

Featured Products & Services

Grantsboro Branch Opening

First South Bank is pleased to announce the opening of a new branch in Grantsboro, NC. This is the Bank's first full service branch location in Pamlico County. Gary Brinson, a native of Grantsboro, serves as the City Executive and maintains an office in Grantsboro and New Bern. The branch offers an array of banking products including free checking, certificates of deposit, online banking and bill payment services, business checking and commercial and consumer lending. For more information, contact Gary Brinson at 252-745-5001.

UVEST Financial Services

Wealth Management requires a holistic view and a comprehensive approach. It requires a full assessment of your financial well-being, which includes family and business needs, current tax laws, long- and short-term financial goals, charitable desires, and more. You may have spent a substantial amount of time developing plans to create and grow your wealth. What will you do to ensure that wealth is properly protected, distributed, and transferred? The financial challenges you face become increasingly complex. Our comprehensive array of critical planning products and services - including estate planning and trust services, financial planning, and asset management, just to name a few - can help you plan and manage your wealth. For more information, contact First South Bank toll free at 1-800-946-4178. Securities and investment advisory services provided by, and Wealth Management Advisors and Financial Consultants registered with UVEST Financial Services, member FINRA, SIPC, and a SEC Registered Investment Advisor.

Investment products are not FDIC insured, are not bank guaranteed, and my lose value.

Equity Lines

An Equity Line of Credit¹ from First South Bank lets you cash in on up to 85% of the equity in your home with an approved credit line. Whether you are looking to add an addition to your home or just wanting to do some home improvements, this flexible line of credit can save you time and money. Our in-house closing eliminates attorney fees and traditional closing costs. The interest expense is typically tax-deductible. You will receive checks for easy access to your account and a monthly statement detailing your transactions and latest account balances. It's time to put the equity in your home to work for you!!

¹ All loan products are subject to credit approval. Rates are subject to change.



First South Bank

Member FDIC

Corporate Office

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

Full-Service Branch Offices

Buxton	Kill Devil Hills (2)
Chocowinity	Kinston
Durham	Lumberton (2)
Elizabeth City	New Bern (3)
Fayetteville (2)	Raleigh
Greenville (3)	Rocky Mount (5)
Hope Mills	Tarboro
Washington (3)	Grantsboro

Loan Production Offices

Wilmington
Dunn

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

December 31, 2007

First South Bancorp

Dear Shareholders:

Net income for the quarter ended December 31, 2007 was \$4,135,885 compared to \$4,365,137 earned in the quarter ended December 31, 2006. Diluted earnings per share was \$0.42 per share for the quarter ended December 31, 2007 compared to \$0.43 per share for the quarter ended December 31, 2006. Net income for the year ended December 31, 2007 was \$17,003,227 compared to \$17,192,356 earned in the year ended December 31, 2006. Diluted earnings per share was \$1.70 per share for the year ended December 31, 2007 compared to \$1.72 per share for the year ended December 31, 2006.

At December 31, 2007, our total assets were \$909.5 million; net loans and leases receivable \$765.1 million; cash and investments \$115.4 million; deposits and borrowings \$803.4 million and stockholders' equity \$86.0 million. Although we are pleased with our current quarter and annual operating performance, we do anticipate some volatility into 2008, which will continue to challenge our interest rate risk and asset/liability management strategies.

During 2007, we continued placing efforts on our operating efficiency, resulting in a 45.0% efficiency ratio for the year ended December 31, 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 1.9% and 20.3%, respectively, for the year ended December 31, 2007.

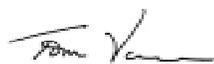
The year ended December 31, 2007 was eventful for First South Bancorp. We received national and statewide recognition for our operating efficiency and various operating performance ratios including return on average equity, return on capital and net interest margin. The Company is listed in the NASDAQ Global Select Market, placing us in a peer group of the top listed companies in the world. In addition, we are listed in the Russell Index of funds, which raises the Company's visibility with investors that rely on the Russell Indexes as part of their investment strategy.

During 2007, the Bank opened new full service branch offices in Greenville and Grantsboro, North Carolina; renovated full service branch offices in Durham and Fayetteville, North Carolina; and opened new loan production offices in Dunn and Wilmington, North Carolina. This expansion allows us to better serve the banking needs in our growing market area, expand our customer base in existing markets and continue the growth of our branch office network.

We are pleased to enclose our dividend check of \$0.19 per share payable to shareholders of record as of January 10, 2008. This dividend payment represents a payout ratio of 45.2% of basic earnings per share and is our forty-third consecutive quarterly cash dividend.

The Board of Directors, officers and staff of the First South Bancorp and First South Bank thanks you for your support and trust. We pledge our continued commitment to you and we welcome your comments and suggestions.

Sincerely,



Tom Vann
President and Chief Executive Officer

Condensed Statements of Financial Condition

(dollars in thousands)

	December 31, 2007 <i>(unaudited)</i>	December 31, 2006**
Assets		
Cash and cash equivalents	\$ 22,273	\$ 24,609
Interest-bearing deposits	1,756	1,195
Investment securities	49,064	56,454
Mortgage backed securities	39,120	36,729
Loans and leases receivable, net	765,083	761,437
Premises and equipment	9,433	8,898
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,210	1,933
Accrued interest receivable	5,103	5,398
Mortgage servicing rights	1,151	1,267
Other Assets	9,094	8,409
Total Assets	\$ 909,506	\$ 910,548
Liabilities and Stockholders' Equity		
Deposits	\$ 761,370	\$ 800,188
Borrowings	42,067	11,140
Junior subordinated debentures	10,310	10,310
Other liabilities	9,733	10,113
Total liabilities	823,480	831,751
Total Stockholders' Equity	86,026	78,797
Total Liabilities and Stockholder's Equity	\$ 909,506	\$ 910,548

Condensed Statements of Income (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended December 31		Year End December 31	
	2007	2006	2007	2006
Interest income	\$ 17,591	\$ 17,849	\$ 70,078	\$ 67,752
Interest expense	7,309	7,343	29,111	25,607
Net interest income	10,282	10,506	40,967	42,145
Provision for credit losses	150	-	350	933
Net interest income after provision for credit losses	10,132	10,506	40,617	41,212
Non-interest income	2,726	2,190	10,137	9,259
Non-interest expense	6,084	5,532	22,911	22,207
Income before taxes	6,774	7,164	27,843	28,264
Income tax expense	2,638	2,799	10,840	11,072
Net Income	\$ 4,136	\$ 4,365	\$ 17,003	\$ 17,192
Basic earnings per share	\$ 0.42	\$ 0.45	\$ 1.72	\$ 1.77*
Diluted earnings per share	\$ 0.42	\$ 0.43	\$ 1.70	\$ 1.72*
Dividends per share	\$ 0.19	\$ 0.17	\$ 0.76	\$ 0.68*
Weighted average shares - basic	9,862,276	9,780,619	9,914,929	9,714,565*
Weighted average shares - diluted	9,955,496	10,060,369	10,027,728	10,002,869*

* Adjusted for three-for-two stock split on May 25, 2006.
** Derived from audited consolidated financial statements.