

Featured Products & Services

Application for New Branch Site

First South Bank has applied to the North Carolina Office of the Commissioner of Banks and the Regional Director of the Federal Deposit Insurance Corporation for a full-service branch to be located at 11560 NC Highway 55, Grantsboro, Pamlico County, North Carolina.

Business Free Checking

First South Bank's Business Free Checking has great appeal for small to medium-sized businesses. This account allows our customers 750 transactions per month with no minimum balance and no monthly service charges. Business Free customers are also eligible for a free 3x5 safe deposit box¹ and a \$75 credit toward their first order of checks. Business online banking and bill payment services are also available. Don't forget your employees! They receive a free checking account and a complimentary order of personalized checks. For more information on Business Free Checking, visit First South Bank online at www.firstsouthnc.com or stop by your local branch.

¹ Subject to availability

UVEST Financial Services

First South Bank has partnered with UVEST Financial Services to provide our customers access to discount brokerage services. This allows you the opportunity to handle all financial transactions in one convenient location. As a customer, you can avoid the higher commissions associated with full service brokerage firms by placing your trades through UVEST.

UVEST can provide you with a complete array of investments alternatives including stocks, corporate bonds, mutual funds, tax-free municipal bonds, and government bonds. UVEST can automatically debit or credit your First South Bank checking account, making it easy and convenient for you to pay or receive payments for your trades. For more informations, contact First South Bank toll free at 1-800-946-4178

Securities offered by, and Financial Consultants registered with UVEST Financial Services, Member NASD, SIPC.

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

Mission Statement

Our mission is to become the premier community bank in eastern North Carolina. We will enhance shareholder value by serving the personal and business needs of your markets, providing superior customer service, investing in the communities that we serve, and enriching the lives of our employees.

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 (2)	Rocky Mount (5)
Hope Mills	Tarboro
Washington	(3)

Loan Production Office

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

www.firstsouthnc.com

Quarterly Financial Report

June 30, 2007

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, 2007 and the first six months of the year ending December 31, 2007.

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.

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. At June 30, 2007, our total assets were \$910.6 million; net loans and leases receivable \$745.4 million; deposits and borrowings \$806.1 million; stockholders' equity \$83.3 million; and net interest income of \$10.2 million for the quarter.

Our key performance ratios, return on average assets (ROA), return on average equity (ROE), and efficiency continue to place us at the top of our peer group. Our ROA and ROE was 1.9% and 20.7%, respectively, for the quarter and we continue placing efforts on operating efficiency, resulting in an efficiency ratio of 43.4% for the quarter.

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 this quarter, we also relocated two existing offices located in Fayetteville and Durham, North Carolina into newly renovated full service banking offices to better serve our customers in those markets.

We are pleased to enclose our dividend check of \$0.19 per share, payable to shareholders of record as of July 10, 2007. This dividend payment represents a payout ratio of 44.2% of this quarter's basic earnings and is the Company's forty-first 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)

	<u>June 30, 2007</u>	<u>December 31, 2006**</u>
	<i>(unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 23,376	\$ 24,609
Interest-bearing deposits	22,848	1,195
Investment securities	47,799	56,454
Mortgage backed securities	38,826	36,729
Loans and leases receivable, net	745,392	761,437
Premises and equipment	9,405	8,898
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,635	1,933
Accrued interest receivable	5,208	5,398
Mortgage servicing rights	1,232	1,267
Other Assets	<u>10,628</u>	<u>8,409</u>
Total Assets	\$ <u>910,568</u>	\$ <u>910,548</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 799,090	\$ 800,188
Borrowings	7,056	11,140
Junior subordinated debentures	10,310	10,310
Other liabilities	<u>10,806</u>	<u>10,113</u>
Total liabilities	827,262	831,751
Total Stockholders' Equity	<u>83,306</u>	<u>78,797</u>
Total Liabilities and Stockholder's Equity	\$ <u>910,568</u>	\$ <u>910,548</u>

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Interest income	\$ 17,525	\$ 16,794	\$ 34,847	\$ 32,375
Interest expense	<u>7,286</u>	<u>6,082</u>	<u>14,506</u>	<u>11,303</u>
Net interest income	10,239	10,712	20,341	21,072
Provision for credit losses	<u>100</u>	<u>437</u>	<u>100</u>	<u>783</u>
Net interest income after provision for credit losses	10,139	10,275	20,241	20,289
Non-interest income	2,382	2,311	4,866	4,555
Non-interest expense	<u>5,489</u>	<u>5,562</u>	<u>11,010</u>	<u>10,920</u>
Income before taxes	7,032	7,024	14,097	13,924
Income tax expense	<u>2,721</u>	<u>2,737</u>	<u>5,488</u>	<u>5,414</u>
Net Income	\$ <u>4,311</u>	\$ <u>4,287</u>	\$ <u>8,609</u>	\$ <u>8,510</u>
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*

* Adjusted for 3-for-2 stock split on May 25, 2006.

** Derived from audited consolidated financial statements.