

FIRST SOUTH BANCORP, INC.

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FOR IMMEDIATE RELEASE

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First South Bancorp, Inc. has no Investment in Fannie Mae or Freddie Mac Stock

Washington, North Carolina – First South Bancorp, Inc. (NASDAQ: FSBK), the parent holding company of First South Bank, does not hold any equity shares of common or preferred stock of the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), and therefore is not exposed to any potential charge to third quarter earnings.

Recently, the United States Department of Treasury and the Federal Housing Finance Agency (“FHFA”) announced that Fannie Mae and Freddie Mac were being placed under conservatorship, with control of their management being given to the FHFA and that Fannie Mae and Freddie Mac were prohibited from paying dividends on their common and preferred stock. As a result, the value of the common and preferred shares of both these government sponsored enterprises (“GSE”) has been impaired. The impairment may result in “other than temporary impairment” write-downs during the third quarter of 2008 for those financial institutions and bank holding companies that held these shares in their investment portfolios. Neither First South Bancorp, Inc. nor First South Bank has invested in any equity shares of either GSE and therefore will have no exposure to any potential charge to future earnings.

First South Bank offers a broad range 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 28 full service branch offices and two loan production offices located throughout eastern, northeastern, southeastern and central North Carolina.

First South Bancorp’s common stock is listed on the NASDAQ Global Select Market under the symbol FSBK. Additional corporate information, product and service descriptions and online serves are available to investors through the First South Bank’s website at www.firstsouthnc.com.

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, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

(NASDAQ: FSBK)