



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

First South Bancorp, Inc.

Person to be contacted regarding this report:	Renee Bunch
CPP Funds Received:	\$50,000,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	7/17/2009
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	1132104
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	8663
City:	Lexington
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). To answer that question, Treasury is seeking responses that describe generally how the CPP 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 investment was deployed or how many CPP 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 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 funds were outstanding).

<input checked="" type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	First South Bancorp, Inc. Consolidated (First South) has used CPP capital funds to support continued lending and renewal or modification of existing loans. Since the receipt of CPP funds First South has originated new and renewed existing loans in excess of \$146 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.).	<p>First South has increased the investment in U.S. agency mortgage-backed securities by approx. 20% over the 2009 calendar year. Such investments not only assist in supporting mortgage lending by other institutions but will also provide cash flow when our loan demand increases in future years.</p>
<input type="checkbox"/> Make other investments	
<input checked="" type="checkbox"/> Increase reserves for non-performing assets	<p>Due to current local economic conditions we have experienced significant increases in past due and non-performing assets. Accordingly, the Allowance for Loan Losses to Total Loans has been increased from 1.34% at December 31, 2008 to 2.43% at December 31, 2009.</p>

<input type="checkbox"/>	Reduce borrowings	
<input checked="" type="checkbox"/>	Increase charge-offs	Net loan losses increased by approximately \$9.9 million from \$15.4 million in 2008 to \$25.3 million in 2009.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

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

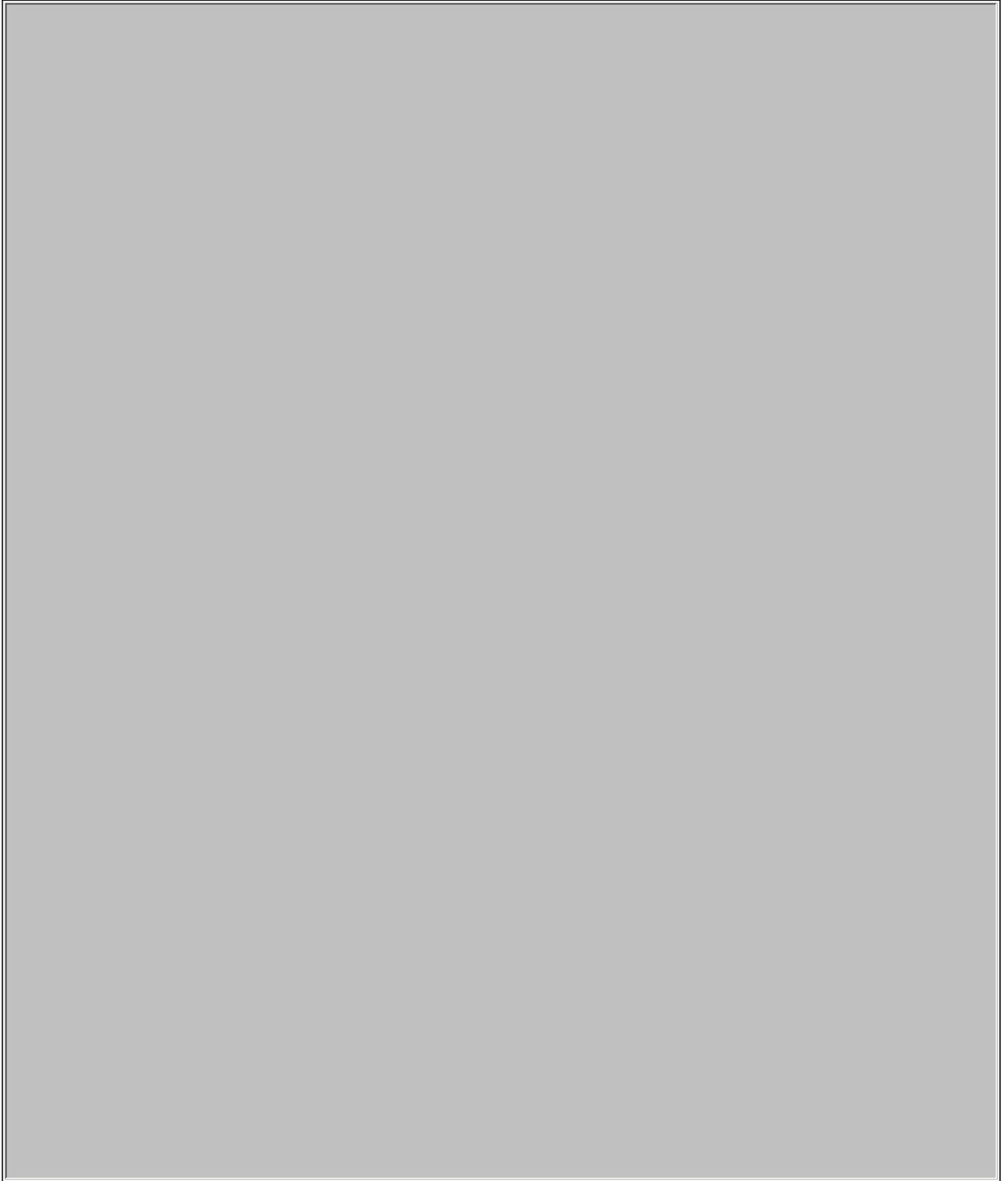
As noted by the Department of the Treasury the Capital Purchase Program (CPP) was designed to provide capital to cushion against losses and allow financial institutions to continue operating in the ordinary course of business, including lending to consumers and businesses. In addition, the Treasury acknowledged that to serve its purpose, capital must be available for general business purposes. Like most participating financial institutions, First South did not segregate capital received from the U. S. Treasury but commingled the funds with other capital and leveraged total capital accordingly.

One of the primary benefits First South received from the CPP funds was the ability to continue lending to current and new customers. Admittedly, due to both the decline in loan demand and the charge-off of non-performing loans experienced by many banks, our total loan portfolio has decreased by approximately 5% from December 31, 2008 to December 31, 2009. However, since CPP funds were received in July 2009, we have originated and renewed more than \$146 million in loans. The additional capital from CPP enabled us to avoid decreasing such lending activity.

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

As stated above, First South has experienced a significant decline in loan demand. Therefore, we have opted to also support industry lending with CPP funds by investing in financially sound and liquid Government Sponsored mortgaged-backed securities. These investments provide a reasonable return, provide liquidity due to the ability to use them as collateral to secure other funding, are treated favorably in regulatory capital risk-weighting and provide future cash flows over time to support lending when local loan demand increases again.

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