

## 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](http://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 (3)
Fayetteville (2)	Raleigh
Greenville (3)	Rocky Mount (4)
Hope Mills	Tarboro
Washington (3)	Grantsboro

Kill Devil Hills

## Loan Production Offices

Kill Devil Hills  
Wilmington

## First South Leasing, LLC

Greenville  
Raleigh

## 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

September 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 nine months ended September 30, 2009.

Net income for the September 2009 quarter was \$1.8 million compared to \$2.1 million for the September 2008 quarter. Diluted earnings per share were \$0.18 per share for the September 2009 quarter and \$0.21 per share for the September 2008 quarter. Net income for the first nine months of 2009 was \$5.5 million compared to \$9.0 million for the first nine months of 2008. Diluted earnings per share were \$0.57 per share for the first nine months of 2009 and \$0.93 per share for the first nine months of 2008.

At September 30, 2009, total assets were \$855.9 million; net loans and leases receivable \$681.7 million; cash and investments \$133.0 million; deposits and borrowings \$759.2 million; and stockholders' equity \$87.3 million. The net interest margin to average earning assets improved to 4.13% in the September 2009 quarter, as our cost of funds has improved by the combination of pricing new deposits, the renewal of maturing time deposits and the repositioning of borrowings within the current lower interest rate environment.

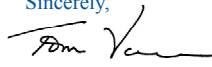
Our primary focus remains on the production of core earnings, improving credit quality and maintaining adequate liquidity. The Company remains profitable, continues to maintain a strong capital position in excess of the well-capitalized regulatory guidelines, and combined with strengthening of the allowance for credit losses should enhance our future earnings as economic conditions begin to improve.

Many of our future strategies focus on enhancing First South's franchise value. We are committed to our shareholders, our employees and to the ongoing development of consumer driven products, services and delivery systems necessary to strengthen our customer relationships.

We are pleased to enclose our dividend check of \$0.20 per share, payable to shareholders of record as of October 7, 2009. This dividend payment is the Company's 50th 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)

	September 30, 2009	December 31, 2008*
	(unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 16,427	\$ 20,889
Interest-bearing deposits	24,882	5,832
Investment securities	5,432	36,563
Mortgage backed securities	86,275	32,827
Loans and leases receivable, net	681,696	744,731
Premises and equipment	8,608	9,050
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,890	3,659
Accrued interest receivable	3,426	3,787
Mortgage servicing rights	1,247	1,006
Other assets	19,831	13,292
<b>Total Assets</b>	<b>\$ 855,933</b>	<b>\$ 875,855</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 709,851	\$ 716,427
Borrowings	39,040	52,558
Junior subordinated debentures	10,310	10,310
Other liabilities	9,451	8,739
Total liabilities	768,652	788,034
Total Stockholders' Equity	87,281	87,821
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 855,933</b>	<b>\$ 875,855</b>

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
Interest income	\$ 12,196	\$ 14,389	\$ 37,208	\$ 45,992
Interest expense	3,922	5,411	13,097	18,239
Net interest income	8,274	8,978	24,111	27,753
Provision for credit losses	1,260	1,745	4,480	2,894
Net interest income after provision for credit losses	7,014	7,233	19,631	24,859
Non-interest income	2,401	2,441	8,434	7,934
Non-interest expense	6,530	6,322	19,046	18,178
Income before taxes	2,885	3,352	9,019	14,615
Income tax expense	1,123	1,296	3,493	5,647
<b>Net Income</b>	<b>\$ 1,762</b>	<b>\$ 2,056</b>	<b>\$ 5,526</b>	<b>\$ 8,968</b>
Basic earnings per share	\$ .18	\$ .21	\$ .57	\$ .93
Diluted earnings per share	\$ .18	\$ .21	\$ .57	\$ .93
Dividends per share	\$ .20	\$ .20	\$ .60	\$ .60
Weighted average shares - basic	9,738,475	9,751,221	9,738,225	9,719,512
Weighted average shares - diluted	9,738,550	9,768,515	9,738,250	9,743,727

\* Derived from audited consolidated financial statements.