

CPP ANNUAL USE OF CAPITAL SURVEY - 2010

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First South Bancorp, Inc.

Person to be contacted regarding this report:	Renee Bunch	RSSD: (For Bank Holding Companies)	1132104
UST Sequence Number:	1057	Holding Company Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	50,000,000	FDIC Certificate Number: (For Depository Institutions)	8663
CPP/CDCI Funds Repaid to Date:	0	Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	July 17, 2009	City:	Lexington
Date Repaid ¹ :	N/A	State:	Tennessee

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	CPP capital funds have been used to support continued lending and renewal or modification of existing loans. During 2010 First South has originated new and/or renewed existing loans for approximately \$180 million.
<input type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	First South has increased the investment in U.S. agency mortgage-backed securities by approximately 45% since the receipt of CPP funding, a total of approximately \$177 million. The increase in such investments in 2010 has been approximately \$73.7 million of this total.

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Due to current local economic conditions we have experienced increases in past due and non-performing assets during the past 2 years. The Allowance for Loan Losses increased from 1.34% at 12/31/08 to 3.32% at 12/31/10.
<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	Due to the decline in the economy we have experienced an increase in net loan charge-offs over the last 3 years. Net losses for 2007, 2008, 2009, and 2010 were \$2.7mm, \$15.4mm, \$25.3mm and \$27.3mm respectively.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	Additional capital above well-capitalized levels was also provided during the weak credit cycle. Bank ratios improved from 12/31/08 to 12/31/10 as follows: Tier 1 Leverage-7.28% to 8.09%, Tier 1 RB-8.62% to 11.89%, Total RB-10.22% to 13.60%.

What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

One of the primary benefits First South obtained from the CPP funding was the ability to continue lending to qualified customers. Admittedly, due to a decline in loan demand and the need to charge-off non-performing loans as experienced by most banks, the size of the loan portfolio has declined in the past 2 years. However, the additional capital provided by CPP enabled us to originate and renew more than \$330 million in loans. Without this additional capital we would have had to curtail such lending activity.

What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

Due to the additional capital received through CPP First South was able to continue to originate and renew loans as discussed above. In addition, the Company has also been able to support industry lending by investing in financially sound and liquid Government Sponsored mortgage-backed securities which provide a reasonable return, provide liquidity as collateral for other funding and provide future cash flows to support the funding of loans when local loan demand increases.

Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.