

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

First South Wealth Management Financial Services

First South Bank has partnered with LPL 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 LPL.

LPL can provide you with a complete array of investments alternatives including stocks, corporate bonds, mutual funds, and tax-free municipal bonds and government bonds. LPL 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 LPL 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	Nags Head
Fayetteville (2)	New Bern (2)
Grantsboro	Raleigh
Greenville (3)	Rocky Mount (4)
Hope Mills	Tarboro
Washington (3)	Wilmington

First South Leasing, LLC

Greenville

Loan Production Office

Kill Devil Hills

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.

Website

www.firstsouthnc.com

Quarterly Financial Report

June 30, 2010

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, 2010.

Net income for the June 2010 quarter was \$1.6 million compared to \$1.8 million for the June 2009 quarter. Diluted earnings per share were \$0.16 per share for the June 2010 quarter and \$0.18 per share for the June 2009 quarter. Net income for the first six months of 2010 was \$3.1 million compared to \$3.8 million for the first six months of 2009. Diluted earnings per share were \$0.32 per share for the first six months of 2010 and \$0.39 per share for the first six months of 2009.

At June 30, 2010, total assets were \$812.8 million; net loans and leases receivable \$644.9 million; cash and investments \$127.3 million; deposits and borrowings \$707.2 million; and stockholders' equity \$87.1 million. The net interest margin to average earning assets was 4.64% for the June 2010 quarter and our cost of funds improved to 1.26% through the combination of pricing new deposits, the renewal of maturing time deposits and the repositioning of borrowings within the current lower interest rate environment.

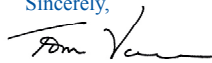
Our primary focus remains on the production of core earnings, improving credit quality and maintaining adequate liquidity. The Company remains profitable, continues to maintain a strong capital position in excess of the well-capitalized regulatory guidelines, and combined with the allowance for credit losses should enhance our operating performance when current 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 July 5, 2010. This dividend payment is the Company's 53rd 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, 2010 <i>(unaudited)</i>	December 31, 2009*
Assets		
Cash and cash equivalents	\$ 17,374	\$ 17,758
Interest-bearing deposits	17,363	11,880
Investment securities	0	407
Mortgage backed securities	92,559	97,239
Loans and leases receivable, net	644,858	658,656
Premises and equipment	9,239	8,540
Goodwill	4,219	4,219
Federal Home Loan Bank stock	3,890	3,890
Accrued interest receivable	2,936	3,318
Mortgage servicing rights	1,268	1,279
Other assets	19,065	22,705
Total Assets	\$ 812,771	\$ 829,891
Liabilities and Stockholders' Equity		
Deposits	\$ 694,540	\$ 688,511
Borrowings	12,665	37,380
Junior subordinated debentures	10,310	10,310
Other liabilities	8,146	7,476
Total liabilities	725,661	743,677
Total Stockholders' Equity	87,110	86,214
Total Liabilities and Stockholder's Equity	\$ 812,771	\$ 829,891

Condensed Statements of Income *(unaudited)*

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30 2010	2009	June 30 2010	2009
Interest income	\$ 10,829	\$ 12,442	\$ 21,980	\$ 25,013
Interest expense	2,258	4,546	4,631	9,176
Net interest income	8,571	7,896	17,349	15,837
Provision for credit losses	2,070	1,700	4,490	3,220
Net interest income after provision for credit losses	6,501	6,196	12,859	12,617
Non-interest income	2,830	3,213	5,525	6,033
Non-interest expense	6,741	6,514	13,241	12,515
Income before taxes	2,590	2,895	5,143	6,135
Income tax expense	1,032	1,135	2,035	2,371
Net Income	\$ 1,558	\$ 1,760	\$ 3,108	\$ 3,764
Basic earnings per share	\$.16	\$.18	\$.32	\$.39
Diluted earnings per share	\$.16	\$.18	\$.32	\$.39
Dividends per share	\$.20	\$.20	\$.40	\$.40
Weighted average shares - basic	9,743,971	9,738,096	9,743,244	9,738,096
Weighted average shares - diluted	9,744,679	9,738,096	9,743,598	9,738,096

* Derived from audited consolidated financial statements.