

Featured Products & Services

Application for New Branch Site

First South Bank has applied to the North Carolina Office of the Commissioner of Banks and the Regional Director of the Federal Deposit Insurance Corporation for a full service branch at the North East Corner of East Firetower Road and Ashcroft Road in Greenville, NC.

Personal Online Banking & Bill Payment

Personal Online Banking and Bill Payment Services are now available. As a First South Bank customer you may access your checking, savings, loan, and other accounts through online banking. You can transfer funds between accounts and can download your account information into Quicken® and Microsoft Money®. With Bill Payment Services, you can pay your bills electronically to anyone anywhere. Recurring payments can be set-up to occur automatically. Personal Online Banking and Bill Payment Services are FREE with a First South Bank checking account. To apply, access our website at www.firstsouthnc.com and click on Online Banking, followed by Personal Online Services. Once you apply, it will take approximately 24 hours for your accounts to become activated for online use. Bill Payment Services take approximately 48 hours to become activated. For more information, contact our online banking department at 940-5030 in the Washington area or toll free at 1-888-993-7664.

Business Online Banking

Business Online Banking will be available April 15. As a business customer of First South Bank you can manage your cash position and have immediate access to your account information. You can transfer funds between accounts, inquire on the status of outstanding checks, pay vendors online with business bill payment services, place stop payments, initiate domestic wire transfers, and reorder checks. As a business customer you can take advantage of ACH services whereby you can generate payroll deposits, Account Reconciliation, Positive Pay, and pay your federal taxes. You can also download your financial information into Quickbooks®. To apply for business online banking contact your First South Bank account representative or call our online banking department at 940-5030 in the Washington area or toll free at 1-888-993-7664.

Free Checking

Regardless of your age, First South Bank offers totally Free Checking. Enjoy the luxury of a no minimum balance and no monthly service charge checking account. If you are age 50 or more we will provide you with complimentary personalized checks. Contact any First South Bank branch today to learn more about the benefits available to you through Free Checking.

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

Quarterly Financial Report

March 31, 2004

First South Bancorp

All The Bank You'll Ever Need
www.firstsouthnc.com

Dear Shareholders:

First South Bancorp, Inc., the parent holding company of First South Bank, is pleased to report its results of operations for the quarter ended March 31, 2004 (unaudited), the first quarter of its fiscal year ending December 31, 2004.

Net income for the quarter ended March 31, 2004 was \$2,775,774, compared to net income of \$2,842,905 earned in the quarter ended March 31, 2003. We recently announced a three-for-two stock split, payable April 23, 2004 in the form of a 50% stock dividend to stockholders of record as of April 2, 2004. Basic earnings per share, adjusted for stock split, was \$0.44 per share for the quarter ended March 31, 2004, compared to \$0.46 per share for the quarter ended March 31, 2003. Diluted earnings per share, adjusted for the stock split, was \$0.42 per share for the quarter ended March 31, 2004, compared to \$0.43 per share for the quarter ended March 31, 2003.

Our core earnings this quarter reflect continued progress in restructuring our balance sheet, allowing us to maintain more consistent levels of net interest income. The net growth in the commercial loan portfolio combined with growth in lower costing core checking accounts and efforts placed on controlling operating expenses continue to contribute to our core earnings.

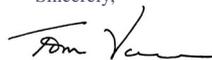
Total assets of the Company increased to \$709.9 million at March 31, 2004 from \$634.0 million at March 31, 2003, reflecting an annualized growth rate of 12.0%. The net commercial and consumer loan portfolio increased 28.7% to \$509.6 million at March 31, 2004 from \$396.0 million at March 31, 2003, while checking accounts increased 11.1% to \$233.9 million at March 31, 2004 from \$210.6 million at March 31, 2003. Net interest income increased 10.9% to \$7.1 million for the quarter ended March 31, 2004 compared to \$6.4 million for the quarter ended March 31, 2003, reflecting our balance sheet restructuring efforts.

During the quarter ended March 31, 2004, we completed the acquisition of two new branch offices in Greenville and New Bern, North Carolina and we are integrating these offices into the Bank's operations and branch office network.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.17 per share to stockholders of record as of April 2, 2004. This dividend represents a 27.5% payment rate increase over the previous quarterly dividend, adjusted for the stock split. The dividend payment ratio is 38.6% of this quarter's basic earnings and is our twenty-eighth consecutive quarterly dividend.

The Board of Directors, officers, and staff of First South Bancorp and First South Bank pledge our continued commitment to you and welcome your comments and suggestions. Thank you 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)

	March 31, 2004	December 31, 2003
	<i>(unaudited)</i>	
Assets		
Cash	\$ 44,601	\$ 34,925
Investment securities	49,815	50,072
Mortgage-backed securities	9,645	11,715
Loans and leases receivable, net	579,374	553,200
Premises and equipment	7,998	7,923
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,992	2,127
Accrued interest receivable	3,173	3,073
Mortgage servicing rights	1,847	1,887
Other assets	7,203	6,695
Total Assets	\$ 709,867	\$ 675,836
Liabilities and Stockholders' Equity		
Deposits	\$ 601,818	\$ 583,173
Borrowings	30,941	19,338
Junior subordinated debentures	10,000	10,000
Other liabilities	10,486	8,161
Total liabilities	653,245	620,672
Total stockholders' equity	56,622	55,164
Total Liabilities and Stockholders' Equity	\$ 709,867	\$ 675,836

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

Three Months Ended

	March 31, 2004	March 31, 2003
Interest income	\$ 9,361	\$ 9,141
Interest expense	2,264	2,742
Net interest income	7,097	6,399
Provision for loan losses	0	334
Net interest income after provision for loan losses	7,097	6,065
Non-interest income	2,156	2,920
Non-interest expense	4,865	4,419
Income before taxes	4,388	4,566
Income tax expense	1,612	1,723
Net Income	\$ 2,776	\$ 2,843
Basic earnings per share	\$.44*	\$.46*
Diluted earnings per share	\$.42*	\$.43*
Dividends per share	\$.17*	\$.13*
Weighted average shares - basic	6,281,980*	6,243,537*
Weighted average shares - diluted	6,625,951*	6,634,978*

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