

Featured Products & Services

Business Free Checking

First South Bank's Business Free Checking has great customer appeal. This account focuses on small to medium-sized businesses. Business free checking meets the needs of the business customer by providing a no minimum balance and no service charge account. Business customers also like the free 750 transactions. These transactions consist of deposits, withdrawals, checks deposited and checks written. To help the business customer in their transition from their existing bank to First South Bank, we are willing to bear the cost of the initial order of checks, up to a \$75 value. Business Free Checking also comes with free checking and a complimentary order of personalized checks for the employees of the business. Business online banking and bill payment services are available with Business Free Checking. For more information on Business Free Checking, visit First South Bank online at www.firstsouthnc.com or stop by your local branch.

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

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

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

Mortgage Loans

First South Bank offers a full range of mortgage products, each with different features and benefits. A fixed-rate loan offers the same interest rate, monthly principal and interest payment throughout the entire life of the loan. The fixed-rate mortgage loan is the "traditional" choice and is still the most popular because it offers stability and predictable monthly payments.

The longer the term, the lower the monthly payments and the more cash you'll have for other expenses. A longer term also provides maximum tax-deductible interest (ask your tax advisor for more details). With a shorter term, you will have higher monthly payments, but you'll save on interest costs over the life of the loan and build your equity faster.

Let's get started today. Contact one of our mortgage loan officers at one of our local branches about refinancing your mortgage loan or for a free prequalification to help you determine how much house you can afford. You can also apply online at www.firstsouthnc.com. We look forward to hearing from you soon.

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

March 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 ended March 31, 2009.

Net income for the quarter ended March 31, 2009 was \$2.0 million, compared to \$2.0 million for the linked quarter ended December 31, 2008 and \$3.9 million for the comparative quarter ended March 31, 2008. Diluted earnings per share were \$0.21 for the March 2009 quarter, \$0.21 for the December 2008 quarter and \$0.40 for the March 2008 quarter.

At March 31, 2009, our total assets were \$875.9 million; net loans and leases receivable \$736.0 million; cash and investments \$102.0 million; deposits and borrowings \$780.3 million; stockholders' equity \$87.8 million and the allowance for credit losses was \$11.2 million, representing 1.5% of loans outstanding. Our net interest margin to average earning assets of 3.9% and our efficiency ratio of 55.7% for the quarter ended March 31, 2009 is a result of the efforts we have placed on managing the sensitivity to future interest rate changes in our loan portfolio, improving our cost of funds and focusing on our operating efficiency.

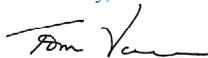
The economy remains in a recessionary environment, impacting housing and real estate property values and financial institutions credit quality. During the March 2009 quarter, we recorded provisions for credit losses necessary to replenish certain charge-offs and to strengthen our ability to better manage through this unprecedented economic cycle.

The Company remains profitable and continues to maintain a strong capital position in excess of the well-capitalized regulatory guidelines. We continue to focus on improving our credit quality, maintaining adequate liquidity levels and the production of quality core net income. During the quarter ended March 31, 2009, we have recorded a consistent level of revenues from loan fees, deposit fees, 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 April 8, 2009. This dividend payment is the Company's 48th consecutive quarterly cash dividend.

The Board of Directors, management 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)

	March 31, 2009	December 31, 2008*
	<u>(unaudited)</u>	
Assets		
Cash and cash equivalents	\$ 17,732	\$ 20,889
Interest-bearing deposits	7,173	5,832
Investment securities	25,962	36,563
Mortgage backed securities	51,100	32,827
Loans and leases receivable, net	735,998	744,731
Premises and equipment	8,866	9,050
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,687	3,659
Accrued interest receivable	3,727	3,787
Mortgage servicing rights	1,079	1,006
Other assets	16,307	13,292
Total Assets	<u>\$ 875,850</u>	<u>\$ 875,855</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 720,434	\$ 716,427
Borrowings	49,606	52,558
Junior subordinated debentures	10,310	10,310
Other liabilities	7,715	8,739
Total liabilities	788,065	788,034
Total Stockholders' Equity	87,785	87,821
Total Liabilities and Stockholder's Equity	<u>\$ 875,850</u>	<u>\$ 875,855</u>

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended	
	March 31, 2009	March 31, 2008
Interest income	\$ 12,571	\$ 16,383
Interest expense	4,629	6,783
Net interest income	7,942	9,600
Provision for credit losses	1,520	0
Net interest income after provision for credit losses	6,422	9,600
Non-interest income	2,821	2,674
Non-interest expense	6,002	5,960
Income before taxes	3,241	6,314
Income tax expense	1,236	2,413
Net Income	<u>\$ 2,005</u>	<u>\$ 3,901</u>
Basic earnings per share	\$.21	\$.40
Diluted earnings per share	\$.21	\$.40
Dividends per share	\$.20	\$.20
Weighted average shares - basic	9,738,096	9,802,770
Weighted average shares - diluted	9,738,096	9,833,335

* Derived from audited consolidated financial statements.