

## Featured Products & Services

### Identity Theft Insurance

We are pleased to announce that First South Bank is now offering Identity Theft Insurance. Deluxe ID TheftBlock Plus became available to our customers and our employees on March 6, 2008 and has generated much interest in our branches. We are able to offer this insurance for the extremely low price of \$4.49 per month. Coverage includes: ongoing credit monitoring and notification of any changes, free viewing of your credit report at any time, monitoring of your check orders and much more. If you are interested in this product please visit our web site at [www.firstsouthnc.com](http://www.firstsouthnc.com) or stop by any of our local branches.

### Business Free Checking

Are you currently paying service charges on your business account? Do your employees need to pay a fee to cash their payroll check? First South Bank has a solution for you. We offer Business Free Checking which allows you up to 750 transactions per month without service charges or a minimum balance. This account also includes a free standard Safe Deposit Box\*, Night Depository Service, a \$75 credit toward your first check order, and more. And don't forget about your employees. First South Bank does not charge a check cashing fee and we allow your employees to open a checking account that includes a free order of checks and has no balance requirements or monthly service charges. Please visit your branch office for more information.

### Remote Deposit Capture

Remote Deposit Capture is an exciting new product that allows you to deposit checks from anywhere without making a special trip to one of our branches. Interested parties purchase a scanner that will capture check images and transfer them electronically to your financial institution. This product will save you time and money because you will no longer need to leave your business to make a deposit. It also allows you to view deposit information and check copies right from your desk. Remote Deposit Capture extends the business day by allowing you to make deposits until 6pm. If you are interested in hearing more information about this service please call Melissa Roark at (252) 940-4921.

\* Not FDIC Insured

## 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 (5) |
| Hope Mills       | Tarboro         |
| Washington (3)   | Grantsboro      |

Kill Devil Hills (2)

### Loan Production Office

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

## *Quarterly Financial Report*

March 31, 2008

## *First South Bancorp*

Dear Shareholders:

Net income for the quarter ended March 31, 2008 was \$3,900,958 compared to \$4,297,997 earned in the quarter ended March 31, 2007. Diluted earnings per share was \$0.40 per share for the quarter ended March 31, 2008 compared to \$0.43 per share for the quarter ended March 31, 2007.

We are pleased to have met our diluted earnings per share estimate for the March 2008 quarter. We experienced a higher than anticipated interest rate compression, continued intense price competition for both loans and deposits and an increase in non-performing loans. This has been a contributing factor to our net interest margin compression in the March 2008 quarter, and significantly influenced by the Federal Reserve's 300 basis point rate cuts over a six month period. First South is an asset-sensitive bank and as such the Federal Reserve's aggressive series of rate cuts has caused an immediate downward pricing of our loan portfolio, while outpacing our ability to reduce our funding cost as rapidly. Over the remainder of 2008, we should see some improvement in our net interest margin as we reprice maturing certificates of deposits at lower rates.

Many financial institutions have been challenged by sub-prime lending problems. First South does not have any sub-prime loan exposure. While we may face further challenges due to the weakening real estate market, we are closely monitoring and evaluating all significant loans in our portfolio. We will continue to actively manage our credit risk and exposure while we wait for the stabilization of the real estate market. The Bank remains cautiously optimistic regarding the continued performance of the loan portfolio.

At March 31, 2008, our total assets were \$913.9 million; net loans and leases receivable \$772.3 million; cash and investments \$114.5 million; deposits and borrowings \$806.4 million and stockholders' equity \$87.1 million. We continue to focus on operating efficiency, resulting in a 48.5% efficiency ratio for the March 2008 quarter. Our key performance ratios, return on average assets (ROA) and return on average equity (ROE), were 1.7% and 18.0%, respectively, for the March 2008 quarter.

During the March 2008 quarter, we opened a new loan production office in Durham, 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. In addition, we received national and statewide rankings and recognition from American Banker, U. S. Banker, the Triangle Business Journal and Freddie Mac for various operating performance ratios including efficiency, ROE and excellence in investor reporting.

We are pleased to enclose our dividend check of \$0.20 per share payable to shareholders of record as of April 10, 2008. This dividend payment represents a payout ratio of 50.0% of basic earnings per share and is our 44th consecutive quarterly cash dividend. This quarterly cash dividend payment represents a 5.26% payment rate increase over the previous quarterly dividend payment.

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

(in thousands)

|   | March 31,<br>2008  | December 31,<br>2007** |
|---|--------------------|------------------------|
|   | <i>(unaudited)</i> |                        |
| <b>Assets</b>                                     |                    |                        |
| Cash and cash equivalents                         | \$ 24,179          | \$ 22,273              |
| Interest-bearing deposits                         | 2,072              | 1,756                  |
| Investment securities                             | 46,872             | 49,065                 |
| Mortgage backed securities                        | 37,756             | 39,120                 |
| Loans and leases receivable, net                  | 772,277            | 765,083                |
| Premises and equipment                            | 9,305              | 9,433                  |
| Goodwill  | 4,219              | 4,219                  |
| Federal Home Loan Bank stock                      | 3,659              | 3,210                  |
| Accrued interest receivable                       | 4,877              | 5,103                  |
| Mortgage servicing rights                         | 1,131              | 1,151                  |
| Other assets                                      | 7,540              | 8,875                  |
| <b>Total Assets</b>                               | <b>\$ 913,887</b>  | <b>\$ 909,288</b>      |
| <b>Liabilities and Stockholders' Equity</b>       |                    |                        |
| Deposits  | \$ 754,329         | \$ 761,370             |
| Borrowings  | 52,099             | 42,067                 |
| Junior subordinated debentures                    | 10,310             | 10,310                 |
| Other liabilities                                 | 10,076             | 9,506                  |
| Total liabilities                                 | 826,814            | 823,253                |
| Total Stockholders' Equity                        | 87,073             | 86,035                 |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 913,887</b>  | <b>\$ 909,288</b>      |

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2008  | March 31,<br>2007 |
| Interest income                                       | \$ 16,383          | \$ 17,322         |
| Interest expense                                      | 6,783              | 7,220             |
| Net interest income                                   | 9,600              | 10,102            |
| Provision for credit losses                           | 0                  | 0                 |
| Net interest income after provision for credit losses | 9,600              | 10,102            |
| Non-interest income                                   | 2,674              | 2,484             |
| Non-interest expense                                  | 5,960              | 5,521             |
| Income before taxes                                   | 6,314              | 7,065             |
| Income tax expense                                    | 2,413              | 2,767             |
| <b>Net Income</b>                                     | <b>\$ 3,901</b>    | <b>\$ 4,298</b>   |
| Basic earnings per share                              | \$ .40             | \$ .43            |
| Diluted earnings per share                            | \$ .40             | \$ .43            |
| Dividends per share                                   | \$ .20             | \$ .19            |
| Weighted average shares - basic                       | 9,802,770          | 9,930,732         |
| Weighted average shares - diluted                     | 9,833,335          | 10,069,085        |

\*\* Derived from audited consolidated financial statements.