

## Featured Products & Services

### Mortgage Loans

First South Bank offers a full range of mortgage products, each with different features and benefits. A fixed-rate loan offers the same interest rate, monthly principal and interest payment throughout the entire life of the loan. The fixed-rate mortgage loan is the “traditional” choice and is still the most popular because it offers stability and predictable monthly payments.

The longer the term, the lower the monthly payments and the more cash you’ll have for other expenses. A longer term also provides maximum tax-deductible interest (ask your tax advisor for more details). With a shorter term, you will have higher monthly payments and you will qualify for a smaller loan amount, but you’ll save on interest costs over the life of the loan and build your equity faster.

Processing and closing a mortgage usually takes between 10 and 30 calendar days. Most borrowers apply for a mortgage loan once they have selected property. However, you can be pre-qualified so that you will know how much you can afford before you start shopping.

### Free Personal Checking

Regardless of your age, First South Bank offers free personal checking. With any free checking account you can enjoy the luxury of unlimited check writing, no monthly service charges and free withdrawals at all First South Bank ATMs. Some of our free checking accounts also provide you with free personalized checks. All free checking customers receive a VISA debit card that can be used at ATMs and at VISA retailers for point of sale purchases. Free personal online banking and bill payment are also available to free checking customers. Stop by and talk to a financial specialist today.

### Executive Checking Plus

If you maintain a higher-than-average checking balance, First South Bank’s Executive Checking Plus provides healthy interest like a money market account without compromising liquidity. You reap competitive, tiered rates on balances while enjoying unlimited check writing. Your money gets a harder work out, and is available whenever you need it. Complimentary, personalized checks are available along with free online banking and bill payment services.

## First South Bank

Member FDIC

### Corporate Office

1311 Carolina Avenue  
Washington, NC 27889  
(252) 946-4178

### Full-Service Branch Offices

Buxton	Dunn
Chocowinity	Kinston
Durham	Lumberton (2)
Elizabeth City	New Bern (3)
Fayetteville (2)	Raleigh
Greenville (3)	Rocky Mount (4)
Hope Mills	Tarboro
Washington (3)	Grantsboro

Kill Devil Hills (2)

### Loan Production Office

Durham  
Wilmington

### First South Leasing, LLC

Greenville

### Shareholder Information

#### Stock Listing:

NASDAQ - National Market System  
Symbol - FSBK

#### Registrar and Transfer Agent:

Registrar and Transfer Company  
10 Commerce Drive  
Cranford, NJ 07016-3572  
1-800-368-5948

#### Investor Relations:

PO Box 2047  
Washington, North Carolina 27889  
1-800-946-4178

## *Quarterly Financial Report*

June 30, 2008

## *First South Bancorp*

Dear Shareholders:

First South Bancorp, Inc., the parent holding company of First South Bank, is pleased to report its unaudited consolidated results of operations for the quarter ended June 30, 2008 and the first six months of the year ending December 31, 2008.

Net income for the June 2008 quarter was \$3.0 million compared to \$4.3 million earned in the June 2007 quarter. Diluted earnings per share were \$0.31 per share for the June 2008 quarter and \$0.43 per share for the June 2007 quarter. Net income for the six months ended June 30, 2008 was \$6.9 million compared to \$8.6 million earned in the six months ended June 30, 2007. Diluted earnings per share were \$0.70 per share for the six months ended June 30, 2008 and \$0.86 per share for the six months ended June 30, 2007.

We anticipate continued volatility thru 2008. The economy remains challenged with the housing slow down, high energy costs and uncertainty about the Federal Reserve's next move. First South remains well capitalized and focused upon managing credit quality. Many of our future strategies will focus on enhancing First South's franchise value. We are committed to our shareholders, our customers, and our employees.

The decline in net interest margin has been significantly influenced by the Federal Reserve's 3.25% rate cuts since late 2007, while being partially offset by an increase in average earning assets and a decline in the cost of funds. We have improved our cost of funds by the combination of deposit repricing, and the rollover of time deposits and the repositioning of borrowings within a lower interest rate environment.

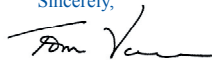
At June 30, 2008, our total assets were \$910.2 million; net loans and leases receivable \$765.1 million; deposits and borrowings \$798.5 million; and stockholders' equity \$83.9 million.

During the June 2008 quarter, we received national and statewide recognition for our operating efficiency; return on average equity; and market capitalization from American Banker, ABA Banking Journal, U.S. Banker and the News & Observer. The Company also retained its listing in the Russell Index of funds. During this quarter, we also upgraded a loan production office in Dunn, North Carolina to a full service banking office to better serve our customers in that market area.

We are pleased to enclose our dividend check of \$0.20 per share, payable to shareholders of record as of July 10, 2008. This dividend payment is the Company's 45th consecutive quarterly cash dividend.

The Board of Directors, officers and staff of the Company and First South Bank pledge our continued commitment to you and we welcome your comments and suggestions. Thank you for your support and continued investment in First South Bancorp.

Sincerely,



Tom Vann  
President and Chief Executive Officer

## Condensed Statements of Financial Condition

(in thousands)

	June 30, 2008	December 31, 2007**
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 27,320	\$ 22,273
Interest-bearing deposits	6,668	1,756
Investment securities	41,126	49,065
Mortgage backed securities	34,859	39,120
Loans and leases receivable, net	765,086	765,083
Premises and equipment	9,333	9,433
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,659	3,210
Accrued interest receivable	4,618	5,103
Mortgage servicing rights	1,111	1,151
Other assets	12,245	8,875
<b>Total Assets</b>	<b>\$ 910,244</b>	<b>\$ 909,288</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 744,293	\$ 761,370
Borrowings	54,164	42,067
Junior subordinated debentures	10,310	10,310
Other liabilities	14,560	9,506
Total liabilities	823,327	823,253
Total Stockholders' Equity	86,917	86,035
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 910,244</b>	<b>\$ 909,288</b>

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2008	2007	2008	2007
Interest income	\$ 15,219	\$ 17,525	\$ 31,603	\$ 34,847
Interest expense	6,045	7,286	12,828	14,506
Net interest income	9,174	10,239	18,775	20,341
Provision for credit losses	1,149	100	1,149	100
Net interest income after provision for credit losses	8,025	10,139	17,626	20,241
Non-interest income	2,821	2,382	5,494	4,866
Non-interest expense	5,896	5,489	11,856	11,010
Income before taxes	4,950	7,032	11,264	14,097
Income tax expense	1,938	2,721	4,351	5,488
<b>Net Income</b>	<b>\$ 3,012</b>	<b>\$ 4,311</b>	<b>\$ 6,913</b>	<b>\$ 8,609</b>
Basic earnings per share	\$ .31	\$ .43	\$ .71	\$ .87
Diluted earnings per share	\$ .31	\$ .43	\$ .70	\$ .86
Dividends per share	\$ .20	\$ .19	\$ .40	\$ .38
Weighted average shares - basic	9,756,519	9,943,148	9,779,465	9,937,037
Weighted average shares - diluted	9,782,038	10,055,509	9,807,507	10,062,394

\*\* Derived from audited consolidated financial statements.