

## Featured Products & Services

### *Full Service Branch Opening*

First South Bank will open another full service branch in Greenville, North Carolina on April 18, 2005. The new location will be at 907 East Firetower Road. The new branch will offer all types of personal and business checking accounts, savings accounts, certificate of deposit accounts, and will focus on consumer and commercial lending.

### *Data Conversion*

In mid-March First South Bank converted to a new data processing system. First South Bank has partnered with Bisys Banking Solutions since 1998 for its data processing needs. The new system offers First South Bank the latest in banking technology. The new system is a totally integrated system that supports retail, commercial, and mortgage banking.

### *Personal Bill Payment Services*

Free Bill Payment services are available with any personal First South Bank checking account. Bill Payment is an excellent way to pay your monthly bills. You can avoid the time consuming process of writing checks and addressing envelopes. Bill Payment services not only saves you time, but saves you money by eliminating postage expenses.

### *Free Checking*

If you are currently paying service charges on your personal or business checking account, you need to speak to a First South Bank financial consultant today. First South Bank offers a number of free personal checking accounts suited to fit your financial needs. Business customers can also enjoy free checking with First South Bank's new Business Free Checking account. Also, if you are a business owner, we offer free Group Banking for your employees. Talk to a First South Bank financial consultant today.

## *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

## *Quarterly Financial Report*

March 31, 2005

## *First South Bancorp*

**Dear Shareholders:**

First South Bancorp, the parent holding company of First South Bank, is pleased to report its results of operations for the quarter ended March 31, 2005 (unaudited), the first quarter of its fiscal year ending December 31, 2005.

Net income for the quarter ended March 31, 2005 was \$3,107,751 compared to net income of \$2,775,774 earned in the quarter ended March 31, 2004. Basic earnings per share was \$0.49 per share for the quarter ended March 31, 2005, compared to \$0.44 per share for the quarter ended March 31, 2004. Diluted earnings per share was \$0.47 per share for the quarter ended March 31, 2005, compared to \$0.42 per share for the quarter ended March 31, 2004.

Our core earnings this quarter continue to be supported by growth in our net interest income. The net growth in the loans and leases receivable portfolio combined with growth in lower costing core checking accounts and efforts placed on controlling operating expenses continue to enhance our core earnings.

At March 31, 2005, our total assets amounted to \$770.1 million, total loans and leases receivable \$674.8 million, total deposits \$668.8 million and stockholders' equity was \$61.9 million.

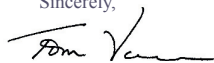
During the quarter ended March 31, 2005, we opened two branch offices located in Durham and Avon, North Carolina. In addition, we will open a new branch office located at 907 East Firetower Road in Greenville, North Carolina in April 2005. These new offices will provide convenient locations and allow us to better serve both new and existing customers through an expanding branch office network.

We completed the conversion to a new data processing system on March 11, 2005. This new system will give us access to the very best in technology and enable us to provide our customers with a variety of new products and more efficient service.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.20 per share to shareholders of record as of April 4, 2005. This dividend represents a 17.65% payment rate increase over the previous quarterly dividend. The dividend payout ratio is 40.8% of this quarter's basic earnings and is our thirty-second consecutive quarterly cash 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 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)

	<u>March 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
<b>Assets</b>	<i>(unaudited)</i>	
Cash and cash equivalents	\$ 30,271	\$ 20,938
Investment securities	28,546	32,058
Mortgage backed securities	8,529	9,209
Loans and leases receivable, net	674,782	631,816
Premises and equipment	8,256	8,402
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,892	1,825
Accrued interest receivable	3,615	3,311
Mortgage servicing rights	1,649	1,699
Other Assets	8,346	7,754
<b>Total Assets</b>	<u>\$ 770,105</u>	<u>\$ 721,231</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 668,838	\$ 628,537
Borrowings	15,725	14,792
Junior subordinated debentures	10,310	10,310
Other liabilities	<u>13,357</u>	<u>7,897</u>
Total liabilities	708,230	661,536
Total Stockholders' Equity	<u>61,875</u>	<u>59,695</u>
<b>Total Liabilities and Stockholder's Equity</b>	<u>\$ 770,105</u>	<u>\$ 721,231</u>

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended	
	<u>March 31</u> <u>2005</u>	<u>March 31</u> <u>2004</u>
Interest income	\$ 11,732	\$ 9,361
Interest expense	2,965	2,264
Net interest income	<u>8,767</u>	<u>7,097</u>
Provision for loan losses	<u>638</u>	<u>0</u>
Net interest income after provision for loan losses	8,129	7,097
Non-interest income	1,907	2,156
Non-interest expense	<u>4,973</u>	<u>4,865</u>
Income before taxes	5,057	4,388
Income tax expense	<u>1,949</u>	<u>1,612</u>
<b>Net Income</b>	<u>\$ 3,108</u>	<u>\$ 2,766</u>
Basic earnings per share	\$ .49	\$ .44*
Diluted earnings per share	\$ .47	\$ .42*
Dividends per share	\$ .20	\$ .17*
Weighted average shares - basic	6,308,746	6,281,980*
Weighted average shares - diluted	6,604,422	6,625,951*

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