

## 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](http://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 information, 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.

### *Opening of Loan Production Office*

First South Bank has opened a loan production office located at Suite 103, Pinnacle Professional Center, 2600 North Croatan Highway, Kill Devil Hills, North Carolina. The LPO opened for business on November 22, 2004 and is First South Bank's second office in the Kill Devil Hills and Outer Banks market area. The initial focus of the LPO will be on marketing First South Bank's loan products and services to mortgage customers, local businesses, residential home builders and commercial builders.

## *First South Bank*

Member FDIC

### **Corporate Office**

1311 Carolina Avenue  
Washington, NC 27889  
(252) 946-4178

### **Full-Service Branch Offices**

Chocowinity	Kinston
Elizabeth City	Lumberton (2)
Fayetteville (2)	New Bern (3)
Greenville	Raleigh
Hope Mills	Rocky Mount (5)
Kill Devil Hills	Tarboro
Washington (3)	

### **First South Leasing, LLC**

Washington

### *Shareholder Information*

#### **Stock Listing:**

NASDAQ - National Market System  
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

All The Bank You'll Ever Need

[www.firstsouthnc.com](http://www.firstsouthnc.com)

## *Quarterly Financial Report*

December 31, 2004

## *First South Bancorp*

**Dear Shareholders:**

Net income for the quarter ended December 31, 2004 increased 12.0% to \$3,041,724 from \$2,716,650 earned in the quarter ended December 31, 2003. Basic earnings per share increased 14.0% to \$0.49 per share for the quarter ended December 31, 2004 from \$0.43 per share for the quarter ended December 31, 2003. Diluted earnings per share increased 12.2% to \$0.46 per share for the quarter ended December 31, 2004 from \$0.41 per share for the quarter ended December 31, 2003.

Net income for the year ended December 31, 2004 increased 2.6% to \$11,712,441 from \$11,412,996 earned in the year ended December 31, 2003. Basic earnings per share increased 2.2% to \$1.87 per share for the year ended December 31, 2004 from \$1.84 per share for the year ended December 31, 2003. Diluted earnings per share increased 3.5% to \$1.79 per share for the year ended December 31, 2004 from \$1.73 per share for the year ended December 31, 2003.

At December 31, 2004, our total assets amounted to \$721.2 million, total loans and leases receivable \$631.8 million, total deposits \$628.5 million and stockholders' equity was \$59.2 million.

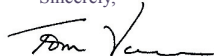
The year ended December 31, 2004 was eventful for both the Company and First South Bank. The Company increased the quarterly cash dividend payment rate by 27.5%, declared a three-for-two stock split, and combined with the appreciation in market price of our common stock, resulted in an 8.2% total return to our shareholders. We received national and statewide recognition for our operating efficiency, net interest margin growth and various operating performance ratios including return on average equity, return on capital, net interest margin and total five year return from American Banker, ABA Banking Journal, U. S. Banker and Business North Carolina.

During 2004 the Bank completed the purchase of two full service branch offices and opened two new loan production offices, allowing us to better serve the banking needs in our growing market area. We recently announced the opening of a third loan production office and we have an office under construction in Greenville, North Carolina that is expected to open during the second quarter of 2005, representing a continuation of the growth of our branch office network and allowing us to expand our customer base in existing markets.

We are pleased to enclose our dividend check of \$0.17 per share to shareholders of record as of January 6, 2005. This dividend payment represents a payout ratio of 34.7% of this quarter's basic earnings per share and is the Company's thirty-first consecutive quarterly cash dividend.

The Board of Directors, officers and staff of the Company and the Bank pledge our continued commitment to you and we welcome your comments and suggestions. Thank you for your support, trust and continued investment in First South Bancorp.

Sincerely,



Tom Vann

President and Chief Executive Officer

## Condensed Statements of Financial Condition

(in thousands)

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 20,938	\$ 34,925
Investment securities	32,058	50,072
Mortgage backed securities	9,209	11,715
Loans and leases receivable, net	631,816	553,200
Premises and equipment	8,402	7,923
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,825	2,127
Accrued interest receivable	3,311	3,073
Mortgage servicing rights	1,699	1,887
Other Assets	7,754	6,695
	<b><u>721,231</u></b>	<b><u>675,836</u></b>
<b>Total Assets</b>	<b>\$ 721,231</b>	<b>\$ 675,836</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 628,537	\$ 583,173
Borrowings	14,792	19,338
Junior subordinated debentures	10,000	10,000
Other liabilities	8,664	8,161
Total liabilities	661,993	620,672
Total Stockholders' Equity	59,238	55,164
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 721,231</b>	<b>\$ 675,836</b>

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	<b>Three Months Ended December 31</b>		<b>Year Ended December 31</b>	
	2004	2003	2004	2003
Interest income	\$ 10,831	\$ 9,297	\$ 40,180	\$ 36,905
Interest expense	2,658	2,333	9,692	10,186
Net interest income	8,173	6,964	30,488	26,719
Provision for loan losses	300	137	968	988
Net interest income after provision for loan losses	7,873	6,827	29,520	25,731
Non-interest income	2,071	1,940	8,750	10,502
Non-interest expense	5,055	4,456	19,592	17,979
Income before taxes	4,889	4,311	18,678	18,254
Income tax expense	1,847	1,594	6,966	6,841
<b>Net Income</b>	<b>\$ 3,042</b>	<b>\$ 2,717</b>	<b>\$ 11,712</b>	<b>\$ 11,413</b>
Basic earnings per share	\$ 0.49	\$ 0.43*	\$ 1.87*	\$ 1.84*
Diluted earnings per share	\$ 0.46	\$ 0.41*	\$ 1.79*	\$ 1.73*
Dividends per share	\$ 0.17	\$ 0.13*	\$ 0.68*	\$ 0.52*
Weighted average shares - basic	6,255,187	6,270,198*	6,251,866*	6,230,578*
Weighted average shares - diluted	6,584,192	6,622,665*	6,557,149*	6,604,392*

\* Adjusted for three-for-two stock split on April 23, 2004