

March 4, 2009

Mr. Neil M. Barofsky
Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, D.C. 20220

Dear Mr. Barofsky,

Reference is made to your letter dated February 6, 2009 requesting that we provide your office, within 30 days of your request, certain information related to the use of Troubled Asset Relief Program (“TARP”) funds received by First Southern Bancorp, Inc. (the “Company”) and the Company’s compliance with the Emergency Economic Stabilization Act of 2008 (“EESA”) executive compensation requirements.

We hereby respectfully submit the requested information.

TARP Use of Funds

First Southern Bancorp, Inc. received TARP funds in the amount of \$10.9 million on January 31, 2009. The following are the responses to the four areas identified in your letter:

- Anticipated use of TARP funds – The anticipated use of the funds was to support asset growth, loan growth and/or continued compliance with regulatory capital adequacy requirements.
- Segregation of TARP funds – The TARP funds have not been segregated from other institutional funds.
- Actual use of TARP funds to date – On January 31, 2009 the TARP funds were deposited in a transactional account at the Company’s subsidiary, First Southern Bank (the “Bank”). As of Friday, February 27, 2008 all of the TARP funds remain in the transactional account.
- Expected use of unspent TARP funds - As of the last quarter end, the Company was a Well-Capitalized institution, with capital adequacy ratios well in excess of regulatory minimum requirements. As of February 27, 2009, the Company expects to use the funds to capitalize, over time, First Southern Bank. The first capital infusion in the amount of up to \$5,000,000 is expected to occur by March 31, 2009. Future capital infusions will be made to support asset growth, loan growth and/or regulatory capital adequacy requirements, as needed.

The Company has made several statements regarding the intended use of TARP funds:

- Exhibit 1 – January 6, 2009 press release communicating preliminary approval to participate in the TARP Program.
- Exhibit 2 – January 6, 2009 internal memorandum to employees communicating preliminary approval to participate in the TARP Program.
- On February 11, 2009 we included in our fourth quarter 2008 communication to shareholders the following statement,

“In order to further strengthen our ability to take part in the recovery stage of our market, we have decided to participate in the United States Treasury Capital Purchase Program. To this effect, in late January 2009 the Company closed a \$10.9 million transaction in which we issued preferred stock to Treasury. As a result of the transaction, our ability to grow our balance sheet has been significantly increased.”

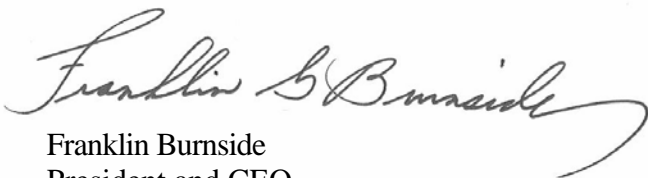
EESA Executive Compensation Requirements

The Company’s Compensation Committee (comprised of four external directors) has taken specific steps to address the EESA requirements. These include:

- Amend employment agreements with the Senior Executive Officers (SEO) to incorporate language compliant with EESA requirements.
- Prepare and approve the specific plans highlighted in Exhibit 3.
- Establish the process to complete all Exhibit 3 activities by March 31, 2009.

I hereby certify the accuracy of all statements, representations, and supporting information provided, subject to the requirements and penalties set forth in Title 18, United States Code, Section 1001. We are available to address any questions or provide additional information at your convenience.

Sincerely,



Franklin Burnside
President and CEO

FOR IMMEDIATE RELEASE

**FIRST SOUTHERN BANCORP, INC. SELECTED TO PARTICIPATE IN
U.S. TREASURY CAPITAL PURCHASE PROGRAM**

BOCA RATON, FL (January 6, 2009) – The U.S. Treasury Department has granted preliminary approval to First Southern Bancorp, Inc. (holding company of First Southern Bank of Boca Raton, Florida) to sell \$10.9 million in preferred stock to the government under the Treasury’s Capital Purchase Program. This voluntary program was designed to provide additional capital to financial institutions, to provide liquidity to the credit markets, and to stabilize our financial markets. Should First Southern Bancorp decide to participate; receipt of the funding is subject to execution of certain definitive agreements and the satisfaction of standard closing conditions.

“We are pleased to be one of the first privately owned financial institutions to receive preliminary approval for an investment from the Capital Purchase Program,” said Franklin G. Burnside, President and Chief Executive Officer of First Southern.

"First Southern maintains a strong financial position and is considered well-capitalized by regulatory guidelines. We view the additional capital as an opportunity to bolster an already solid capital position. It could enhance our ability to take advantage of opportunities that may arise within our footprint and to continue making quality, relationship-based loans in the communities we serve," Burnside added.

A summary of the Capital Purchase Program (CPP) can be found on Treasury’s website at www.ustreas.gov/initiatives/eesa.

About First Southern Bank

Founded in 1987, First Southern Bank is the oldest independent community bank based in Boca Raton. It is dedicated to tailoring its world-class financial products and services to meet the individual needs of professionals and businesses.

First Southern has five branches, where it offers flexible access with lobby and courier services, as well as drive-through and ATM services, and complete online banking. For more information, please visit www.firstsouthernbank.com.

Memo

To: To All Employees
From: Franklin G. Burnside, President & CEO
Date: January 6, 2009
Re: First Southern to get \$10.9M in TARP Money

Action: For Immediately Release to All Employees

I am pleased to announce that the U.S. Treasury Department has granted preliminary approval to First Southern Bancorp, Inc. to sell \$10.9 million in preferred stock to the government under the Treasury's Capital Purchase Program. This is very positive news for our institution and I felt it was important that I share this exciting news with all employees of the Bank in conjunction with our distribution of this news to the media outlets.

Both the Board and your executive management team are pleased to be one of the first privately owned financial institutions to receive preliminary approval for an investment from the Capital Purchase Program.

First Southern Bank as you may all already know is in a strong financial position and is considered well-capitalized by regulatory guidelines. If we choose to proceed, this additional capital would bolster an already solid capital position at the Bank.

Should you be contacted by the press directly regarding this announcement, I am asking that you coordinate requests for additional information through Tony Gautney who will manage the communication process with the media and our public relations firm.

Thank you once again, for your outstanding contributions to First Southern Bank. We are very excited about this opportunity and are pleased to be sharing this news as we start 2009.

Regards,

Franklin G. Burnside

	<u>Completion Date</u>	<u>Responsible Party</u>
<p>(1) Compensation Committee reviews, and meets with Senior Risk Officers ("SRO's") to review, compensation components and ensure that SEO incentive compensation arrangements do not encourage unnecessary and excessive risks that could threaten the Bank's value.</p> <p>Compensation Committee meets with SROs to:</p> <ul style="list-style-type: none"> a. Identify potential short and long term unnecessary and excessive risks that could threaten the Bank's value. b. Identify components of current compensation programs and determine whether program provides incentives to take c. If necessary, revise design of Compensation Committee programs to limit features in incentive compensation arrangements that could lead the SROs to take unnecessary and excessive risks - bonus program, equity compensation programs, other incentive compensation programs. 	27-Mar-09	Compensation Committee Chairman (SRO's)
<p>(2) Establish procedures to ensure at a minimum semi-annual Compensation Committee meetings during the Treasury Holding Period with SROs to discuss and review relationship between the Bank's risk management policies and practices and SEO compensation arrangements. Under new law, Board of Directors must meet at least semi-annually to evaluate employee compensation plans in light of risks to Bank posed by such plans.</p>	27-Mar-09	Compensation Committee Chairman/ Board
<p>(3) Complete, and submit to the Bank's primary federal banking regulator, Compensation Committee certifications attesting that the committee has completed the reviews of SEO incentive compensation arrangements required under (1) & (2) above.</p>	31-Mar-09	Compensation Committee Chairman
<p>(4) Incorporate clawback language into all incentive compensation paid (i.e. to which the SEO obtains a legally binding right) to SEO and, if appropriate, to the next 20 most highly compensated employees ("HCEs"), during the Treasury Holding Period.</p>	27-Mar-09	Human Resources Officer
<p>(5) Establish procedures to ensure that Compensation Committee reviews covered bonus and incentive compensation arrangements at least annually to assure that clawback does not apply.</p>	27-Mar-09	Compensation Committee Chairman
<p>(6) Establish procedures to ensure that the institution complies with the prohibition on payment of a "golden parachute payment" to an SEO, and if appropriate to the next 5 most HCEs, during the Treasury Holding Period.</p>	27-Mar-09	Compensation Committee Chairman
<p>(7) Establish procedures to ensure that no deduction may be claimed for compensation in excess of \$500,000 for any SEO.</p>	27-Mar-09	Principal Financial Officer
<p>(8) Review, and if necessary revise, the Company's expense reimbursement policies to ensure an effective company wide policy on luxury expenditures.</p>	27-Mar-09	Board of Directors