

Featured Products & Services

ServicePlus

During the second quarter of 2004, First South Bank introduced a new bank-wide program called ServicePlus. ServicePlus provides all associates with the training needed to enhance the Bank's customer service culture. This program is a step-by-step approach that leads all associates to achieving excellence in customer service through one-on-one coaching sessions, role playing and video taping. Each associate will complete a 4 to 6 week self-study, followed by weekly coaching sessions and a video lab. The ultimate goal is to create a customer service culture that builds great customer experiences and allows us to grow our customer base.

Data Conversion

The Bank is currently preparing for a data processing conversion that will occur in early October 2004. The Bank has partnered with Bisys Financial Solutions for its data processing needs and will be using the Total CS software package. Total CS is the next generation of outsourcing solutions from Bisys. The Oracle/Windows NT/2000 based platform system uses file servers and workstations to share information across a wide area network (WAN). The advanced functionality of the Total CS system provides integrated deposit and lending applications, fully integrated tellers and platform modules, online processing and windows based comprehensibility.

Free Checking and Online Banking

First South Bank is pleased to offer free checking, free personal on-line banking and free personal bill payment services. Regardless of your age, everyone is eligible for free checking at First South Bank. Many of our free checking packages also offer free, unlimited personalized checks.

Bill payment services is a convenient way to pay your monthly recurring bills. Avoid the hassle and expense of writing checks, addressing envelopes and purchasing postage stamps. Bill payment allows you to pay your bills online, anytime. It only takes a few seconds to pay your monthly bills and it is absolutely free.

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.

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 (2)	Raleigh
Hope Mills	Rocky Mount (5)
Kill Devil Hills	Tarboro
Washington (3)	

First South Leasing, LLC

Washington
Raleigh

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

*Quarterly
Financial Report*
June 30, 2004

First South Bancorp

Dear Shareholders:

First South Bancorp, Inc. (the "Company"), the parent holding company of First South Bank, is pleased to report its unaudited consolidated results of operations for the quarter ended June 30, 2004 and the first six months of the year ending December 31, 2004.

Net income for the quarter ended June 30, 2004 was \$2,904,121 compared to net income of \$2,887,277 earned in the quarter ended June 30, 2003. Diluted earnings per share were \$0.44 per share for both the quarter ended June 30, 2004 and 2003. Net income for the six months ended June 30, 2004 was \$5,679,895 compared to net income of \$5,730,182 earned in the six months ended June 30, 2003. Diluted earnings per share were \$0.87 per share for both the six months ended June 30, 2004 and 2003.

Our core earnings this quarter was supported by significant growth in our net interest income, reflecting growth in both the commercial and consumer loan portfolio and in lower costing core checking accounts. During 2004 we have experienced much less dependence on gains from mortgage loan sales, unlike 2003, which was an advantageous period for selling loans due to increased origination and refinance volumes caused primarily by declining interest rates. We also continued placing efforts on controlling operating expenses this quarter, resulting in a 48.8% efficiency ratio.

The net commercial and consumer loan portfolio has increased 25.8% to \$534.9 million at June 30, 2004 from \$425.3 million at June 30, 2003, while checking accounts increased 11.4% to \$238.4 million at June 30, 2004 from \$213.9 million at June 30, 2003. Consolidated assets of the Company increased to \$719.6 million at June 30, 2004 from \$675.8 million at December 31, 2003, reflecting a 13.0% annualized internal growth rate during the current period.

We recently filed an application to open a new full service banking office to be located on Firetower Road in Greenville, North Carolina. This office will provide an additional convenient location for serving the banking needs of our growing market in the Greenville/Pitt County region of eastern North Carolina. We believe this office will benefit our earnings in future periods.

U. S. Banker magazine has ranked us 25th among the top 200 publicly traded community banks in the United States, ranked by 3-year average return on equity as of December 31, 2003. The ABA Banking Journal, published by the American Bankers Association, has ranked us 38th among the 50 best-performing community banks in America over \$100 million in assets, ranked by return on average equity for the year ended December 31, 2003. We are proud to receive this recognition, as these rankings further exemplify the recognition of the Company's performance among the top performing community banks in the country.

We are pleased to enclose our dividend check of \$0.17 per share to shareholders of record as of July 5, 2004. This dividend payment represents a payout ratio of 36.2% of this quarter's basic earnings and is the Company's twenty-ninth 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, 2004	December 31 2003
	<u>(unaudited)</u>	
Assets		
Cash and cash equivalents	\$ 37,620	\$ 34,925
Investment securities	41,818	50,072
Mortgage backed securities	10,435	11,715
Loans and leases receivable, net	602,738	553,200
Premises and equipment	7,912	7,923
Goodwill	4,219	4,219
Federal Home Loan Bank stock	2,000	2,127
Accrued interest receivable	3,165	3,073
Mortgage servicing rights	1,792	1,887
Other Assets	7,946	6,695
	<u>719,645</u>	<u>675,836</u>
Total Assets	\$ <u>719,645</u>	\$ <u>675,836</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 596,585	\$ 583,173
Borrowings	43,309	19,338
Junior subordinated debentures	10,000	10,000
Other liabilities	14,113	8,161
Total liabilities	664,007	620,672
Total Stockholders' Equity	55,638	55,164
Total Liabilities and Stockholder's Equity	\$ <u>719,645</u>	\$ <u>675,836</u>

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Interest income	\$ 9,810	\$ 9,250	\$ 19,171	\$ 18,391
Interest expense	2,289	2,684	4,553	5,426
Net interest income	7,521	6,566	14,618	12,965
Provision for loan losses	400	122	400	456
Net interest income after provision for loan losses	7,121	6,444	14,218	12,509
Non-interest income	2,288	2,686	4,444	5,606
Non-interest expense	4,791	4,506	9,656	8,925
Income before taxes	4,618	4,624	9,006	9,190
Income tax expense	1,714	1,737	3,326	3,460
Net Income	\$ <u>2,904</u>	\$ <u>2,887</u>	\$ <u>5,680</u>	\$ <u>5,730</u>
Basic earnings per share	\$ 0.47*	\$ 0.47*	\$ 0.91*	\$ 0.93*
Diluted earnings per share	\$ 0.44*	\$ 0.44*	\$ 0.87*	\$ 0.87*
Dividends per share	\$ 0.17*	\$ 0.13*	\$ 0.34*	\$ 0.26*
Weighted average shares - basic	6,241,314*	6,200,401*	6,261,764*	6,221,802*
Weighted average shares - diluted	6,579,166*	6,570,394*	6,545,347*	6,602,520*

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