

**POLICY REGARDING ACCEPTING GIFTS
AND CONFLICTS OF INTEREST**

I. FIRST SOUTH BANK'S POLICY AND GUIDELINES

First South Bank's policies and guidelines respecting compliance with the bank bribery statute and conflicts of interest are set out below. References to First South Bank shall hereinafter be referred to as "First South".

II. ACCEPTING GIFTS MAY BE A CRIME

It is a federal crime for any representatives of First South or any of its affiliates to seek or accept anything of value, for themselves or others, in connection with business of First South where there is a corrupt intent that such representatives shall be influenced or rewarded related to First South business. It is also a crime for anyone (including customers, vendors, and others) to offer or give anything to representatives of First South with corrupt intent.

This is provided in Title 18, 215 of the United States Code ("Section 215"). A copy of that statute is attached to this policy as Exhibit A. It should be read. Violations are punishable by fines and imprisonment. Section 215 applies to officers, directors, employees, agents or attorneys of First South and its affiliates. Such persons are referred to below as representatives of First South.

III. POLICY REGARDING ACCEPTING GIFTS

A. General Policy

Except as provided below, no representative of First South may:

- (1) solicit for themselves or for a third party (other than First South) anything of value from anyone in return for any business, service or confidential information of First South, or
- (2) accept anything of value (other than bona fide salary, wages or fees) from anyone in connection with the business of First South, either before or after the transaction is discussed or consummated.

B. Guidelines Regarding Certain Permitted Transactions

First South recognizes that there are instances where a representative of First South may, without risk of corruption or breach of trust, accept something of value from someone doing or seeking to do business with First South. In general there is no threat of violation of Section 215:

- (1) if the acceptance is based on a family or personal relationship existing independent of any business of First South.
- (2) if the benefit is available to the general public under the same conditions on which it is available to the representative of First South, or

- (3) if the benefit would be paid for by First South as a reasonable business expense if not paid for by another party.

Provided there is no corrupt intent by either the giver or the receiver of the benefit, the following may be accepted under the circumstances described:

- a. Gifts, gratuities, amenities or favors based on obvious family or personal relationships (such as those between the parents, children or spouse of a representative of First South) where the circumstances make it clear that it is those relationships rather than the business of First South, which is the motivating factor;
- b. Meals, refreshments, entertainment, accommodations or travel arrangements, all of reasonable value not to exceed \$250 per day, in the course of a meeting or other occasion where the purpose is to hold bona fide business discussions or to foster better business relations, provided the expense would be paid for by First South as a reasonable business expense if not paid for by another party;
- c. Gifts of reasonable value, not to exceed \$100, that are related to commonly recognized events or occasions, such as a promotion, new job, wedding, retirement, holiday or birthday;
- d. Civic, charitable, educational or religious organizational awards for recognition of service and accomplishments not to exceed \$100 in value;
- e. Loans from other banks or financial institutions on customary terms to finance proper and usual activities by a representative of First South, such as a home mortgage loan;
- f. Advertising or promotional material of reasonable value, such as pens, pencils, note pads, key chains, calendars and similar items;
- g. Discounts or rebates on merchandise or services that do not exceed those available to other customers.

C. Transactions Permitted on a Case by Case Basis

Gifts and things of value may be accepted in circumstances not described above if they are consistent with the bank bribery statute and approved in writing by the Executive Management Committee. Requests for approval may be made on a case by case basis. Persons requesting such approvals shall submit their requests in writing and shall describe in writing all of the facts relevant to the request. Requests not submitted in advance should include an explanation of the reason prior approval was not obtained. If a request is submitted after a gift or favor has been received, and the request is denied, then the gift or favor shall be disposed of as directed by the Executive Management Committee. Written records of all requests and approvals or disapprovals will be kept.

D. Reporting Gifts that Violate the Policy

Whenever gifts are offered or received that violate this policy, they must be reported to the Executive Management Committee together with all relevant facts. The Executive Management Committee will review all such disclosures. Contemporaneous written records of all such disclosures will be kept.

E. Disposition of Prohibited Gifts

If a gift prohibited under this policy statement is received, it should be returned to the donor with an explanation. If return is not possible, the recipient should consult the Executive Management Committee. Depending on the circumstances, any such gifts will be turned over to First South or to a charitable institution. When possible, the donor will be informed of this disposition.

F. Reimbursement for Personal Expenses

First South will pay payments and reimbursements to representatives of First South for travel and personal expenses incurred in connection with First South business. No reimbursement will be made for excessive or unusual expenses. Normally, payments for such expenses made by customers, vendors or others should be made to First South.

G. Apply Common Sense

The purpose of these policies is to avoid violations of Section 215 and to ensure that First South business is safeguarded from the influence of bribery or personal favors. Whenever representatives of First South have personal dealings with persons who have business with First South, the requirements of the law must be kept in mind. Necessarily, the application of the guidelines stated in Paragraph B above will require good judgment and common sense. If representatives of First South encounter situations in which they are not sure of their obligations or if they find the application of these guidelines to be unduly restrictive, they should consult the Executive Management Committee. Under no circumstances should they accept any personal gift or favor if it appears that by giving it the donor hopes to influence any business of First South or to reward them for actions taken by them on behalf of First South.

H. Personal Relationships with Customers and Vendors

It is inevitable and desirable that persons associated with First South will have individual business and personal relationships unrelated to First South business, with First South customers, vendors, and others who do business with First South. This policy statement is not intended to discourage such relationships. Any personal business relationships should be on customary terms and for proper and usual purposes, however, and no one associated with First South should solicit any special favors in recognition of his or her position with First South. See Section IV below.

IV. POLICY REGARDING CONFLICTS OF INTEREST

A. General Policy

Conflicts of interest may arise when individuals associated with First South acquire personal interests or engage in outside activities in which their normal self-interests or obligations to others conflict with the interests of First South or its customers.

In some circumstances, engaging in conflicts of interest violates the law. In other cases, conflicts of interest may lead individuals to accept inappropriate personal benefits, which may violate the law. In all cases, where even the appearance of a conflict exists, there may be damage to First

South reputation for integrity. Ultimately, our success depends on our reputation for integrity and we will take whatever steps may be necessary in order to preserve our good name.

Accordingly, First South policy is that no employee, officer or director may engage in activities or acquire interests, which conflict with the interests of First South or its customers. Guidelines respecting certain specific practices and conditions are discussed below. It is not possible to describe every possible conflict of interest. The fact that a particular practice or condition is not prohibited below does not mean that it has been approved.

Questions will necessarily arise and they should be addressed to the Executive Management Committee. All potential conflicts of interest must be disclosed to the Executive Management Committee as provided in Paragraph D below. Employees should not attempt to resolve ambiguous or uncertain issues by themselves.

B. Misuse of Position with First South

The fact that a person holds a position with First South may not be used as the basis to seek or accept any business opportunity or other favor or benefit that is not available to persons who are not employed by First South. For example, no representative of First South may accept any offer to buy securities or other types of property or assets at terms, which are more favorable than the terms available to the general public, if the offer is made because the person is associated with First South. See Sections II and III above.

C. Guidelines Respecting Transactions Between Employees and Persons Outside First South

No representative of First South may become involved in outside business interests or employment that gives rise to a conflict of interest. The following are examples of conduct that may give the appearance of a conflict of interest. The list is not intended to be complete and all representatives of First South should use their best judgments to avoid even the appearance of a conflict of interest.

- (1) OUTSIDE EMPLOYMENT. Officers and employees of First South are expected to devote their full time attention and abilities to First South during regular hours of employment and such additional time as may be required. No other employment or activities should be undertaken if they would impair an individual's ability to properly perform his or her job responsibilities. The Executive Management Committee must approve outside employment that an employee of First South reasonably believes would give the appearance of a conflict of interest or damage the reputation of First South. No employment by a competitor of First South will be approved.
- (2) OUTSIDE BUSINESS VENTURES. Representatives of First South who have interests in companies that engage in transactions with First South may not participate in any decisions regarding those transactions. Representatives of First South that have material interests in companies that engage in transactions with First South should disclose the relationships as provided in Section D.
- (3) PERSONAL LOANS. No representative of First South may lend money to a customer of First South where such relationship would give the appearance that the representative of First South was using his or her position with First South to obtain the loan. No

representative of First South may borrow money from any company that engages in transactions with First South unless that company makes loans in the ordinary course of its business and unless such loans are made on terms that are generally available to the public.

- (4) RELATIVES. Relatives of persons associated with First South are encouraged to become customers of the Bank. No employee may make decisions or represent the Bank in matters involving loans to relatives, or investment of the Bank's funds with relatives, or purchasing goods or services from relatives.
- (5) EMPLOYMENT OF RELATIVES. No person who is related by blood or marriage to a representative of First South may be employed by First South unless the relationship has been disclosed to and approved by the Executive Management Committee.

D. Disclosure of Possible Conflicts of Interest

All representatives of First South are required to disclose all potential conflicts of interest, including those in which they have been inadvertently placed due to either business or personal relationships with customers, suppliers, business associates or competitors of First South. Any questions regarding a relationship should be addressed to the Executive Management Committee.

E. Loans to Directors and Executive Officers

Loans to Directors and Officers of First South Bank in compliance with Regulation O, issued by the Board of Governors of the Federal Reserve System.

V. BUSINESS INFORMATION IS CONFIDENTIAL

A. Business Information May Not Be Disclosed

Information about First South business and information supplied to First South by its customers (including prospective customers) and suppliers in the course of business relations is confidential. Employees may not disclose such information to other persons except to the extent that disclosure is necessary to carry out assigned responsibilities. Questions about disclosing information should be addressed to the Executive Management Committee.

B. Requests for Information by News Media, Financial Analysts, Financial Institutions and Others

From time to time employees may receive requests for information about First South or its customers or suppliers from the news media, investment analysts, financial institutions, or others. All such inquiries should be referred to an officer of the Bank. No employee may respond to such inquires unless expressly directed to do so by the President.

C. Information May Not be Used for Personal Purposes

No employee may use confidential information, which might reflect upon the investment value or future market value of any business enterprise for purposes of personal advantage or to provide an advantage to others. In particular, information received in the course of employment with First South that is not available to the general public may never be used as

the basis for making any decision to buy or sell stocks or other securities. Likewise, such information may not be used in giving investment advice to others.

VI. ACKNOWLEDGMENT OF AGREEMENT TO COMPLY WITH FIRST SOUTH POLICY REGARDING ACCEPTING GIFTS AND CONFLICTS OF INTEREST

Each director, officer and employee of First South shall sign a Certificate of Agreement to comply with this policy. Persons who are appointed or employed after this policy is adopted shall sign such a Certificate upon their appointment or employment. At times in the future when this policy is amended, all such persons shall also acknowledge and agree to the changes by written certificate.

VII. MAINTENANCE AND AMENDMENT OF POLICY

The Board of Directors has approved this policy. A copy will be available to be reviewed by any employee at each office of First South.

The Executive Management Committee shall maintain copies of all disclosures and other records or reports required by this policy to be made in writing for a period of no less than seven years.

No less frequently than annually, the Executive Management Committee shall review these policies to determine whether amendments are required or desirable. The result of such review shall be reported to the Board of Directors.

VIII. THIS POLICY IS FOR THE BENEFIT OF FIRST SOUTH

This policy is for the benefit of First South and the guidance of its personnel. It is intended to assist persons who are seeking to comply with the bank bribery statute and related laws. The fact that all of the provisions of this policy may not have been complied with in a particular instance is no evidence of a violation of any law.

This policy does not establish rights or standards enforceable against First South. Exceptions may be made in particular circumstances by the Executive Management Committee.

8000 - FDIC Miscellaneous Statutes and Regulations

CRIMINAL LAWS AND PROCEDURES

APPLICABLE SECTIONS OF TITLE 18.—CRIMES AND CRIMINAL PROCEDURE

§ 215. Receipt of commissions or gifts for procuring loans.

(a) Whoever--

(1) corruptly gives, offers, or promises anything of value to any person, with intent to influence or reward an officer, director, employee, agent, or attorney of a financial institution in connection with any business or transaction of such institution; or

(2) as an officer, director, employee, agent, or attorney of a financial institution, corruptly solicits or demands for the benefit of any person, or corruptly accepts or agrees to accept, anything of value from any person, intending to be influenced or rewarded in connection with any business or transaction of such institution;
shall be fined under this title or three times the value of the thing given, offered, promised, solicited, demanded, accepted, or agreed to be accepted, whichever is greater, or imprisoned not more than 30 years, or both, but if the value of the thing given, offered, promised, solicited, demanded, accepted, or agreed to be accepted does not exceed \$1,000, shall be fined under this title or imprisoned not more than one year, or both.

(b) [Revoked]

(c) This section shall not apply to bona fide salary, wages, fees, or other compensation paid, or expenses paid or reimbursed, in the usual course of business.

(d) Federal agencies with responsibility for regulating a financial institution shall jointly establish such guidelines as are appropriate to assist an officer, director, employee, agent, or attorney of a financial institution to comply with this section. Such agencies shall make such guidelines available to the public.

[Codified to 18 U.S.C. 215]

[Source: Section 1[215, formerly 220] of the Act of June 25, 1948 (Pub. L. No. 772; 62 Stat. 695), effective September 1, 1948, as amended by section 4 of the Act of September 21, 1950 (Pub. L. No. 797; 64 Stat. 894), effective September 21, 1950, as renumbered by section 1(d) of the Act of October 23, 1962 (Pub. L. No. 87--849; 76 Stat. 1125), effective January 20, 1963; and amended by section 1107(a) of chapter XI of the Act of October 12, 1984 (Pub. L. No. 98--473; 98 Stat. 2145), effective October 12, 1984; section 2 of the Act of August 4, 1986 (Pub. L. No. 99--370; 100 Stat. 779), effective September 3, 1986; sections 961(a) and 962(e)(1) of title IX of the Act of August 9, 1989 (Pub. L. No. 101--73; 103 Stat. 499 and 503), effective August 9, 1989; section 2504(a) of title XXV of the Act of November 29, 1990 (Pub. L. No. 101--647; 104 Stat. 4861), effective November 29, 1990; section 330016(1)(H) of title XXXIII of the Act of September 13, 1994 (Pub. L. No. 103--322; 108 Stat. 2147), effective September 13, 1994; section 606(a) of title VI of the Act of October 11, 1996 (Pub. L. No. 140--294; 110 Stat. 3511), effective October 11, 1996]