

Anonymous Complaints Policy

Complaint Procedures for Accounting, Internal Accounting Controls and Auditing Matters

Any employee of First South Bancorp, Inc. (the "Company"), including employees of First South Bank (the "Bank") and/or subsidiaries of the Company or the Bank, may submit a good faith complaint regarding accounting, internal accounting controls, auditing matters, or suspected fraud to the management or board of the Company without fear of dismissal, reprisal, or retaliation of any kind. In addition, any person, including employees of the Company or the Bank, may submit good faith complaints regarding accounting, internal accounting controls or auditing matters with confidence that the matter will be investigated thoroughly with appropriate remedial action taken if necessary. The Company is committed to achieving compliance with all applicable securities laws and regulations, accounting standards, accounting controls and audit practices. The Company's Audit Committee will oversee treatment of concerns in this area.

In order to facilitate the reporting of employee and non-employee complaints, the Audit Committee of the Company's Board of Directors has established the following procedures for (1) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, auditing matters, or suspected fraud ("Accounting Matters"), and (2) the confidential, anonymous submission by employees of concerns regarding questionable accounting, auditing, or other matters.

Receipt of Complaints

- Persons, including employees, with concerns regarding Accounting Matters may report their concerns to the Chairman of the Audit Committee of the Company.
- Employees may forward concerns regarding questionable accounting or auditing matters on a confidential or anonymous basis to the Audit Committee Chairman through regular mail at the following address:

Mr. Marshall T. Singleton
Chairman, Audit Committee
920 W. 3rd Street
Washington, NC 27889

Scope of Matters Covered by These Procedures

These procedures relate to concerns regarding any questionable accounting or auditing matters, including, without limitation, the following:

- Fraud or deliberate error in the preparation, evaluation, review or audit or any financial statement of the Company;
- Fraud or deliberate error in the recording and maintaining of financial records of the Company;
- Deficiencies in or noncompliance with the Company's internal accounting controls;
- Misrepresentation or false statement to or by a senior officer or accountant regarding a matter contained in the financial records, financial reports or audit reports of the Company; or
- Deviation from full and fair reporting of the Company's financial condition or results of operations.

Treatment of Complaints

- Upon receipt of a complaint, the Audit Committee Chairman will (i) determine whether the complaint actually pertains to Accounting Matters and (ii) when possible, acknowledge receipt of the complaint to the sender.
- Complaints relating to Accounting Matters will be reviewed under Audit Committee direction and oversight by such person(s) as the Audit Committee determines to be appropriate. Confidentiality will be maintained to the fullest extent possible, consistent with the need to conduct an adequate review.
- Prompt and appropriate corrective action will be taken when and as warranted in the judgment of the Audit Committee.
- The Company will not discharge, demote, suspend, threaten, harass, or in any manner discriminate against any employee in the terms and conditions of employment based upon any lawful actions of such employee with respect to good faith reporting of complaints regarding Accounting Matters or otherwise as specified in Section 806 of the Sarbanes-Oxley Act of 2002.

Reporting and Retention of Complaints and Investigations

- The Chairman of the Audit Committee shall maintain a log of all complaints and concerns, tracking their receipt, investigation and resolution, and shall prepare a periodic summary report thereof for the Audit Committee. Copies of complaints and such log will be maintained in accordance with the Company's document retention policy.