

## 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 check writing, no monthly service charges, and no per check charges. You will receive a VISA checkcard at no fee, which will allow you access to any First South Bank ATM terminal or any STAR or CIRRUS ATM terminal. You can also use your VISA checkcard to make purchases at retailers and restaurants. If you are 50 or older, we will even provide you with free complimentary personalized checks.

### Business Free Checking

First South Bank's Business Free Checking has great customer appeal. This account focuses on small to medium-sized businesses. Business free checking meets the needs of the business customer by providing a no minimum balance and no service charge account. Business customers also like the free 750 transactions. These transactions consist of deposits, withdrawals, checks deposited and checks written. Business Free Checking also comes with free checking and a complimentary order of personalized checks for the employees of the business. Business online banking and bill payment services are available with Business Free Checking. For more information on Business Free Checking, visit First South Bank online at [www.firstsouthnc.com](http://www.firstsouthnc.com) or stop by your local branch.

### 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.

### 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.

# 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

March 31, 2006

# First South Bancorp

**Dear Shareholders:**

First South Bancorp, the parent company of First South Bank, is pleased to report its unaudited results of operations for the quarter ended March 31, 2006.

Net income for the March 2006 quarter increased 35.9% to \$4,223,299, from net income of \$3,107,751 earned in the March 2005 quarter. Basic earnings per share increased 34.7% to \$0.66 per share for the March 2006 quarter, from \$0.49 per share for the March 2005 quarter. Diluted earnings per share increased 34.0% to \$0.63 per share for the March 2006 quarter, from \$0.47 per share for the March 2005 quarter.

Our core earnings for the March 2006 quarter continued to be supported by a strong net interest margin, reflecting the positive impact of recent prime rate increases on our asset sensitive balance sheet, and growth in the net loans and leases receivable portfolio and deposit accounts.

At March 31, 2006, our total assets were \$869.9 million; loans and leases receivable \$736.4 million; deposit accounts \$771.6 million; and stockholders' equity \$70.9 million. Net interest income increased 18.2% to \$10.4 million for the March 2006 quarter, from \$8.8 million for the March 2005 quarter, reflecting the success of our balance sheet management efforts.

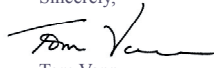
We plan to open a new branch office located at 47560 NC Highway 12 in Buxton, North Carolina in June 2006. This new office will provide a convenient location and allow us to better serve both new and existing customers through an expanding branch office network.

We continue to place efforts on controlling operating expenses and improving our operating efficiency, resulting in a 42.4% efficiency ratio for the March 2006 quarter. Our key performance ratios, return on average assets (ROA) and return on average equity (ROE), continue to exemplify our overall operating performance. Our ROA and ROE was 2.0% and 24.1%, respectively, for the March 2006 quarter.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.25 per share payable to shareholders of record as of April 4, 2006. This dividend represents a 25% payment rate increase over the previous quarterly dividend. The dividend payout ratio is 37.9% of this quarter's basic earnings and is our thirty-sixth 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)

	<b>March 31,</b>	<b>December 31,</b>
	<b>2006</b>	<b>2005</b>
	<u>(unaudited)</u>	
<b>Assets</b>		
Cash and cash equivalents	\$ 32,392	\$ 32,943
Investment securities	51,433	41,828
Mortgage backed securities	21,925	22,703
Loans and leases receivable, net	736,411	707,820
Premises and equipment	8,873	8,831
Goodwill	4,219	4,219
Federal Home Loan Bank stock	1,663	1,689
Accrued interest receivable	4,726	4,289
Mortgage servicing rights	1,415	1,402
Other Assets	<u>6,813</u>	<u>7,401</u>
<b>Total Assets</b>	<b>\$ <u>869,870</u></b>	<b>\$ <u>833,125</u></b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 771,611	\$ 733,753
Borrowings	6,414	11,788
Junior subordinated debentures	10,310	10,310
Other liabilities	<u>10,653</u>	<u>9,083</u>
Total liabilities	798,988	764,934
Total Stockholders' Equity	<u>70,882</u>	<u>68,191</u>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ <u>869,870</u></b>	<b>\$ <u>833,125</u></b>

## Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended	
	<b>March 31</b>	<b>March 31</b>
	<b>2006</b>	<b>2005</b>
Interest income	\$ 15,581	\$ 11,732
Interest expense	<u>5,221</u>	<u>2,965</u>
Net interest income	10,360	8,767
Provision for loan losses	<u>346</u>	<u>638</u>
Net interest income after provision for loan losses	10,014	8,129
Non-interest income	2,244	1,901
Non-interest expense	<u>5,358</u>	<u>4,973</u>
Income before taxes	6,900	5,057
Income tax expense	<u>2,677</u>	<u>1,949</u>
<b>Net Income</b>	<b>\$ <u>4,223</u></b>	<b>\$ <u>3,108</u></b>
Basic earnings per share	\$ .66	\$ .49
Diluted earnings per share	\$ .63	\$ .47
Dividends per share	\$ .25	\$ .20
Weighted average shares - basic	6,386,981	6,308,746
Weighted average shares - diluted	6,688,042	6,604,422