

## 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.

### Executive Checking

Executive checking is ideal for those customers who keep large balances in their checking account and yet wish to have access to their funds without limitations. Executive checking provides both unlimited checkwriting and premium money market interest rates. The higher your checking balance, the higher your interest rate. Executive checking customers also receive free complimentary personalized checks.

### Check Imaging

First South Bank is proud to introduce to you the latest in banking technology. Beginning in November 2005, First South Bank checking accounts will feature a new service called Check Imaging.

- You will receive your monthly checking account statement with easy-to-read check images of the front of each check that you have written. You will no longer have to sort your own checks. Your check images will appear in numerical order, on letter sized paper. You will actually be getting your checks back with your monthly statements, just in a different format.
- Your original paper check will be destroyed to maintain your privacy and to provide you added security against fraud and identity theft.
- If you need a copy of the front or back of each check, you can contact your local branch or call us toll free at 1-800-946-4178 and we can provide a copy for you in minutes. We will provide you three (3) free check copies per year.

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

## *Quarterly Financial Report*

September 30, 2005

## *First South Bancorp*

Dear Shareholders:

First South Bancorp, Inc., the parent company of First South Bank, is pleased to report its unaudited consolidated results of operations for the quarter and nine months ended September 30, 2005.

Net income for the quarter ended September 30, 2005 increased 22.9% to \$3,674,362 from \$2,990,822 earned in the quarter ended September 30, 2004. Diluted earnings per share increased 21.7% to \$0.56 this quarter from \$0.46 per share for the quarter ended September 30, 2004. Net income for the nine months ended September 30, 2005 increased 15.5% to \$10,013,033 from \$8,670,717 earned in the nine months ended September 30, 2005. Diluted earnings per share were \$1.59 and \$1.32 per share, respectively, for the nine months ended September 30, 2005 and 2004.

Our core earnings this quarter continue to be supported by significant growth in net interest income, reflecting growth in both the net loans and leases receivable portfolio and in core deposits. The net loan and leases receivable portfolio increased 14.3% to \$708.8 million at September 30, 2005 from \$620.3 million at September 30, 2004, while deposits increased 18.7% to \$731.4 million at September 30, 2005 from \$616.0 million at September 30, 2004.

Total assets increased to \$825.3 million at September 30, 2005 from \$714.7 million at September 30, 2004, reflecting an annualized growth rate of 15.5%. Net interest income increased 24.2% to \$9.6 million for the quarter ended September 30, 2005 from \$7.7 million for the quarter ended September 30, 2004, reflecting our continued balance sheet management efforts.

We also continued placing efforts on controlling operating expenses, resulting in a 45.9% efficiency ratio for the quarter ended September 30, 2005. In addition, 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 1.8% and 22.4%, respectively, for the quarter ended September 30, 2005.

We are pleased to enclose our dividend check of \$0.20 per share payable to shareholders of record as of October 4, 2005. This dividend payment represents a payout ratio of 33.9% of this quarter's basic earnings and is our thirty-fourth 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, 2005	December 31, 2004
	<u>(unaudited)</u>	
<b>Assets</b>		
Cash and cash equivalents	\$ 39,532	\$ 20,938
Investment securities	42,106	32,058
Mortgage backed securities	7,546	9,209
Loans and leases receivable, net	708,769	631,816
Premises and equipment	9,004	8,402
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,532	1,825
Accrued interest receivable	4,096	3,311
Mortgage servicing rights	1,491	1,699
Other Assets	6,962	8,574
	<u>825,257</u>	<u>722,051</u>
<b>Total Assets</b>	<b>\$ 825,257</b>	<b>\$ 722,051</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 731,351	\$ 628,537
Borrowings	6,015	14,792
Junior subordinated debentures	10,310	10,310
Other liabilities	11,404	8,717
Total liabilities	759,080	662,356
Total Stockholders' Equity	66,177	59,695
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 825,257</b>	<b>\$ 722,051</b>

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2005	2004	2005	2004
Interest income	\$ 13,912	\$ 10,177	\$ 38,244	\$ 29,349
Interest expense	4,350	2,481	10,903	7,034
Net interest income	9,562	7,696	27,341	22,315
Provision for loan losses	394	268	1,445	668
Net interest income after provision for loan losses	9,168	7,428	25,896	21,647
Non-interest income	2,265	2,235	6,074	6,679
Non-interest expense	5,432	4,880	15,625	14,537
Income before taxes	6,001	4,783	16,345	13,789
Income tax expense	2,327	1,792	6,332	5,118
<b>Net Income</b>	<b>\$ 3,674</b>	<b>\$ 2,991</b>	<b>\$ 10,013</b>	<b>\$ 8,671</b>
Basic earnings per share	\$ 0.59	\$ 0.48	\$ 1.59	\$ 1.39
Diluted earnings per share	\$ 0.56	\$ 0.46	\$ 1.51	\$ 1.32
Dividends per share	\$ 0.20	\$ 0.17	\$ 0.60	\$ 0.51
Weighted average shares - basic	6,236,734	6,228,697	6,290,051	6,250,742
Weighted average shares - diluted	6,582,364	6,554,013	6,611,946	6,545,261