

PRESS RELEASE  
July 14, 2005  
First South Bancorp, Inc.

FOR IMMEDIATE RELEASE  
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**First South Bancorp, Inc. Reports 11.3% Increase in June 30, 2005 Quarterly Earnings  
and 11.6% Increase in June 30, 2005 Six Months Earnings (Unaudited)**

Washington, North Carolina - First South Bancorp, Inc. (Nasdaq: FSBK) (the "Company"), the parent holding company of First South Bank (the "Bank"), reports its earnings for the quarter ended June 30, 2005 (unaudited), the second quarter of its fiscal year ending December 31, 2005, and its earnings for the six months ended June 30, 2005 (unaudited).

Net income for the quarter ended June 30, 2004 increased 11.3% to \$3,230,920 from net income of \$2,904,121 earned in the quarter ended June 30, 2004. Diluted earnings per share increased 11.4% to \$0.49 per share for the quarter ended June 30, 2005 from \$0.44 per share for the quarter ended June 30, 2004. Net income for the six months ended June 30, 2005 increased 11.6% to \$6,338,671 from net income of \$5,679,895 earned in the six months ended June 30, 2004. Diluted earnings per share increased 10.3% to \$0.96 per share for the six months ended June 30, 2005 from \$0.87 per share for the six months ended June 30, 2004.

Tom Vann, President and Chief Executive Officer of the Company, stated, "Our core earnings this quarter continue to be supported by significant growth in our net interest income, reflecting growth in both the net loans and leases receivable portfolio and in core deposits. The net loan and leases receivable portfolio increased 14.1% to \$687.7 million at June 30, 2005 from \$602.7 million at June 30, 2004, while deposits increased 17.3% to \$699.6 million at June 30, 2005 from \$596.6 million at June 30, 2004.

Total assets of the Company increased to \$791.9 million at June 30, 2005 from \$719.8 million at June 30, 2004, reflecting an annualized growth rate of 10.0%. Net interest income increased 19.8% to \$9.0 million for the quarter ended June 30, 2005 from \$7.5 million for the quarter ended June 30, 2004, reflecting our balance sheet management efforts.

The Bank maintains reserves for losses on loans and leases receivable based upon an evaluation of inherent losses and risk in the loan and leases receivable portfolio and past loss experience. The Bank recorded \$413,000 and \$400,000 of provisions for loan losses during the quarters ended June 30, 2005 and June 30, 2004, respectively. The Bank had \$8.7 million of loan loss reserves at June 30, 2005, which the Bank believes is adequate to absorb losses on loans and leases receivables.

We also continued placing efforts on controlling operating expenses, resulting in a 47.7% efficiency ratio for the quarter ended June 30, 2004."

First South Bank has been serving the citizens of eastern North Carolina since 1902 and offers a variety of financial products and services, including a Leasing Company and securities brokerage services through an affiliation with a broker/dealer. The Bank operates through its main office headquartered in Washington, North Carolina, and has 26 full service branch offices and a loan production office located throughout central, eastern, northeastern and southeastern North Carolina

Statements contained in this release, which are not historical facts, are forward-looking statements as defined in the Private Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors which include the effects of future economic conditions, governmental fiscal and monetary policies, legislative and regulatory changes, the risks of changes in interest rates, the effects of competition, and including without limitation to other factors that could cause actual results to differ materially as discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

(More)

(Nasdaq: FSBK)

**First South Bancorp, Inc. and Subsidiary**  
**Consolidated Statements of Financial Condition**

| <b>Assets</b>  | <b>June 30<br/>2005<br/>(unaudited)</b> | <b>December 31<br/>2004</b> |
|--|---|-----------------------------|
| Cash and due from banks  | \$ 27,029,425                           | \$ 19,873,210               |
| Interest-bearing deposits in financial institutions  | 5,898,058                               | 1,065,138                   |
| Investment securities - available for sale   | 33,558,541                              | 32,058,152                  |
| Mortgage-backed securities - available for sale  | 5,771,534                               | 6,639,381                   |
| Mortgage-backed securities - held for investment   | 2,355,692                               | 2,569,358                   |
| Loans and leases receivable - held for sale  | 6,942,208                               | 5,961,691                   |
| Loans and leases receivable - held for investment  | 680,725,596                             | 625,854,344                 |
| Premises and equipment, net  | 9,325,421                               | 8,402,455                   |
| Real estate owned  | 547,041                                 | 89,449                      |
| Federal Home Loan Bank of Atlanta stock, at cost   | 1,531,700                               | 1,825,200                   |
| Accrued interest receivable  | 3,663,413                               | 3,311,187                   |
| Goodwill   | 4,218,576                               | 4,218,576                   |
| Mortgage servicing rights  | 1,582,094                               | 1,698,778                   |
| Identifiable intangible assets   | 275,100                                 | 290,820                     |
| Income tax receivable  | 1,832,348                               | 820,087                     |
| Prepaid expenses and other assets  | 5,547,222                               | 6,216,308                   |
| Note receivable  | 1,106,654                               | 1,156,557                   |
|  | <hr/>                                   | <hr/>                       |
| Total assets   | \$ <b>791,910,623</b>                   | \$ <b>722,050,691</b>       |
| <br><b>Liabilities and Stockholders' Equity</b>  |   |                             |
| Deposits:  |   |                             |
| Demand   | \$ 235,284,595                          | \$ 236,319,937              |
| Savings  | 22,823,115                              | 22,018,388                  |
| Large denomination certificates of deposit   | 143,931,934                             | 120,757,331                 |
| Other time   | 297,527,801                             | 249,441,049                 |
| Total deposits   | <hr/> 699,567,445                       | <hr/> 628,536,705           |
| Borrowed money   | 6,388,721                               | 14,791,900                  |
| Junior subordinated debentures   | 10,310,000                              | 10,310,000                  |
| Deferred income taxes  | 1,055,176                               | 1,302,501                   |
| Other liabilities  | 10,646,876                              | 7,414,238                   |
| Total liabilities  | <hr/> 727,968,218                       | <hr/> 662,355,344           |
| Common stock, \$.01 par value, 25,000,000 shares authorized,<br>6,329,539, and 6,264,676 shares issued and outstanding, respectively | 63,295                                  | 62,647                      |
| Additional paid-in capital   | 37,624,667                              | 37,815,715                  |
| Retained earnings, substantially restricted  | 54,406,087                              | 50,597,651                  |
| Treasury stock, at cost  | (28,621,243)                            | (29,653,794)                |
| Accumulated other comprehensive income, net  | 469,599                                 | 873,128                     |
| Total stockholders' equity   | <hr/> 63,942,405                        | <hr/> 59,695,347            |
|  | <hr/>                                   | <hr/>                       |
| Total liabilities and stockholders' equity   | \$ <b>791,910,623</b>                   | \$ <b>722,050,691</b>       |

**First South Bancorp, Inc.**  
**Supplemental Quarterly Financial Data (Unaudited)**

|                                       | <u>6/30/2005</u>                                       | <u>3/31/2005</u> | <u>12/31/2004</u> | <u>9/30/2004</u> | <u>6/30/2004</u> |
|---------------------------------------|--|------------------|-------------------|------------------|------------------|
| Consolidated balance sheet data:      |  |                  |                   |                  |                  |
|                                       | (dollars in thousands except share and per share data) |                  |                   |                  |                  |
| Total assets                          | \$ 791,911   | \$ 770,105       | \$ 722,051        | \$ 714,659       | \$ 719,777       |
| Loans receivable (net)                | 687,668  | 674,781          | 631,816           | 620,298          | 602,738          |
| Cash and investments                  | 66,576   | 58,817           | 52,997            | 57,415           | 79,438           |
| Mortgage-backed securities            | 8,127  | 8,529            | 9,209             | 10,024           | 10,567           |
| Premises and equipment                | 9,325  | 8,256            | 8,402             | 8,540            | 7,912            |
| Goodwill                              | 4,219  | 4,219            | 4,219             | 4,219            | 4,219            |
| Mortgage servicing rights             | 1,582  | 1,649            | 1,699             | 1,742            | 1,792            |
| Deposits                              | 699,568  | 668,838          | 628,537           | 615,957          | 596,585          |
| Borrowings                            | 6,389  | 15,725           | 14,792            | 22,300           | 43,309           |
| Junior subordinated debentures        | 10,310   | 10,310           | 10,310            | 10,310           | 10,310           |
| Stockholders' equity                  | 63,943   | 61,875           | 59,695            | 57,640           | 55,720           |
| Consolidated earnings summary:        |  |                  |                   |                  |                  |
| Interest income                       | \$ 12,602  | 11,732           | \$ 10,831         | \$ 10,177        | \$ 9,810         |
| Interest expense                      | <u>3,588</u>   | <u>2,965</u>     | <u>2,658</u>      | <u>2,481</u>     | <u>2,289</u>     |
| Net interest income                   | 9,014  | 8,767            | 8,173             | 7,696            | 7,521            |
| Loan loss provision                   | 413  | 638              | 300               | 268              | 400              |
| Noninterest income                    | 1,909  | 1,901            | 2,071             | 2,235            | 2,288            |
| Noninterest expense                   | 5,222  | 4,973            | 5,055             | 4,880            | 4,791            |
| Income taxes                          | 2,057  | 1,949            | 1,847             | 1,792            | 1,714            |
| Net income                            | <u>\$ 3,231</u>  | <u>3,108</u>     | <u>\$ 3,042</u>   | <u>\$ 2,991</u>  | <u>\$ 2,904</u>  |
| Per Share Data:                       |  |                  |                   |                  |                  |
| Earnings per share-Basic              | \$ 0.51  | 0.49             | \$ 0.49           | \$ 0.48          | \$ 0.47          |
| Earnings per share-Diluted            | \$ 0.49  | 0.47             | \$ 0.46           | \$ 0.46          | \$ 0.44          |
| Dividends per share                   | \$ 0.20  | 0.20             | \$ 0.17           | \$ 0.17          | \$ 0.17          |
| Book value per share                  | \$ 10.10   | 9.79             | \$ 9.53           | \$ 9.22          | \$ 8.94          |
| Average shares-Basic                  | 6,324,959  | 6,308,746        | 6,255,187         | 6,228,697        | 6,241,314        |
| Average shares-Diluted                | 6,659,093  | 6,604,422        | 6,584,192         | 6,554,013        | 6,579,166        |
| Shares outstanding end of period      | 6,329,539  | 6,321,633        | 6,264,676         | 6,248,678        | 6,222,216        |
| Performance ratios:                   |  |                  |                   |                  |                  |
| Yield on earning assets               | 6.95%  | 6.77%            | 6.45%             | 6.14%            | 5.99%            |
| Cost of funds                         | <u>2.03%</u>   | <u>1.76%</u>     | <u>1.63%</u>      | <u>1.53%</u>     | <u>1.44%</u>     |
| Net interest spread                   | 4.92%  | 5.01%            | 4.82%             | 4.61%            | 4.55%            |
| Net interest margin on earning assets | 4.97%  | 5.06%            | 4.87%             | 4.64%            | 4.59%            |
| Earning assets to total assets        | 93.04%   | 92.83%           | 93.72%            | 93.80%           | 91.49%           |
| Return on average assets              | 1.65%  | 1.67%            | 1.69%             | 1.66%            | 1.62%            |
| Return on average equity              | 20.45%   | 20.38%           | 20.65%            | 21.00%           | 20.55%           |
| Efficiency ratio                      | 47.73%   | 46.54%           | 49.27%            | 49.06%           | 48.76%           |
| Dividend payout ratio                 | 39.22%   | 40.82%           | 34.69%            | 35.42%           | 36.17%           |
| Asset quality data and ratios:        |  |                  |                   |                  |                  |
| Nonperforming loans                   | \$ 2,981   | 2,326            | \$ 2,349          | \$ 3,169         | \$ 2,919         |
| Real estate owned                     | \$ 547   | 296              | \$ 89             | \$ 187           | \$ 204           |
| Reserve for loan losses               | \$ 8,736   | 8,949            | \$ 8,343          | \$ 8,109         | \$ 7,907         |
| Net charge-offs                       | \$ 76  | 33               | \$ 66             | \$ 66            | \$ 67            |
| Net charge-offs to loans              | 0.011%   | 0.005%           | 0.010%            | 0.011%           | 0.011%           |
| Nonperforming loans to assets         | 0.38%  | 0.30%            | 0.33%             | 0.44%            | 0.41%            |
| Reserves to total loans               | 1.25%  | 1.31%            | 1.30%             | 1.29%            | 1.30%            |
| Loans to deposits                     | 98.30%   | 100.89%          | 100.52%           | 100.70%          | 101.03%          |
| Loans to assets                       | 86.84%   | 87.62%           | 87.60%            | 86.80%           | 83.75%           |
| Loans serviced for others             | \$ 266,797   | 271,776          | \$ 277,252        | \$ 281,259       | \$ 282,692       |