

Shareholder Information

Stock Listing

NASDAQ - Global Select Market
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

Website

www.firstsouthnc.com

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, and 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 information, contact First South Bank toll free at 1-800-946-4178

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

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

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 (2)
Fayetteville (2)	Raleigh
Greenville (3)	Rocky Mount (4)
Hope Mills	Tarboro
Washington (3)	Grantsboro
Kill Devil Hills	Wilmington

Loan Production Offices

Kill Devil Hills

First South Leasing, LLC

Greenville

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.

Quarterly Financial Report

December 31, 2009

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 quarter and year ended December 31, 2009.

Net income for the 2009 fourth quarter was \$1.5 million compared to \$2.0 million earned in the 2008 fourth quarter. Diluted earnings per share were \$0.16 per share for the 2009 fourth quarter and \$0.21 per share for the 2008 fourth quarter. Net income for the year ended December 31, 2009 was \$7.0 million compared to \$11.0 million earned in the year ended December 31, 2008. Diluted earnings per share were \$0.72 per share for the year ended December 31, 2009 and \$1.12 per share for the year ended December 31, 2008.

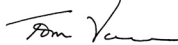
At December 31, 2009, our total assets were \$829.9 million; net loans and leases receivable \$658.7 million; cash and investments \$127.3 million; deposits and borrowings \$736.2 million; stockholders' equity \$86.2 million and the allowance for credit losses was \$13.7 million, representing 2.04% of loans outstanding. During 2009, we recorded \$7.2 million of provisions for credit losses necessary to replenish net charge-offs and strengthen the allowance for credit losses. Our net interest margin to average earning assets of 4.55% and our efficiency ratio of 55.28% for the 2009 fourth quarter places us in the top portion of our peer group in margin production and operating efficiency.

We welcome news from economists that the current recession may begin easing. However, the current economic environment continues to present a challenging credit environment for both our customers and the banking industry. As we address and manage through these challenges, we remain focused on long-term strategies. These strategies include remediating problem assets, maintaining adequate levels of capital and liquidity, improving efficiency in our operations, building core customer relationships and improving our franchise value along with shareholder value. The Company remains profitable, continues to maintain a strong capital position in excess of the well-capitalized regulatory guidelines, and combined with strengthening of the allowance for credit losses should enhance our future earnings as recessionary economic conditions substantially improve.

We are pleased to enclose our quarterly dividend check of \$0.20 per share, payable to shareholders of record as of January 6, 2010. This dividend payment is the Company's 51st 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, 2009	December 31, 2008*
	<i>(unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 17,758	\$ 20,889
Interest-bearing deposits	11,880	5,832
Investment securities	407	36,563
Mortgage backed securities	97,239	32,827
Loans and leases receivable, net	658,656	744,731
Premises and equipment	8,540	9,050
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,890	3,659
Accrued interest receivable	3,318	3,787
Mortgage servicing rights	1,279	1,006
Other assets	22,705	13,292
Total Assets	\$ 829,891	\$ 875,855
Liabilities and Stockholders' Equity		
Deposits	\$ 688,511	\$ 716,427
Borrowings	37,380	52,558
Junior subordinated debentures	10,310	10,310
Other liabilities	7,476	8,739
Total liabilities	743,677	788,034
Total Stockholders' Equity	\$ 86,214	\$ 87,821
Total Liabilities and Stockholder's Equity	\$ 829,891	\$ 875,855

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended		Year Ended	
	December 31		December 31	
	2009	2008	2009	2008
Interest income	\$ 11,851	\$ 13,372	\$ 49,060	\$ 59,364
Interest expense	2,996	5,078	16,094	23,316
Net interest income	8,855	8,294	32,966	36,048
Provision for credit losses	2,700	1,150	7,180	4,044
Net interest income after provision for credit losses	6,155	7,144	25,786	32,004
Non-interest income	2,527	2,149	10,960	10,084
Non-interest expense	6,300	5,987	25,345	24,165
Income before taxes	2,382	3,306	11,401	17,923
Income tax expense	872	1,287	4,365	6,935
Net Income	\$ 1,510	\$ 2,019	\$ 7,036	\$ 10,988
Basic earnings per share	\$.16	\$.21	\$.72	\$ 1.13
Diluted earnings per share	\$.16	\$.21	\$.72	\$ 1.12
Dividends per share	\$.20	\$.20	\$.80	\$.80
Weighted average shares - basic	9,738,475	9,738,096	9,738,225	9,761,944
Weighted average shares - diluted	9,738,475	9,743,987	9,738,244	9,781,761

* Derived from audited consolidated financial statements.