

FIRST SOUTH BANCORP, INC.
Press Release
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FOR IMMEDIATE RELEASE
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First South Bancorp, Inc. Reports 35.3% Increase in December 31, 2005 Quarterly Earnings and 20.6% Increase in December 31, 2005 Fiscal Year 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 December 31, 2005 (unaudited), the fourth quarter of its fiscal year ending December 31, 2005, and its earnings for the fiscal year ended December 31, 2005 (unaudited).

Net income for the quarter ended December 31, 2005 increased 35.3% to \$4,115,671 from \$3,041,724 earned in the quarter ended December 31, 2004. Basic earnings per share increased 32.7% to \$0.65 per share for the quarter ended December 31, 2005 from \$0.49 per share for the quarter ended December 31, 2004. Diluted earnings per share increased 34.8% to \$0.62 per share for the quarter ended December 31, 2005 from \$0.46 per share for the quarter ended December 31, 2004.

Net income for the year ended December 31, 2005 increased 20.6% to \$14,128,704 from \$11,712,441 earned in the year ended December 31, 2004. Basic earnings per share increased 19.3% to \$2.23 per share for the year ended December 31, 2005 from \$1.87 per share for the year ended December 31, 2004. Diluted earnings per share increased 18.4% to \$2.12 per share for the year ended December 31, 2005 from \$1.79 per share for the year ended December 31, 2004.

Tom Vann, President and Chief Executive Officer of the Company and the Bank, stated, “Our core earnings this quarter were supported by sustained growth in our net interest income, reflecting the positive impact of recent prime rate increases on our asset sensitive balance sheet. The net loan and leases receivable portfolio increased 12.0% to \$707.8 million at December 31, 2005 from \$631.8 million at December 31, 2004; while deposits increased 16.7% to \$733.8 million at December 31, 2005 from \$628.5 million at December 31, 2004.

Net interest income increased 26.9% to \$10.4 million for the quarter ended December 31, 2005 from \$8.2 million for the quarter ended December 31, 2004. Net interest income increased 23.7% to \$37.7 million for the year ended December 31, 2005 from \$30.5 million for the year ended December 31, 2004.

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 \$266,000 and \$300,000, respectively, of provisions for loan losses during the quarters ended December 31, 2005 and 2004. The Bank had \$9.2 million of general and specific loan loss reserves at December 31, 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 44.0% efficiency ratio for the quarter ended December 31, 2005. In addition, our key performance ratios, return on average assets (ROA) and return on average equity (ROE), continue to place us at the top of our peer group. Our ROA and ROE was 2.0% and 24.4%, respectively, for the quarter ended December 31, 2005.

The year ended December 31, 2005 was eventful for both the Company and the Bank. The Company increased the quarterly cash dividend payment rate by 17.7%, and combined with the appreciation in market price of our

common stock, resulted in a 40.9% total return to our shareholders. We received national and statewide recognition for our operating efficiency, 3-year return on equity and various operating performance ratios including return on average equity, return on capital, net interest margin and total one-year return from American Banker, Business North Carolina, U. S. Banker and The News & Observer.

During 2005 we opened new full service branch offices in Avon, Durham and Greenville, North Carolina, allowing us to better serve the banking needs in our growing market area, and representing a continuation of the growth of our branch office network and allowing us to expand our customer base in existing markets.”

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

Assets	December 31 2005 (unaudited)	December 31 2004
Cash and due from banks	\$ 32,523,922	\$ 19,873,210
Interest-bearing deposits in financial institutions	419,470	1,065,138
Investment securities - available for sale	41,827,690	32,058,152
Mortgage-backed securities - available for sale	20,639,067	6,639,381
Mortgage-backed securities - held for investment	2,063,310	2,569,358
Loans and leases receivable - held for sale	10,845,783	5,961,691
Loans and leases receivable - held for investment	696,974,135	625,854,344
Premises and equipment, net	8,831,170	8,402,455
Real estate owned	13,886	89,449
Federal Home Loan Bank of Atlanta stock, at cost	1,689,200	1,825,200
Accrued interest receivable	4,288,600	3,311,187
Goodwill	4,218,576	4,218,576
Mortgage servicing rights	1,402,085	1,698,778
Identifiable intangible assets	259,380	290,820
Income tax receivable	1,145,814	820,087
Prepaid expenses and other assets	5,982,857	6,216,308
Note receivable	-	1,156,557
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Total assets	\$ 833,124,945	\$ 722,050,691
 Liabilities and Stockholders' Equity		
Deposits:		
Demand	\$ 244,879,590	\$ 236,319,937
Savings	21,509,653	22,018,388
Large denomination certificates of deposit	153,954,109	120,757,331
Other time	313,409,713	249,441,049
Total deposits	<hr/> 733,753,065	<hr/> 628,536,705
Borrowed money	11,787,528	14,791,900
Junior subordinated debentures	10,310,000	10,310,000
Deferred income taxes	540,021	1,302,501
Other liabilities	8,543,859	7,414,238
Total liabilities	<hr/> 764,934,473	<hr/> 662,355,344
Common stock, \$.01 par value, 25,000,000 shares authorized, 6,339,548, and 6,264,676 shares issued and outstanding, respectively	63,395	62,647
Additional paid-in capital	37,624,894	37,815,715
Retained earnings, substantially restricted	59,661,079	50,597,651
Treasury stock, at cost	(28,787,979)	(29,653,794)
Accumulated other comprehensive income, net	(370,917)	873,128
Total stockholders' equity	<hr/> 68,190,472	<hr/> 59,695,347
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 833,124,945	\$ 722,050,691

First South Bancorp, Inc. and Subsidiary
Consolidated Statements of Operations
(unaudited)

	Three Months Ended		Year Ended	
	December 31		December 31	
	2005	2004	2005	2004
Interest income:				
Interest and fees on loans	\$ 14,106,322	\$ 10,103,116	\$ 50,357,203	\$ 36,751,526
Interest and dividends on investments and deposits	825,034	728,019	2,818,847	3,428,131
Total interest income	<u>14,931,356</u>	<u>10,831,135</u>	<u>53,176,050</u>	<u>40,179,657</u>
Interest expense:				
Interest on deposits	4,325,299	2,484,357	14,542,548	8,938,856
Interest on borrowings	59,025	49,534	288,329	304,846
Interest on junior subordinated debentures	176,196	124,493	632,629	448,319
Total interest expense	<u>4,560,520</u>	<u>2,658,384</u>	<u>15,463,506</u>	<u>9,692,021</u>
Net interest income	10,370,836	8,172,751	37,712,544	30,487,636
Provision for loan losses	266,000	300,000	1,711,197	968,000
Net interest income after provision for loan losses	<u>10,104,836</u>	<u>7,872,751</u>	<u>36,001,347</u>	<u>29,519,636</u>
Noninterest income:				
Fees and service charges	1,672,957	1,573,905	6,116,949	6,479,309
Loan servicing fees	162,052	183,811	684,135	724,363
Gain on sale of real estate, net	33,677	5,404	215,928	23,037
Gain on sale of mortgage loans	(757)	114,725	199,414	508,218
Gain on sale of mortgage-backed securities	-	-	-	88,844
Other income	264,960	193,335	990,165	926,699
Total noninterest income	<u>2,132,889</u>	<u>2,071,180</u>	<u>8,206,591</u>	<u>8,750,470</u>
Noninterest expense:				
Compensation and fringe benefits	3,411,478	3,168,161	12,682,779	12,000,690
Federal insurance premiums	23,230	21,315	89,523	86,666
Premises and equipment	430,728	410,796	1,761,934	1,618,024
Advertising	39,764	38,760	187,536	185,468
Payroll and other taxes	287,455	251,479	1,143,214	1,023,813
Data processing	578,656	513,117	2,270,449	2,060,986
Amortization of intangible assets	97,033	79,916	403,999	300,745
Other	638,730	571,281	2,592,604	2,315,233
Total noninterest expense	<u>5,507,074</u>	<u>5,054,825</u>	<u>21,132,038</u>	<u>19,591,625</u>
Income before income taxes	6,730,651	4,889,106	23,075,900	18,678,481
Income taxes	<u>2,614,980</u>	<u>1,847,382</u>	<u>8,947,196</u>	<u>6,966,040</u>
Net income	<u>\$ 4,115,671</u>	<u>\$ 3,041,724</u>	<u>\$ 14,128,704</u>	<u>\$ 11,712,441</u>
Per share data:				
Basic earnings per share	\$ 0.65	\$ 0.49	\$ 2.23	\$ 1.87
Diluted earnings per share	\$ 0.62	\$ 0.46	\$ 2.12	\$ 1.79
Dividends per share	\$ 0.20	\$ 0.17	\$ 0.80	\$ 0.68
Weighted average shares - Basic	6,333,886	6,255,187	6,325,382	6,251,866
Weighted average shares - Diluted	6,670,841	6,584,192	6,653,481	6,557,149

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

	<u>12/31/2005</u>	<u>9/30/2005</u>	<u>6/30/2005</u>	<u>3/31/2005</u>	<u>12/31/2004</u>
Consolidated balance sheet data:					
	(dollars in thousands except share and per share data)				
Total assets	\$ 833,125	\$ 825,257	\$ 791,911	\$ 770,105	\$ 722,051
Loans receivable (net)	707,820	708,769	687,668	674,781	631,816
Cash and investments	74,771	81,638	66,576	58,817	52,997
Mortgage-backed securities	22,702	7,546	8,127	8,529	9,209
Premises and equipment	8,831	9,004	9,325	8,256	8,402
Goodwill	4,219	4,219	4,219	4,219	4,219
Mortgage servicing rights	1,402	1,491	1,582	1,649	1,699
Deposits	733,753	731,351	699,568	668,838	628,537
Borrowings	11,788	6,015	6,389	15,725	14,792
Junior subordinated debentures	10,310	10,310	10,310	10,310	10,310
Stockholders' equity	68,190	66,177	63,943	61,875	59,695
Consolidated earnings summary:					
Interest income	\$ 14,931	\$ 13,912	\$ 12,602	\$ 11,732	\$ 10,831
Interest expense	4,560	4,350	3,588	2,965	2,658
Net interest income	10,371	9,562	9,014	8,767	8,173
Loan loss provision	266	394	413	638	300
Noninterest income	2,133	2,265	1,909	1,901	2,071
Noninterest expense	5,507	5,432	5,222	4,973	5,055
Income taxes	2,615	2,327	2,057	1,949	1,847
Net income	\$ 4,116	\$ 3,674	\$ 3,231	\$ 3,108	\$ 3,042
Per Share Data:					
Earnings per share-Basic	\$ 0.65	\$ 0.59	\$ 0.51	\$ 0.49	\$ 0.49
Earnings per share-Diluted	\$ 0.62	\$ 0.56	\$ 0.49	\$ 0.47	\$ 0.46
Dividends per share	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.17
Book value per share	\$ 10.76	\$ 10.45	\$ 10.10	\$ 9.79	\$ 9.53
Average shares-Basic	6,333,886	6,280,734	6,324,959	6,308,746	6,255,187
Average shares-Diluted	6,670,841	6,620,364	6,659,093	6,604,422	6,584,192
Shares outstanding end of period	6,339,548	6,335,657	6,329,539	6,321,633	6,264,676
Performance ratios:					
Yield on earning assets	7.68%	7.34%	6.95%	6.77%	6.45%
Cost of funds	2.42%	2.37%	2.03%	1.76%	1.63%
Net interest spread	5.26%	4.97%	4.92%	5.01%	4.82%
Net interest margin on earning assets	5.33%	5.04%	4.97%	5.06%	4.87%
Earning assets to total assets	92.96%	93.73%	93.04%	92.83%	93.72%
Return on average assets	1.98%	1.81%	1.65%	1.67%	1.69%
Return on average equity	24.35%	22.44%	20.45%	20.38%	20.65%
Efficiency ratio	43.98%	45.86%	47.73%	46.54%	49.27%
Dividend payout ratio	30.77%	33.90%	39.22%	40.82%	34.69%
Asset quality data and ratios:					
Nonperforming loans	\$ 2,259	\$ 2,810	\$ 2,981	\$ 2,326	\$ 2,349
Real estate owned	\$ 14	\$ 82	\$ 547	\$ 296	\$ 89
Reserve for loan losses	\$ 9,222	\$ 9,101	\$ 8,736	\$ 8,949	\$ 8,343
Net charge-offs	\$ 145	\$ 29	\$ 76	\$ 33	\$ 66
Net charge-offs to loans	0.020%	0.004%	0.011%	0.005%	0.010%
Nonperforming loans to assets	0.27%	0.34%	0.38%	0.30%	0.33%
Reserves to total loans	1.29%	1.27%	1.25%	1.31%	1.30%
Loans to deposits	96.47%	96.91%	98.30%	100.89%	100.52%
Loans to assets	84.96%	85.88%	86.84%	87.62%	87.60%
Loans serviced for others	\$ 260,632	\$ 255,442	\$ 266,797	\$ 271,776	\$ 277,252