

PRESS RELEASE
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First South Bancorp, Inc.

FOR IMMEDIATE RELEASE
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First South Bancorp, Inc. Reports June 30, 2007 Quarterly and Six Months Earnings

Washington, North Carolina - First South Bancorp, Inc. (NASDAQ: FSBK) (the "Company"), the parent holding company of First South Bank (the "Bank"), reports its earnings for the quarter ended June 30, 2007 (unaudited), the second quarter of its fiscal year ending December 31, 2007, and its earnings for the six months ended June 30, 2007 (unaudited).

Net income for the quarter ended June 30, 2007 was \$4,311,087 compared to net income of \$4,286,907 earned in the quarter ended June 30, 2006. Diluted earnings per share were \$0.43 per share for both the quarter ended June 30, 2007 and June 30, 2006, respectively. Net income for the six months ended June 30, 2007 was \$8,609,084 compared to \$8,510,206 earned in the six months ended June 30, 2006. Diluted earnings per share were \$0.86 per share for both the six months ended June 30, 2007 and June 30, 2006, respectively. The June 30, 2006 share and per share data have been adjusted to reflect a three-for-two stock split, paid in the form of a 50% stock dividend on May 25, 2006.

Tom Vann, President and Chief Executive Officer of the Company, stated, "Our earnings this quarter were supported by maintaining a constant volume of net interest income, during a period of continuing uncertainty of further Federal Reserve interest rate adjustments. Like many financial institutions located within the markets we serve, our earnings continue to be influenced by a period of slower loan growth and competitive pressure on deposit flows and rates paid on deposits.

The net loan and leases receivable portfolio grew at an annualized rate of 3.1% to \$745.4 million at June 30, 2007, from the preceding quarter end. During the current quarter, we exchanged \$5.5 million of residential mortgage loans for mortgage-backed securities, in order to protect the Bank from potential interest rate risk associated with holding these fixed rate loans in our loan portfolio. Earning assets remained constant at 94.1% of total assets for both the June 2007 quarter end and the preceding quarter. Our yield on earning assets improved to 8.24% for the current quarter compared to 8.11% for the preceding quarter.

Total deposits and borrowings declined marginally to \$806.1 million at June 30, 2007 from \$808.2 at the preceding quarter end. During the June 2007 quarter, certain higher costing deposits matured as we effectively managed our funding cost, while simultaneously managing our operating cash flows with funds held in short-term overnight investments. Our cost of funds increased to 3.60% for the current quarter from 3.54% for the preceding quarter; and in conjunction with the improved yield on earning assets, our net interest spread increased to 4.64% at June 30, 2007 from 4.57% for the preceding quarter.

Total assets of the Company remained constant at \$910.6 million at June 30, 2007, compared to \$910.5 million at December 31, 2006. On a trailing quarter basis, net interest income remained constant at \$10.2 million for the quarter ended June 30, 2007, compared to \$10.1 million for the preceding quarter end, reflecting both our balance sheet and interest rate risk management efforts.

The Bank maintains allowances for loan and lease losses and a reserve for unfunded loan commitments, based upon an evaluation of inherent risk and estimates of probable credit losses within the loan and lease portfolio. The Bank recorded \$100,000 and \$437,000 of provisions for credit losses during the quarters ended June 30, 2007 and 2006, respectively. At June 30, 2007, the Bank had \$8.3 million of general allowances, \$872,000 of specific allowances and \$767,000 of reserves for unfunded commitments, totaling \$9.9 million, or 1.31% of total loans outstanding, which management considers adequate to absorb probable losses on loans, leases and unfunded commitments.

We also continued placing efforts on our operating efficiency by managing net interest income, growing non-interest income, and controlling operating expenses, resulting in a 43.4% efficiency ratio for the quarter ended June 30, 2007. Our key performance ratios, return on average assets (ROA) and return on average equity (ROE), continue to place us at the top of our peer group. Our ROA and ROE was 1.91% and 20.72%, respectively, for the quarter ended June 30, 2007.

During the quarter ended June 30, 2007 we declared our 41st consecutive quarterly cash dividend of \$0.19 per share, payable July 27, 2007 to stockholders of record as of July 10, 2007. This cash dividend payment represents a 44.19% payout ratio of this quarters basic earnings per share.

The quarter ended June 30, 2007 was eventful for both the Company and the Bank. We received national and statewide recognition for our operating efficiency; 2006 return on average equity; 5-year return on average equity; and market capitalization from *American Banker*, *ABA Banking Journal*, and *the Charlotte Business Journal*. The Company also retained its listing in the Russell Index of funds which will help raise our visibility with investors who rely on the Russell Indexes as part of their investment strategy.

During the June 2007 quarter, we relocated two existing offices into newly renovated full service banking offices in order to better serve our customers in the Fayetteville and Durham markets. The new offices are located at 705 Executive Place, Fayetteville, North Carolina and 4215 University Drive, Durham, North Carolina. In addition, during the June 2007 quarter we also opened a new loan production office located at 3804 Peachtree Avenue, Wilmington, North Carolina to provide an additional level of residential construction lending services to the Wilmington market area.”

First South Bank has been serving the citizens of eastern North Carolina since 1902 and offers a variety of financial products and services, including a leasing company and securities brokerage services through an affiliation with a broker/dealer. The Bank operates through its main office headquartered in Washington, North Carolina, and has twenty-six full service branch offices and two loan production office located throughout central, eastern, northeastern and southeastern North Carolina.

Statements contained in this release, which are not historical facts, are forward-looking statements as

defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors which include the effects of future economic conditions, governmental fiscal and monetary policies, legislative and regulatory changes, the risks of changes in interest rates, the effects of competition, and including without limitation to other factors that could cause actual results to differ materially as discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

(More)

(NASDAQ: FSBK)

First South Bancorp, Inc. and Subsidiary
Consolidated Statements of Financial Condition

	June 30 2007 (unaudited)	December 31 2006 *
Assets		
Cash and due from banks	\$ 23,375,799	\$ 24,608,819
Interest-bearing deposits in financial institutions	22,847,927	1,194,801
Investment securities - available for sale	47,799,268	56,454,127
Mortgage-backed securities - available for sale	37,342,754	35,066,627
Mortgage-backed securities - held for investment	1,483,426	1,662,540
Loans and leases receivable, net:		
Held for sale	14,331,790	25,576,080
Held for investment	731,060,684	735,860,969
Premises and equipment, net	9,405,091	8,898,009
Real estate owned	1,344,279	634,434
Federal Home Loan Bank of Atlanta stock, at cost		
which approximates market	1,635,100	1,933,300
Accrued interest receivable	5,207,707	5,398,477
Goodwill	4,218,576	4,218,576
Mortgage servicing rights	1,231,869	1,266,530
Identifiable intangible assets	212,220	227,940
Prepaid expenses and other assets	9,071,112	7,546,676
	910,567,602	910,547,905
Total assets	\$ 910,567,602	\$ 910,547,905
Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$ 266,354,066	\$ 264,722,202
Savings	18,899,098	18,481,271
Large denomination certificates of deposit	191,286,717	181,078,901
Other time	322,550,492	335,906,107
Total deposits	799,090,373	800,188,481
Borrowed money	7,055,954	11,139,947
Junior subordinated debentures	10,310,000	10,310,000
Other liabilities	10,805,559	10,112,899
Total liabilities	827,261,886	831,751,327
Common stock, \$.01 par value, 25,000,000 shares authorized; 11,254,222 issued; 9,940,196 and 9,788,133 shares outstanding, respectively		
	99,402	97,881
Additional paid-in capital	36,819,700	38,165,536
Retained earnings, substantially restricted	75,030,017	70,217,380
Treasury stock at cost	(27,554,550)	(29,104,894)
Accumulated other comprehensive loss, net	(1,088,853)	(579,325)
Total stockholders' equity	83,305,716	78,796,578
Total liabilities and stockholders' equity	\$ 910,567,602	\$ 910,547,905

*Derived from audited consolidated financial statements

First South Bancorp, Inc. and Subsidiary
Consolidated Statements of Operations
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Interest income:				
Interest and fees on loans	\$ 16,177,817	\$ 15,670,559	\$ 32,164,404	\$ 30,283,718
Interest and dividends on investments and deposits	1,347,839	1,122,936	2,683,217	2,091,044
Total interest income	<u>17,525,656</u>	<u>16,793,495</u>	<u>34,847,621</u>	<u>32,374,762</u>
Interest expense:				
Interest on deposits	6,997,293	5,608,152	13,866,119	10,456,391
Interest on borrowings	77,046	271,843	220,388	457,653
Interest on junior subordinated notes	212,111	202,144	419,955	389,066
Total interest expense	<u>7,286,450</u>	<u>6,082,139</u>	<u>14,506,462</u>	<u>11,303,110</u>
Net interest income	10,239,206	10,711,356	20,341,159	21,071,652
Provision for credit losses	100,000	436,500	100,000	782,878
Net interest income after provision for credit losses	<u>10,139,206</u>	<u>10,274,856</u>	<u>20,241,159</u>	<u>20,288,774</u>
Non-interest income:				
Fees and service charges	1,821,399	1,703,624	3,638,137	3,229,981
Loan servicing fees	164,600	165,136	326,699	334,425
Gain (loss) on sale of real estate, net	19,501	1,943	19,359	2,510
Gain on sale of mortgage loans	37,675	116,524	252,319	303,908
Other income	338,344	323,898	629,513	684,015
Total non-interest income	<u>2,381,519</u>	<u>2,311,125</u>	<u>4,866,027</u>	<u>4,554,839</u>
Non-interest expense:				
Compensation and fringe benefits	3,348,150	3,337,276	6,646,076	6,657,212
Federal insurance premiums	24,160	23,205	48,447	47,112
Premises and equipment	465,656	447,803	938,749	882,134
Advertising	28,992	44,872	55,488	77,341
Payroll and other taxes	314,291	398,225	666,256	723,578
Data processing	624,449	596,680	1,246,060	1,165,865
Amortization of intangible assets	98,475	93,007	195,444	187,704
Other	584,907	621,145	1,213,861	1,178,821
Total non-interest expense	<u>5,489,080</u>	<u>5,562,213</u>	<u>11,010,381</u>	<u>10,919,767</u>
Income before income taxes	7,031,645	7,023,768	14,096,805	13,923,846
Income taxes	<u>2,720,558</u>	<u>2,736,861</u>	<u>5,487,721</u>	<u>5,413,640</u>
Net income	\$ <u>4,311,087</u>	\$ <u>4,286,907</u>	\$ <u>8,609,084</u>	\$ <u>8,510,206</u>
Per share data:				
Basic earnings per share	\$ 0.43	\$ 0.44 *	\$ 0.87	\$ 0.88 *
Diluted earnings per share	\$ 0.43	\$ 0.43 *	\$ 0.86	\$ 0.86 *
Dividends per share	\$ 0.19	\$ 0.17 *	\$ 0.38	\$ 0.34 *
Weighted average shares-Basic	9,943,148	9,719,014 *	9,937,037	9,651,379 *
Weighted average shares-Diluted	10,055,509	10,010,945 *	10,062,394	9,945,445 *

(*) for May 25, 2006 three-for-two stock split.

First South Bancorp, Inc.
Supplemental Quarterly Financial Data (Unaudited)

	<u>6/30/2007</u>	<u>3/31/2007</u>	<u>12/31/2006</u>	<u>9/30/2006</u>	<u>6/30/2006</u>
Consolidated balance sheet data:					
	(dollars in thousands except per share data)				
Total assets	\$ 910,568	\$ 911,020	\$ 910,548	\$ 916,914	\$ 898,581
Loans receivable (net)	745,392	739,608	761,437	762,020	750,264
Cash and investments	94,023	106,790	82,258	85,614	76,689
Mortgage-backed securities	38,826	35,246	36,729	37,719	37,935
Premises and equipment	9,405	9,173	8,898	8,665	9,000
Goodwill	4,219	4,219	4,219	4,219	4,219
Mortgage servicing rights	1,232	1,283	1,267	1,349	1,433
Deposits	799,090	802,217	800,188	803,512	772,969
Borrowings	7,056	6,005	11,140	15,397	29,736
Junior subordinated debentures	10,310	10,310	10,310	10,310	10,310
Stockholders' equity	83,306	82,519	78,797	76,275	72,657
Consolidated earnings summary:					
Interest income	\$ 17,525	\$ 17,322	\$ 17,849	\$ 17,528	\$ 16,794
Interest expense	7,286	7,220	7,343	6,960	6,082
Net interest income	10,239	10,102	10,506	10,568	10,712
Provision for credit losses	100	0	0	150	437
Noninterest income	2,382	2,484	2,190	2,516	2,311
Noninterest expense	5,489	5,521	5,532	5,758	5,562
Income taxes	2,721	2,767	2,799	2,859	2,737
Net income	\$ 4,311	\$ 4,298	\$ 4,365	\$ 4,317	\$ 4,287
Per Share Data: *					
Earnings per share-Basic *	\$ 0.43	\$ 0.43	\$ 0.45	\$ 0.44	\$ 0.44
Earnings per share-Diluted *	\$ 0.43	\$ 0.43	\$ 0.43	\$ 0.43	\$ 0.43
Dividends per share *	\$ 0.19	\$ 0.19	\$ 0.17	\$ 0.17	\$ 0.17
Book value per share*	\$ 8.38	\$ 8.29	\$ 8.05	\$ 7.80	\$ 7.44
Average shares-Basic *	9,943,148	9,930,732	9,780,619	9,776,933	9,719,014
Average shares-Diluted*	10,055,509	10,069,085	10,060,369	10,070,678	10,010,945
*Adjusted for 3-for-2 stock split on May 25, 2006					
Performance ratios:					
Yield on earning assets	8.24%	8.11%	8.32%	8.26%	8.08%
Cost of funds	3.60%	3.54%	3.57%	3.39%	3.03%
Net interest spread	4.64%	4.57%	4.75%	4.87%	5.05%
Net interest margin on earning assets	4.82%	4.73%	4.90%	4.98%	5.15%
Earning assets to total assets	94.06%	94.13%	94.20%	93.65%	93.24%
Return on average assets	1.91%	1.90%	1.92%	1.90%	1.93%
Return on average equity	20.72%	21.34%	22.42%	23.13%	24.25%
Efficiency ratio	43.43%	43.80%	43.51%	44.46%	42.65%
Dividend payout ratio	44.19%	44.19%	37.78%	38.64%	38.64%
Asset quality data and ratios:					
Nonperforming loans	\$ 2,012	\$ 3,019	\$ 2,740	\$ 3,314	\$ 3,029
Real estate owned	\$ 1,344	\$ 1,060	\$ 634	\$ 1,006	\$ 67
Allowance for loan and lease losses	\$ 9,172	\$ 9,120	\$ 9,158	\$ 9,174	\$ 8,891
Reserve for unfunded loan commitments	\$ 767	\$ 765	\$ 765	\$ 891	\$ 1,010
Allowance for credit losses	\$ 9,939	\$ 9,885	\$ 9,923	\$ 10,065	\$ 9,901
Allowance for loan and lease losses to loans	1.22%	1.22%	1.19%	1.19%	1.17%
Allowance for credit losses to loans	1.32%	1.32%	1.29%	1.31%	1.30%
Net charge-offs (recoveries)	\$ 45	\$ 38	\$ 143	\$ -15	\$ 100
Net charge-offs (recoveries) to loans	0.006%	0.005%	0.019%	-0.002%	0.013%
Nonperforming loans to assets	0.22%	0.33%	0.30%	0.36%	0.34%
Loans to deposits	93.28%	92.20%	95.16%	94.84%	97.06%
Loans to assets	81.86%	81.18%	83.62%	83.11%	83.49%
Loans serviced for others	\$ 252,363	\$ 254,741	\$ 245,633	\$ 253,485	\$ 261,279