

## Featured Products & Services

### Greenville Boulevard Branch Opening

First South Bank is pleased to announce the opening of our 28th full service branch office located at 1707 SE Greenville Boulevard in Greenville, NC. The branch offers a full range of financial services including: commercial and consumer lending, business and personal deposit products, a drive-thru window, night depository, safe deposit boxes and a 24 hour ATM. This branch is the third office in the Greenville area. For more information contact Everett Kelly, Branch Manager, at (252) 752-2770.

### New Loan Production Office in Dunn

On August 10th, 2007 First South Bank opened a new loan production office in Dunn, NC. The office is located at 904-A W. Broad Street and is our first location in Harnett County. The initial focus of the LPO will be commercial, residential, acquisition and development, mortgage, and construction lending. Chad Massengill, AVP/Commercial Lender, and Tina Avery, Administrative Assistant, are available to meet your lending needs. They can be reached at (910) 892-2861.

### Free Checking

Free checking is one of the most popular deposit products offered by First South Bank. Anyone over the age of 18 is eligible to open a free checking account with no minimum balance that includes a free VISA debit card, unlimited check writing, and free online banking and bill payment. Our customers over 50 qualify for a no fee interest bearing checking account that includes free personalized checks. Please inquire at your local branch about these valuable accounts.

### Personal Bill Payment Services

First South Bank offers free online banking and free personal bill payment services with any of our wide range of checking accounts. Online bill payment is a wonderful feature that allows you to pay your bills without the hassle of writing checks and addressing envelopes. This service not only saves you time, but also money by eliminating the need for postage stamps. Stop by your local branch or visit our website at [www.firstsouthnc.com](http://www.firstsouthnc.com) to sign up today.

## 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)   |                      |

### 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

[www.firstsouthnc.com](http://www.firstsouthnc.com)

## *Quarterly Financial Report*

September 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 results of operations for the quarter ended September 30, 2007 and the first nine months of the year ending December 31, 2007.

Net income for the quarter ended September 30, 2007 was \$4,258,258 compared to \$4,317,013 earned in the quarter ended September 30, 2006. Diluted earnings per share were \$0.42 per share for the quarter ended September 30, 2007 and \$0.43 per share for the quarter ended September 30, 2006. Net income for the nine months ended September 30, 2007 was \$12,867,342 compared to \$12,827,219 earned in the nine months ended September 30, 2006. Diluted earnings per share were \$1.28 per share for the nine months ended September 30, 2007 and \$1.29 per share for the nine months ended September 30, 2006.

At September 30, 2007, our total assets were \$907.9 million; net loans and leases receivable \$760.7 million; cash and investments \$116.7 million; deposits and borrowings \$799.4 million; stockholders' equity \$85.3 million; and net interest income was \$10.3 million for the quarter. Looking forward to the fourth quarter and to next year we are cautiously optimistic, as intense competition and pricing pressures continue on both deposits and loans, and will continue to challenge our asset and liability and interest rate risk management efforts. Although we are pleased with our current quarter and year-to-date performance, we do anticipate some volatility ahead.

This 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 20.1%, respectively, and we continued placing efforts on operating efficiency, resulting in an efficiency ratio of 45.4%. During this quarter we received national recognition from American Banker for our first quarter 2007 operating efficiency and our 5-year return on average equity at year end 2006.

We opened a new full service banking office located at 1707 Southeast Greenville Boulevard, Greenville, North Carolina and a new loan production office located at 904 A West Broad Street, Dunn, North Carolina during this quarter, to better serve our existing and future customers in those markets. In the fourth quarter we will open a new full service banking office located in the Pamlico Square Shopping Center, at 11560 NC Highway 55, Grantsboro, North Carolina.

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

(dollars in thousands)

|   | September 30,<br>2007<br>(unaudited) | December 31,<br>2006** |
|---|--------------------------------------|------------------------|
| <b>Assets</b>                                     |                                      |                        |
| Cash and cash equivalents                         | \$ 27,280                            | \$ 24,609              |
| Interest-bearing deposits                         | 556                                  | 1,195                  |
| Investment securities                             | 48,474                               | 56,454                 |
| Mortgage backed securities                        | 38,194                               | 36,729                 |
| Loans and leases receivable, net                  | 760,709                              | 761,437                |
| Premises and equipment                            | 9,352                                | 8,898                  |
| Goodwill  | 4,219                                | 4,219                  |
| Federal Home Loan Bank stock                      | 2,245                                | 1,933                  |
| Accrued interest receivable                       | 5,536                                | 5,398                  |
| Mortgage servicing rights                         | 1,146                                | 1,267                  |
| Other Assets                                      | 10,210                               | 8,409                  |
| <b>Total Assets</b>                               | <b>\$ 907,921</b>                    | <b>\$ 910,548</b>      |
| <b>Liabilities and Stockholders' Equity</b>       |                                      |                        |
| Deposits  | \$ 777,628                           | \$ 800,188             |
| Borrowings  | 21,753                               | 11,140                 |
| Junior subordinated debentures                    | 10,310                               | 10,310                 |
| Other liabilities                                 | 12,915                               | 10,113                 |
| Total liabilities                                 | 822,606                              | 831,751                |
| Total Stockholders' Equity                        | 85,315                               | 78,797                 |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 907,921</b>                    | <b>\$ 910,548</b>      |

**Condensed Statements of Income (unaudited)**

(dollars in thousands, except per share data)

|   | Three Months Ended<br>September 30 |                 | Nine Months Ended<br>September 30 |                  |
|---|------------------------------------|-----------------|-----------------------------------|------------------|
|   | 2007                               | 2006            | 2007                              | 2006             |
| Interest income                                       | \$ 17,639                          | \$ 17,528       | \$ 52,487                         | \$ 49,903        |
| Interest expense                                      | 7,295                              | 6,960           | 21,802                            | 18,264           |
| Net interest income                                   | 10,344                             | 10,568          | 30,685                            | 31,639           |
| Provision for credit losses                           | 100                                | 150             | 200                               | 933              |
| Net interest income after provision for credit losses | 10,244                             | 10,418          | 30,485                            | 30,706           |
| Non-interest income                                   | 2,544                              | 2,516           | 7,411                             | 7,069            |
| Non-interest expense                                  | 5,816                              | 5,758           | 16,827                            | 16,675           |
| Income before taxes                                   | 6,972                              | 7,176           | 21,069                            | 21,100           |
| Income tax expense                                    | 2,714                              | 2,859           | 8,202                             | 8,273            |
| <b>Net Income</b>                                     | <b>\$ 4,258</b>                    | <b>\$ 4,317</b> | <b>\$ 12,867</b>                  | <b>\$ 12,827</b> |
| Basic earnings per share                              | \$ 0.43                            | \$ 0.44         | \$ 1.30                           | \$ 1.32*         |
| Diluted earnings per share                            | \$ 0.42                            | \$ 0.43         | \$ 1.28                           | \$ 1.29*         |
| Dividends per share                                   | \$ 0.19                            | \$ 0.17         | \$ 0.57                           | \$ 0.51*         |
| Weighted average shares - basic                       | 9,923,236                          | 9,776,933       | 9,932,389                         | 9,693,010*       |
| Weighted average shares - diluted                     | 10,030,595                         | 10,070,678      | 10,050,553                        | 9,981,253*       |

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