHICAL BEHAVIOR AND VIOLATIONS OF THIS CODE OF ETHICS

All directors, officers and employees are expected to demonstrate the ability to properly manage their personal finances, particularly the prudent use of credit. First South Bancorp recognizes that its customers must have faith and confidence in the honesty and character of its senior executive and financial officers. In addition to the importance of maintaining customer confidence, there are specific laws that outline the actions First South Bancorp must take regarding any known, or suspected, crime involving the affairs of First South Bancorp. With regard to financial affairs, a bank must make a criminal referral in the case of any known, or suspected, theft, embezzlement, check/debit card fraud, kiting, misapplication or other defalcation involving bank funds or bank personnel in any amount.

Fraud is an element of business that can significantly affect the reputation and success of First South Bancorp. First South Bancorp requires its senior executive and financial officers and employees to talk to the Human Resources Manager, reporting directly to the Audit Committee of the Board of Directors, to report and discuss any known or suspected criminal activity involving First South Bancorp or its employees. If, during the course of employment, an employee becomes aware of any suspicious activity or behavior including concerns regarding questionable accounting or auditing matters, they must report violations of laws, rules, regulations, or this Code of Ethics to the Audit Committee Chairman pursuant to the provisions of the Anonymous Complaints Policy. Reporting the activity will not subject them to discipline absent a knowingly false report.

ADMINISTRATION AND WAIVER OF CODE OF ETHICS

This Code of Ethics shall be administered and monitored by the First South Bancorp Human Resources Manager, reporting directly to the Audit Committee of the Board of Directors. Any questions and further information on this Code of Ethics should be directed to this individual.

It is also the responsibility of the Human Recourses Manager to annually reaffirm compliance with this Code of Ethics by all senior executive and financial officers, and to obtain a signed certificate that each senior executive and financial officer has read and

understands the guidelines and will comply with them. Senior executive and financial officers will be required to sign a receipt form indicating they have read this Code of Ethics and will comply with its provisions.

Directors, officers and employees of First South Bancorp are expected to follow this Code of Ethics at all times. Generally, there should be no waivers to this Code of Ethics. However, in rare circumstances conflicts may arise that necessitate waivers. Waivers will be determined on a case-by-case basis by the Audit Committee of the Board of Directors. The Audit Committee of the Board of Directors shall have the sole and absolute discretionary authority to approve any deviation or waiver from this Code of Ethics. Any waiver and the grounds for such waiver by directors, officers or employees shall be promptly disclosed to stockholders in a Current Report on Form 8-K.

Known or suspected violations of this Code of Ethics will be investigated and may result in disciplinary action up to and including immediate termination of employment in the case of employees.

First South Bancorp will provide to any person without charge, upon request, a copy of this Code of Ethics. Such request should be made, in writing, to: Corporate Secretary, First South Bancorp, Inc., 1311 Carolina Avenue, Washington, North Carolina 27889.

This policy shall be reviewed by the Chief Financial Officer and approved by the Board of Directors annually. All exceptions to this policy shall be approved by the Board of Directors.