

## Featured Products & Services

### Home Equity Loans

Homeowners continue to use the equity in their homes to help with all their borrowing needs like home improvements, college tuition, or a new car. As an established mortgage lender we have the capabilities to help customers establish a Home Equity Loan with First South Bank. Home Equity Loans can allow you to withdraw a fixed amount based on the equity in your home or you can set-up a line of credit that you can draw upon at your convenience. Home Equity loans are convenient and provide a lower interest rate than other types of loans.

### Business Free Checking

First South Bank prides itself in having been a leader in offering Business Free Checking. As a business, we understand the importance of a strong business relationship and we know that businesses need a bank that they can count on for all their financial needs. Choosing the right checking account can be one of the most important decisions that your business undertakes. Business Free Checking allows you to save money and avoid those high fees that are often accompanied with a checking account. If you have not received any information on Business Free Checking, give us a call today and we will be glad to visit with you and your business associates.

### Group Banking

If you are a business customer of First South Bank, your employees are eligible for our group banking package. Group Banking provides free checking, interest on your deposits, no monthly service charges and no minimum balance requirements. We will even provide your employees with their first order of personalized checks free.

### VISA CheckCard

If you are traveling this summer or plan to travel in the near future, you need to speak with your banking representative about a VISA checkcard. VISA checkcards are accepted at all retail stores, merchants and ATM terminals that display the VISA logo. You can enjoy the luxury of not having to carry cash or your checkbook. When you use your VISA checkcard the funds are automatically charged to your checking account and your monthly statement provides you with a detailed description of every transaction. So before you travel again, make sure that you have a First South Bank VISA checkcard in your pocket.

# 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

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

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

*Quarterly  
Financial Report*  
June 30, 2005

*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 June 30, 2005 and the first six months of the year ending December 31, 2005.

Net income for the quarter ended June 30, 2005 increased 11.3% to \$3,230,920 from net income of \$2,904,121 earned in the June 2004 quarter. Diluted earnings per share increased 11.4% to \$0.49 per share for the quarter ended June 30, 2005 from \$0.44 earned in the June 2004 quarter. Net income for the six months ended June 30, 2005 increased 11.6% to \$6,338,671 from net income of \$5,679,895 earned in the June 2004 period. Diluted earnings per share increased 10.3% to \$0.96 per share for the six months ended June 30, 2005 from \$0.87 per share for the June 2004 period.

Our earnings this quarter continue to be supported by growth in our net interest income, reflecting growth in both the net loans and leases receivable portfolio and in deposits. The net loan and leases receivable portfolio grew 14.1% to \$687.7 million at June 30, 2005 from \$602.7 million at June 30, 2004, while deposits grew 17.3% to \$699.6 million at June 30, 2005 from \$596.6 million at June 30, 2004. Total assets of the company grew to \$791.9 million at June 30, 2005 from \$719.8 million at June 30, 2004, reflecting a 10.0% annual growth rate. Net interest income increased 19.8% to \$9.0 million for the quarter ended June 30, 2005 from \$7.5 million for the June 2004 quarter, reflecting our balance sheet management efforts. We also continued placing efforts on controlling operating expenses, resulting in a 47.7% efficiency ratio for the June 2005 quarter.

U. S. Banker magazine has ranked us 3rd among the top 200 publicly traded community banks in the United States with \$1 billion or less in assets, ranked by 3-year average return on equity as of December 31, 2004. The American Banker publication, has ranked us the 66th most efficient bank holding company among the largest 500 bank holding companies in the United States, based on efficiency ratio for the year 2004. We are proud to receive these rankings as they further exemplify the recognition of the Company's performance among the top performing community banks and bank holding companies in the United States.

We are pleased to enclose our dividend check of \$0.20 per share to shareholders of record as of July 6, 2005. This dividend payment represents a payout ratio of 39.2% of this quarter's basic earnings and is the Company's thirty-third 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, 2005	December 31, 2004
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 32,927	\$ 20,938
Investment securities	33,559	32,058
Mortgage backed securities	8,127	9,209
Loans and leases receivable, net	687,668	631,816
Premises and equipment	9,325	8,402
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,532	1,825
Accrued interest receivable	3,663	3,311
Mortgage servicing rights	1,582	1,699
Other Assets	9,309	8,574
<b>Total Assets</b>	<u>\$ 791,911</u>	<u>\$ 722,051</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 699,567	\$ 628,537
Borrowings	6,389	14,792
Junior subordinated debentures	10,310	10,310
Other liabilities	11,702	8,717
Total liabilities	727,968	662,356
Total Stockholders' Equity	63,943	59,695
<b>Total Liabilities and Stockholder's Equity</b>	<u>\$ 791,911</u>	<u>\$ 722,051</u>

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2005	2004	2005	2004
Interest income	\$ 12,602	\$ 9,810	\$ 24,333	\$ 19,171
Interest expense	3,588	2,289	6,553	4,553
Net interest income	9,014	7,521	17,780	14,618
Provision for loan losses	413	400	1,051	400
Net interest income after provision for loan losses	8,601	7,121	16,729	14,218
Non-interest income	1,909	2,288	3,809	4,444
Non-interest expense	5,222	4,791	10,193	9,656
Income before taxes	5,288	4,618	10,345	9,006
Income tax expense	2,057	1,714	4,006	3,326
<b>Net Income</b>	<u>\$ 3,231</u>	<u>\$ 2,904</u>	<u>\$ 6,339</u>	<u>\$ 5,680</u>
Basic earnings per share	\$ 0.51	\$ 0.47	\$ 1.00	\$ 0.91
Diluted earnings per share	\$ 0.49	\$ 0.44	\$ 0.96	\$ 0.87
Dividends per share	\$ 0.20	\$ 0.17	\$ 0.40	\$ 0.34
Weighted average shares - basic	6,324,959	6,241,314	6,316,915	6,261,764
Weighted average shares - diluted	6,659,093	6,579,166	6,631,820	6,545,347