

Featured Products & Services

Buxton Branch Opens

On June 15, 2006, First South Bank announced the opening of a new branch office located at 47560 NC Highway 12 in Buxton, N.C. and is the Bank's third office in the North Carolina Outer Banks market area. The branch offers a full range of consumer banking products and financial services including loans, mortgages, deposit products, and business accounts, including Business Free Checking, as well as a drive thru window, a drive up ATM and a commercial night depository. The Buxton branch is the Bank's twenty-six full service office in North Carolina. For more information, contact Kenny Marshall, City Executive, at (252) 995-3250.

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 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.

Mission Statement

Our mission is to become the premier community bank in eastern North Carolina. We will enhance shareholder value by serving the personal and business needs of your markets, providing superior customer service, investing in the communities that we serve, and enriching the lives of our employees.

First South Bank

Member FDIC

Corporate Office

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

Full-Service Branch Offices

Buxton	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

Quarterly Financial Report June 30, 2006

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, 2006 and the first six months of the year ending December 31, 2006.

Net income for the quarter ended June 30, 2006 increased 32.7% to \$4,286,907 from net income of \$3,230,920 earned in the June 2005 quarter. Diluted earnings per share increased 34.4% to \$0.43 per share for the quarter ended June 30, 2006 from \$0.32 earned in the June 2005 quarter. Net income for the six months ended June 30, 2006 increased 34.3% to \$8,510,206 from net income of \$6,338,671 earned in the June 2005 period. Diluted earnings per share increased 34.4% to \$0.86 per share for the six months ended June 30, 2006 from \$0.64 per share for the June 2005 period.

Our earnings this quarter continue to be supported by the strength of 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 9.1% to \$750.3 million at June 30, 2006 from \$687.7 million at June 30, 2005, while deposits grew 11.0% to \$773.0 million at June 30, 2006 from \$699.6 million at June 30, 2005. Net interest income increased 18.8% to \$10.7 million for the quarter ended June 30, 2006 from \$9.0 million for the June 2005 quarter. Total assets of the company grew to \$898.6 million at June 30, 2006 from \$791.9 million at June 30, 2005, reflecting an annual growth rate of 13.5%. We continue placing efforts on operating efficiency, resulting in an efficiency ratio of 42.7% for the June 2006 quarter.

U. S. Banker magazine has ranked us 6th 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 January 31, 2006. The American Banker publication, has ranked us the 49th most efficient bank holding company among the largest 500 bank holding companies in the United States, based on efficiency ratio for the year 2005. The Company is now listed in the new NASDAQ Global Select Market, which places us in a peer group of the top listed companies in the world. We are extremely proud of these listing as they recognize the success of the Company's operating performance.

We are pleased to enclose our dividend check of \$0.17 per share, payable to shareholders of record as of July 6, 2006. This dividend payment represents a payout ratio of 38.6% of this quarter's basic earnings and is the Company's thirty-seventh 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

(dollars in thousands)

	June 30, 2006	December 31, 2005**
	<i>(unaudited)</i>	
Assets		
Cash and cash equivalents	\$ 30,581	\$ 32,943
Investment securities	46,108	41,828
Mortgage backed securities	37,935	22,703
Loans and leases receivable, net	750,264	708,929
Premises and equipment	8,999	8,831
Goodwill	4,219	4,219
Federal Home Loan Bank stock	2,741	1,689
Accrued interest receivable	4,847	4,289
Mortgage servicing rights	1,433	1,402
Income tax receivable	4,147	1,146
Other Assets	7,306	6,255
Total Assets	\$ 898,580	\$ 834,234
Liabilities and Stockholders' Equity		
Deposits	\$ 772,969	\$ 733,753
Borrowings	29,736	11,788
Junior subordinated debentures	10,310	10,310
Other liabilities	12,908	10,192
Total liabilities	825,923	766,043
Total Stockholders' Equity	72,657	68,191
Total Liabilities and Stockholder's Equity	\$ 898,580	\$ 834,234

Condensed Statements of Income (unaudited)

(dollars in thousands, except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Interest income	\$ 16,794	\$ 12,602	\$ 32,375	\$ 24,333
Interest expense	6,082	3,588	11,303	6,553
Net interest income	10,712	9,014	21,072	17,780
Provision for credit losses	437	413	783	1,051
Net interest income after provision for credit losses	10,275	8,601	20,289	16,729
Non-interest income	2,311	1,909	4,555	3,809
Non-interest expense	5,562	5,222	10,920	10,193
Income before taxes	7,024	5,288	13,924	10,345
Income tax expense	2,737	2,057	5,414	4,006
Net Income	\$ 4,287	\$ 3,231	\$ 8,510	\$ 6,339
Basic earnings per share	\$ 0.44*	\$ 0.34*	\$ 0.88*	\$ 0.67*
Diluted earnings per share	\$ 0.43*	\$ 0.32*	\$ 0.86*	\$ 0.64*
Dividends per share	\$ 0.17*	\$ 0.13*	\$ 0.34*	\$ 0.26*
Weighted average shares - basic	9,719,014*	9,487,439*	9,651,379*	9,475,373*
Weighted average shares - diluted	10,010,945*	9,988,640*	9,945,445*	9,947,730*

* Adjusted for a three-for-two stock split on May 25, 2006.
** Derived from audited consolidated financial statements.