

Featured Products & Services

Opening of Loan Production Office

First South Bank has opened a loan production office located at 7210 Wrightsville Avenue, Wilmington, North Carolina. The LPO opened for business on April 2, 2007 and is First South Bank's first office in the Wilmington and New Hanover County market area. The initial focus of the LPO will be on marketing First South Bank's residential construction loan products to residential homebuilders, individuals and residential subdivision developers.

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 at the North East Corner, Greenville Boulevard and Adams Boulevard, Greenville, Pitt County, North Carolina.

Group Checking

Employees of business customers are eligible for First South Bank's group banking package. Group Banking provides free checking, interest on deposits, no monthly service charges, and no minimum balance requirements. We will provide employees with their first order of personalized checks free.

Business Free Checking

First South Bank's Business Free Checking has great customer appeal. This account focuses on small to medium-sized businesses. Business Free Checking meets the needs of the business customer by providing a no minimum balance and no service charge account. Business customers also receive 750 transactions for free. These transactions consist of deposits, withdrawals, checks deposited, and checks written. Business online banking and bill payment services are available with this account. 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.

First South Bank

Member FDIC

Corporate Office

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

Full-Service Branch Offices

| | |
|------------------|------------------|
| Buxton | Kill Devil Hills |
| 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

Kill Devil Hills
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

March 31, 2007

First South Bancorp

Dear Shareholders:

First South Bancorp, the parent company of First South Bank, is pleased to report its unaudited results of operations for the quarter ended March 31, 2007.

Net income for the quarter ended March 31, 2007 increased to \$4,297,997, from net income of \$4,223,299 earned in the quarter ended March 31, 2006. Diluted earnings per share increased to \$0.43 per share for the quarter ended March 31, 2007, from \$0.42 per share for the quarter ended March 31, 2006. Net earnings this quarter were supported by our net interest income and increased noninterest income, during a period of slower loan growth and competitive pressure on interest rates and deposit flows in the market areas we serve.

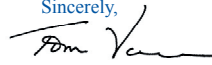
At March 31, 2007, our total assets were \$911.0 million; loans and leases receivable \$739.6 million; deposit accounts \$802.2 million; and stockholders' equity \$82.5 million. Net interest income was \$10.1 million for the March 2007 quarter compared to \$10.4 million for the March 2006 quarter, reflecting both increased market competition and credit risk management.

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 21.3%, respectively, for the March 2007 quarter. We continue to emphasize controlling expenses and improving operating efficiency, resulting in a 43.8% efficiency ratio for the March 2007 quarter. During this quarter, we received national recognition for our efficiency from the American Banker, rating us the 50th most efficient bank holding company among the largest 500 bank holding companies in the United States.

On April 2, 2007, we opened a new loan production office located at 7210 Wrightsville Avenue in Wilmington, North Carolina. This new office will allow us to provide an additional level of residential construction lending services to the Wilmington and New Hanover County market area.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.19 per share payable to shareholders of record as of April 10, 2007. This dividend is an 11.8% payment rate increase over the previous quarterly dividend, represents a 44.2% payout ratio of basic earnings and is our 40th consecutive quarterly cash dividend.

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

Sincerely,

 Tom Vann
 President and Chief Executive Officer

Condensed Statements of Financial Condition*(in thousands)*

| | <u>March 31,</u> <u>2007</u> | <u>December 31,</u> <u>2006**</u> |
|---|---------------------------------|--------------------------------------|
| Assets | <i>(unaudited)</i> | |
| Cash and cash equivalents | \$ 50,682 | \$ 25,804 |
| Investment securities | 56,109 | 56,454 |
| Mortgage backed securities | 35,246 | 36,729 |
| Loans and leases receivable, net | 739,608 | 761,437 |
| Premises and equipment | 9,173 | 8,898 |
| Goodwill | 4,219 | 4,219 |
| Federal Home Loan Bank stock | 1,635 | 1,933 |
| Accrued interest receivable | 5,311 | 5,398 |
| Mortgage servicing rights | 1,283 | 1,267 |
| Other assets | 7,754 | 8,409 |
| Total Assets | <u>\$ 911,020</u> | <u>\$ 910,548</u> |
| Liabilities and Stockholders' Equity | | |
| Deposits | \$ 802,217 | \$ 800,188 |
| Borrowings | 6,005 | 11,140 |
| Junior subordinated debentures | 10,310 | 10,310 |
| Other liabilities | <u>9,969</u> | <u>10,113</u> |
| Total liabilities | 828,501 | 831,751 |
| Total Stockholders' Equity | <u>82,519</u> | <u>78,797</u> |
| Total Liabilities and Stockholder's Equity | <u>\$ 911,020</u> | <u>\$ 910,548</u> |

Condensed Statements of Income (unaudited)*(in thousands, except per share data)*

| | Three Months Ended | |
|---|---------------------------------|---------------------------------|
| | <u>March 31,</u> <u>2007</u> | <u>March 31,</u> <u>2006</u> |
| Interest income | \$ 17,322 | \$ 15,581 |
| Interest expense | <u>7,220</u> | <u>5,221</u> |
| Net interest income | 10,102 | 10,360 |
| Provision for credit losses | <u>0</u> | <u>346</u> |
| Net interest income after provision for credit losses | 10,102 | 10,014 |
| Non-interest income | 2,484 | 2,244 |
| Non-interest expense | <u>5,521</u> | <u>5,358</u> |
| Income before taxes | 7,065 | 6,900 |
| Income tax expense | <u>2,767</u> | <u>2,677</u> |
| Net Income | <u>\$ 4,298</u> | <u>\$ 4,223</u> |
| Basic earnings per share | \$.43 | \$.44* |
| Diluted earnings per share | \$.43 | \$.42* |
| Dividends per share | \$.19 | \$.17* |
| Weighted average shares - basic | 9,930,732 | 9,580,471* |
| Weighted average shares - diluted | 10,069,085 | 10,024,792* |

*Adjusted for three-for-two stock split on May 25, 2006.

** Derived from audited consolidated financial statements.