

Featured Products & Services

Free Checking

Whether you are 18 or 65, free checking packages are available to customers of all ages at First South Bank. Free checking provides you with unlimited checkwriting, no monthly service charges, and unlimited teller transactions. You will receive a VISA CheckCard at no charge, which will allow you access to any First South Bank ATM terminal or any STAR or CIRRUS ATM terminal. You will also receive free personal online banking and bill payment. If you are 50 or older, we will even provide you with free complimentary personalized checks.

Equity Lines

An Equity Line of Credit¹ from First South Bank lets you establish a flexible credit line based on the equity in your home, and draw on it by simply writing an access check. You can use the cash whenever you need it, for almost any purpose. This might be appropriate when your borrowing needs vary over time, or if you want to be able to quickly access funds for emergency purposes. The interest expense is typically tax-deductible. You should consult your tax advisor concerning interest deductibility. Put the equity in your home to work for you.

¹All loan products are subject to credit approval. Rates are subject to change. 

Individual Retirement Accounts

Individual Retirement Accounts (IRAs) are one of the most effective ways to accumulate retirement savings. There are many types of IRAs, but they all have common built-in tax advantages that allow your account to compound at a faster rate than in a regular investment. IRAs are also among the simplest of retirement plans: you fill out a form, select the investments, and contribute the money yourself. A First South Bank Representative can help you decide, based on your individual circumstances, what type of IRA may work best for you, and what investments would best fit your long-term goals. With a First South Bank IRA, you can choose from a wide array of services and investment choices, so you create the IRA that best suits you.

First South Bank

Member FDIC

Corporate Office

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

Full-Service Branch Offices

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

Loan Production Office

Kill Devil Hills

First South Leasing, LLC

Greenville

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

www.firstsouthnc.com

Quarterly Financial Report

December 31, 2005

First South Bancorp

Dear Shareholders:

Net income for the quarter ended December 31, 2005 increased 35.3% to \$4,115,671 from \$3,041,724 earned in the 2004 quarter. 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 2004 quarter. 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 2004 quarter.

Net income for the year ended December 31, 2005 increased 20.6% to \$14,128,704 from \$11,712,441 earned in fiscal year 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 fiscal year 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 fiscal year 2004.

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.

We continue efforts of controlling operating expenses, resulting in a 44.0% efficiency ratio for the quarter ended December 31, 2005. Our key performance ratios, return on average assets (ROA) and return on average equity (ROE), 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.

Fiscal year 2005 was eventful for both the Company and the Bank. We increased the quarterly cash dividend payment rate by 17.7%, and combined with the market appreciation of our common stock, resulted in a 40.9% total return to our shareholders. We received national and statewide recognition for our operating efficiency, return on equity, net interest margin and various operating performance ratios 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 allowing us to expand our customer base in existing markets.

We are pleased to enclose our dividend check of \$0.20 per share to shareholders of record as of January 5, 2006. This dividend payment represents a payout ratio of 30.8% of this quarter's basic earnings per share and is the Company's thirty-fifth 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)

	December 31, 2005	December 31, 2004
	<i>(unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 32,943	\$ 20,938
Investment securities	41,828	32,058
Mortgage backed securities	22,702	9,209
Loans and leases receivable, net	707,820	631,816
Premises and equipment	8,831	8,402
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,689	1,825
Accrued interest receivable	4,289	3,311
Mortgage servicing rights	1,402	1,699
Other assets	7,402	8,574
Total Assets	\$ 833,125	\$ 722,051
Liabilities and Stockholders' Equity		
Deposits	\$ 733,753	\$ 628,537
Borrowings	11,788	14,792
Junior subordinated debentures	10,310	10,310
Other liabilities	9,084	8,717
Total liabilities	764,935	662,356
Total Stockholders' Equity	68,190	59,695
Total Liabilities and Stockholder's Equity	\$ 833,125	\$ 722,051

Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
Interest income	\$ 14,931	\$ 10,831	\$ 53,176	\$ 40,180
Interest expense	4,560	2,658	15,464	9,692
Net interest income	10,371	8,173	37,712	30,488
Provision for loan losses	266	300	1,711	968
Net interest income after provision for loan losses	10,105	7,873	36,001	29,520
Non-interest income	2,133	2,071	8,207	8,750
Non-interest expense	5,507	5,055	21,132	19,592
Income before taxes	6,731	4,889	23,076	18,678
Income tax expense	2,615	1,847	8,947	6,966
Net Income	\$ 4,116	\$ 3,042	\$ 14,129	\$ 11,712
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