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CUSTOMER: First South Bancorp Inc.		
JOB DESCRIPTION: Quarterly Report		
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Preferred Checking

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Add-On Certificate of Deposit

An Add-On CD is very attractive in any interest rate environment. Additional deposits of \$500 or more are allowed during the term of the CD at the same fixed rate of interest being earned on the CD. Additional deposits will not extend the term of the certificate of deposit. Additional deposits cannot exceed \$100,000. The Add-On CD also allows one-penalty free withdrawal of up to one-half of the original opening amount during the term of the CD.

Identify Theft

There are many important steps that you can take to avoid the risk of identity theft. Sign up for our Deluxe ID TheftBlock. Identity theft insurance monitors your credit records daily and notifies you when new accounts are opened, credit inquiries are made and address changes occur. Other ways to minimize your risk are:

- Review your bank statements promptly upon receipt and report any irregularities to the Bank.
- Do not provide confidential information such as your social security number or account numbers by telephone.
- Safeguard your account records and properly dispose of records and receipts.
- Do not provide account numbers, passwords, user IDs, and Personal Identification Numbers (PINs) or other confidential information with others.
- Do not carry your social security number in your wallet.
- Safeguard your credit cards and debit cards as if they were cash.

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 - 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

www.firstsouthnc.com

Quarterly Financial Report

June 30, 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 six months ended June 30, 2009.

Net income for the June 2009 quarter was \$1.8 million compared to \$3.0 million for the June 2008 quarter. Diluted earnings per share were \$0.18 per share for the June 2009 quarter and \$0.31 per share for the June 2008 quarter. The June 2009 quarterly earnings was impacted by a \$400,000 FDIC insurance charge related to a mandatory industry wide special assessment. Net income for the first six months of 2009 was \$3.8 million compared to \$6.9 million for the first six months of 2008. Diluted earnings per share were \$0.39 per share for the first six months of 2009 and \$0.70 per share for the first six months of 2008.

At June 30, 2009, our total assets were \$886.2 million; net loans and leases receivable \$705.9 million; cash and investments \$138.9 million; deposits and borrowings \$791.0 million; and stockholders' equity \$86.7 million. For the June 2009 quarter, our net interest margin to average earning assets held constant at 3.9%, resulting from efforts placed on managing the sensitivity of future interest rate changes and improving our cost of funds in the current lower interest rate environment.

The economic pressure on the housing and real estate markets continues to impact property values and financial institutions credit quality. We have taken a conservative posture in our provisioning for loan losses as we think it is prudent action to replenish net charge-offs and strengthen our allowance for credit losses during this uncertain economic environment. The allowance for credit losses was \$12.0 million at June 30, 2009, representing 1.7% of total loans outstanding.

We are focused on the production of core earnings, improving credit quality and maintaining adequate liquidity in order to enhance our franchise value. The Company is profitable with a strong capital position in excess of the well-capitalized regulatory guidelines. During the June 2009 quarter, we had consistent levels of non-interest income across both loan and deposit service offerings, while also maintaining consistent levels of non-interest expense. The efficiency ratio was 58.8% for the June 2009 quarter, reflecting efforts of improving revenues and operating costs.

We are pleased to enclose our dividend check of \$0.20 per share, payable to shareholders of record as of July 8, 2009. This dividend payment is the Company's 49th 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)

	June 30, 2009	December 31, 2008*
	<i>(unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 17,703	\$ 20,889
Interest-bearing deposits	29,175	5,832
Investment securities	10,464	36,563
Mortgage backed securities	81,596	32,827
Loans and leases receivable, net	705,907	744,731
Premises and equipment	8,714	9,050
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,890	3,659
Accrued interest receivable	3,450	3,787
Mortgage servicing rights	1,230	1,006
Other assets	19,844	13,292
Total Assets	\$ 886,192	\$ 875,855
Liabilities and Stockholders' Equity		
Deposits	\$ 731,011	\$ 716,427
Borrowings	49,695	52,558
Junior subordinated debentures	10,310	10,310
Other liabilities	8,468	8,739
Total liabilities	799,484	788,034
Total Stockholders' Equity	86,708	87,821
Total Liabilities and Stockholder's Equity	\$ 886,192	\$ 875,855

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30 2009	June 30 2008	June 30 2009	June 30 2008
Interest income	\$ 12,442	\$ 15,219	\$ 25,013	\$ 31,603
Interest expense	4,546	6,045	9,176	12,828
Net interest income	7,896	9,174	15,837	18,775
Provision for credit losses	1,700	1,149	3,220	1,149
Net interest income after provision for credit losses	6,196	8,025	12,617	17,626
Non-interest income	3,213	2,821	6,033	5,494
Non-interest expense	6,514	5,896	12,515	11,856
Income before taxes	2,895	4,950	6,135	11,264
Income tax expense	1,135	1,938	2,371	4,351
Net Income	\$ 1,760	\$ 3,012	\$ 3,764	\$ 6,913
Basic earnings per share	\$.18	\$.31	\$.39	\$.71
Diluted earnings per share	\$.18	\$.31	\$.39	\$.70
Dividends per share	\$.20	\$.20	\$.40	\$.40
Weighted average shares - basic	9,738,096	9,756,519	9,738,096	9,779,465
Weighted average shares - diluted	9,738,096	9,782,038	9,738,096	9,807,507

* Derived from audited consolidated financial statements.