

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 or stop by your local branch.

New Construction in Greenville

First South Bank has authorized construction of a new full service branch office to be located on Fire Tower Road in Greenville, North Carolina. The new full-service branch will provide an ATM machine, drive-through window and a commercial night depository. This will be our second full service branch in Greenville. Look for a grand opening in the second quarter of 2005.

Approval to Participate in HUD Loan Program

First South Bank has been approved to participate in the HUD Section 184 Indian Housing Loan Guarantee Program by the U.S. Department of Housing and Urban Development. This program is designed to offer homeownership and housing rehabilitation opportunities for eligible Native American individuals, families, tribes and Tribally Designated Housing Entities on their native lands. A major benefit of the program is a 100% guarantee for home loans. This guarantee can assist participating tribes in creating sustainable economies. First South Bank is one of the few lenders in North Carolina approved to offer this type financing for the Lumbee Indian tribe, located near Lumberton, North Carolina and other tribes who qualify.

American Banker Recognizes First South Bank

First South Bank has been recognized by the American Banker as the 99th most efficient bank holding company among the largest 500 in the United States. The listing was published in the September 2, 2004 edition of the American Banker. It was compiled by rating the largest 500 publicly held bank holding companies in the United States based on their efficiency ratio for the first quarter of 2004. The efficiency ratio is determined by dividing the noninterest expense by the sum of total income minus interest expense recorded during the quarter. A good efficiency ratio results from a combination of controlled operating costs, net interest margin management and noninterest income management.

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
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

September 30, 2004

First South Bancorp

Dear Shareholders:

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

Net income for the quarter ended September 30, 2004 was \$2,990,822 compared to net income of \$2,966,164 earned in the quarter ended September 30, 2003. Diluted earnings per share were \$0.46 and \$0.45 per share for the quarter ended September 30, 2004 and 2003, respectively. Net income for the nine months ended September 30, 2004 was \$8,670,717 compared to net income of \$8,696,346 earned in the nine months ended September 30, 2003. Diluted earnings per share were \$1.32 per share for both the nine months ended September 30, 2004 and 2003.

Our core earnings are supported by sustained growth in net interest income, reflecting growth in both the commercial and consumer loan and leases receivable portfolio, and in lower costing core checking accounts. During this quarter we continued experiencing much less dependence on gains from mortgage loan sales, unlike 2003, which was an advantageous period for selling loans due to increased origination and refinancing volumes caused primarily by declining interest rates. We also continue placing efforts on controlling our operating expenses, resulting in a 49.1% efficiency ratio this quarter.

Net interest income increased 13.4% to \$7.7 million for the quarter ended September 30, 2004 from \$6.8 million for the quarter ended September 30, 2003. Gains from mortgage loan sales declined to \$148,000 for the quarter ended September 30, 2004 from \$801,000 for the quarter ended September 30, 2003. Net interest income increased 13.0% to \$22.3 million for the nine months ended September 30, 2004 from \$19.8 million for the nine months ended September 30, 2003. Gains from mortgage loan sales declined to \$393,000 for the nine months ended September 30, 2004 from \$2.6 million for the nine months ended September 30, 2003.

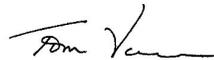
The commercial and consumer loan and leases receivable portfolio increased 23.7% to \$553.4 million at September 30, 2004 from \$447.4 million at September 30, 2003, while checking accounts increased 8.2% to \$235.9 million at September 30, 2004 from \$218.1 million at September 30, 2003. Consolidated assets increased 9.3% to \$714.7 million at September 30, 2004 from \$653.7 million at September 30, 2003.

During this quarter, First South was rated by American Banker and Business North Carolina as a top performing company based on our efficiency and earnings performance ratios. We are proud to receive these ratings, as they attest the recognition of the First South's performance among the top performing community banks and companies in the country and in the state of North Carolina.

We are pleased to enclose our dividend check of \$0.17 per share payable to shareholders of record as of October 4, 2004. This dividend payment represents a payout ratio of 35.4% of this quarter's basic earnings and is our thirtieth consecutive quarterly cash dividend.

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

Sincerely,



Tom Vann
President and Chief Executive Officer

Condensed Statements of Financial Condition

(in thousands)

	September 30, 2004	December 31, 2003
	<u>(unaudited)</u>	
Assets		
Cash and cash equivalents	\$ 19,883	\$ 34,925
Investment securities	37,532	50,072
Mortgage backed securities	10,024	11,715
Loans and leases receivable, net	620,298	553,200
Premises and equipment	8,540	7,923
Goodwill	4,219	4,219
Federal Home Loan Bank stock	2,000	2,127
Accrued interest receivable	3,353	3,073
Mortgage servicing rights	1,742	1,887
Other Assets	7,068	6,695
	<u>714,659</u>	<u>675,836</u>
Total Assets	\$ 714,659	\$ 675,836
Liabilities and Stockholders' Equity		
Deposits	\$ 615,957	\$ 583,173
Borrowings	22,300	19,338
Junior subordinated debentures	10,000	10,000
Other liabilities	8,762	8,161
Total liabilities	657,019	620,672
Total Stockholders' Equity	57,640	55,164
Total Liabilities and Stockholder's Equity	\$ 714,659	\$ 675,836

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Interest income	\$ 10,177	\$ 9,217	\$ 29,349	\$ 27,607
Interest expense	2,481	2,428	7,034	7,853
Net interest income	7,696	6,789	22,315	19,754
Provision for loan losses	268	395	668	851
Net interest income after provision for loan losses	7,428	6,394	21,647	18,903
Non-interest income	2,235	2,955	6,679	8,561
Non-interest expense	4,880	4,597	14,537	13,522
Income before taxes	4,783	4,752	13,789	13,942
Income tax expense	1,792	1,786	5,118	5,246
Net Income	\$ 2,991	\$ 2,966	\$ 8,671	\$ 8,696
Basic earnings per share	\$ 0.48	\$ 0.48*	\$ 1.39*	\$ 1.40*
Diluted earnings per share	\$ 0.46	\$ 0.45*	\$ 1.32*	\$ 1.32*
Dividends per share	\$ 0.17	\$ 0.13*	\$ 0.51*	\$ 0.39*
Weighted average shares - basic	6,228,697	6,208,111*	6,250,742*	6,217,168*
Weighted average shares - diluted	6,554,013	6,589,464*	6,545,261*	6,594,288*

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