

Featured Products & Services

Identity Theft Insurance

Statistics show that every 79 seconds a thief steals someone's identity. You can reduce your chances of being a victim of identity theft by signing up for Deluxe ID TheftBlock. Deluxe ID TheftBlock monitors your credit and helps you protect your good name. Your credit records will be monitored each business day and you will be notified when new accounts are opened, inquiries are made or address changes occur. Deluxe ID Theftblock also provides you with identity theft insurance to help recover certain expenses related to identity theft if you become a victim. Insurance is underwritten by Travelers Casualty and Surety Company of America. If you are interested in learning more about identity theft insurance, contact your local banking representative.

Remote Deposit Capture

If you are a business owner you may want to inquire about Remote Deposit Capture. This service allows you to scan checks that you receive in your business environment and electronically transmit the scanned images of the checks to First South Bank for credit to your account. The benefits of this service include convenience, better deposit availability and reduced transportation cost and risk. The basic requirements for this service include a computer, internet connection and a check scanner, which we provide. Any First South Bank financial representative can provide you with additional information regarding this service.

Online Banking and Bill Payment

Online banking allows you to manage your finances at your fingertips. You no longer have to wait for your monthly bank statement to view your account activity. You can view your account activity as often as like and see when checks pay on your account. You can also view images of your paid checks, check your account balance and transfer funds between your accounts at First South Bank at your convenience. First South Bank online banking is fully interfaced with Quicken. Online bill payment allows you to pay your bills at one, easy secure location. You are guaranteed that your payments will arrive on time. Online bill payment is convenient, secure and saves you time and money. Contact any First South Bank financial representative for more information regarding online services.

First South Bank

Member FDIC

Corporate Office

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

Full-Service Branch Offices

Buxton	Dunn
Chocowinity	Kinston
Durham	Lumberton (2)
Elizabeth City	New Bern (3)
Fayetteville (2)	Raleigh
Greenville (3)	Rocky Mount (4)
Hope Mills	Tarboro
Washington (3)	Grantsboro
Kill Devil Hills	

Loan Production Office

Wilmington

First South Leasing, LLC

Greenville
Raleigh

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

December 31, 2008

First South Bancorp

Dear Shareholders:

First South Bancorp, Inc., the parent holding company of First South Bank, reports its unaudited consolidated results of operations for the year and quarter ended December 31, 2008.

Net income for the year ended December 31, 2008 was \$11.0 million compared to \$17.0 million earned in the year ended December 31, 2007. Diluted earnings per share were \$1.12 per share for the year ended December 31, 2008 and \$1.70 per share for the year ended December 31, 2007. Net income for the 2008 fourth quarter was \$2.0 million and \$4.1 million earned in the 2007 fourth quarter. Diluted earnings per share were \$0.21 per share for the 2008 fourth quarter and \$0.42 per share for the 2007 fourth quarter.

At December 31, 2008, our total assets were \$876.1 million; net loans and leases receivable \$744.7 million; cash and investments \$96.1 million; deposits and borrowings \$779.3 million; stockholders' equity \$87.8 million and the allowance for credit losses was \$12.0 million, representing 1.58% of loans outstanding. Our net interest margin to average earning assets of 4.30% and our efficiency ratio of 52.31% for the year ended December 31, 2008 places us in the top portion of our peer group in margin production and operating efficiency.

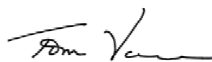
The economy has moved into a deeper recessionary environment, impacting housing and real estate property values and financial institutions credit quality. During 2008, we recorded provisions for credit losses that we believe were prudent conservative actions necessary to strengthen our ability to better manage through this unprecedented economic cycle and support the long-term success of the Company. The Company remains profitable, has a strong capital position in excess of the well-capitalized regulatory guidelines, and combined with the conservative actions taken this year, should enhance our future earnings when economic and financial market conditions improve.

We continue to focus on maintaining a strong balance sheet, adequate liquidity levels and the production of a quality core net income stream. During 2008, we have maintained a consistent level of revenues from loan fees, deposit fees and service charges and servicing fee income across both loan and deposit service offerings.

We are pleased to enclose our dividend check of \$0.20 per share, payable to shareholders of record as of January 9, 2009. This dividend payment is the Company's 47th 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)

	December 31, 2008	December 31, 2007**
	<i>(unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 20,888	\$ 22,273
Interest-bearing deposits	5,832	1,756
Investment securities	36,564	49,065
Mortgage backed securities	32,827	39,120
Loans and leases receivable, net	744,731	765,083
Premises and equipment	9,050	9,433
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,659	3,210
Accrued interest receivable	3,787	5,103
Mortgage servicing rights	1,006	1,151
Other assets	13,577	8,875
Total Assets	<u>\$ 876,140</u>	<u>\$ 909,288</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 716,427	\$ 761,370
Borrowings	52,558	42,067
Junior subordinated debentures	10,310	10,310
Other liabilities	9,024	9,506
Total liabilities	788,319	823,253
Total Stockholders' Equity	87,821	86,035
Total Liabilities and Stockholder's Equity	<u>\$ 876,140</u>	<u>\$ 909,288</u>

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended		Year Ended	
	December 31		December 31	
	2008	2007	2008	2007
Interest income	\$ 13,372	\$ 17,591	\$ 59,364	\$ 70,078
Interest expense	<u>5,078</u>	<u>7,309</u>	<u>23,316</u>	<u>29,111</u>
Net interest income	8,294	10,282	36,048	40,967
Provision for credit losses	<u>1,150</u>	<u>150</u>	<u>4,044</u>	<u>350</u>
Net interest income after provision for credit losses	7,144	10,132	32,004	40,617
Non-interest income	2,149	2,726	10,084	10,137
Non-interest expense	<u>5,987</u>	<u>6,084</u>	<u>24,165</u>	<u>22,911</u>
Income before taxes	3,306	6,774	17,923	27,843
Income tax expense	<u>1,287</u>	<u>2,638</u>	<u>6,935</u>	<u>10,840</u>
Net Income	<u>\$ 2,019</u>	<u>\$ 4,136</u>	<u>\$ 10,988</u>	<u>\$ 17,003</u>
Basic earnings per share	\$.21	\$.42	\$ 1.13	\$ 1.71
Diluted earnings per share	\$.21	\$.42	\$ 1.12	\$ 1.70
Dividends per share	\$.20	\$.19	\$.80	\$ 0.76
Weighted average shares - basic	9,738,096	9,862,276	9,761,944	9,914,929
Weighted average shares - diluted	9,743,987	9,955,496	9,781,761	10,027,728

** Derived from audited consolidated financial statements.