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*First South Bancorp*

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*Quarterly  
Financial Report*

**December 31, 2002**

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## Dear Shareholders:

First South Bancorp, Inc., the parent holding company of First South Bank, is pleased to report its consolidated results of operations for the quarter ended December 31, 2002 (unaudited) and the year ended December 31, 2002 (unaudited).

Net income for the quarter ended December 31, 2002 increased to \$2,525,472, compared to a net loss of \$1,139,973 reported for the quarter ended December 31, 2001. The Employee Stock Ownership Plan ("ESOP") was terminated effective as of December 31, 2001, and we incurred a one-time non-tax deductible charge of \$3,143,467 related to the ESOP termination. After adjusting for the one-time ESOP termination expense, net income for the quarter ended December 31, 2001 would have been \$2,003,494. Diluted earnings per share were \$0.56 for the quarter ended December 31, 2002, compared to \$(0.26) per share for the quarter ended December 31, 2001 (resulting from the one-time ESOP termination charge). Diluted earnings per share on net income for the quarter ended December 31, 2001, before the one-time ESOP termination charge, would have been \$0.45 per share.

Net income for the year ended December 31, 2002 increased to \$9,511,613 from \$3,345,671 earned in the year ended December 31, 2001. After adjusting for the one-time ESOP termination expense, net income for the year ended December 31, 2001 would have been \$6,489,138. Diluted earnings per share were \$2.06 for the year ended December 31, 2002, compared to \$.75 per share for the year ended December 31, 2001. Diluted earnings per share on net income for the year ended December 31, 2001, before the one-time ESOP termination charge, would have been \$1.45 per share. The increased earnings reflect significant growth in the commercial loan portfolio, increased mortgage loan origination volume and sales, significant growth in lower costing core checking accounts, and efforts placed on controlling operating expenses.

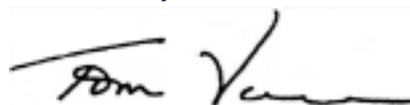
At December 31, 2002, total assets amounted to \$628.0 million, total loans and leases \$490.9 million, total deposits \$526.3 million, and stockholders' equity was \$50.1 million.

The year ended December 31, 2002 was eventful for both the Company and the Bank. The Company was added to the Russell 2000® Index, helping raise its visibility with the investment community, a three-for-two stock split was completed, the quarterly cash dividend payment rate was increased by 41.7% and combined with the appreciation in market price of the stock, resulted in a 63.0% total return to our shareholders. The Bank opened its twenty-first full-service banking office, expanded its leasing division and began offering its customers and the general public access to a complete line of securities brokerage services. The Bank is scheduled to open its twenty-second full-service banking office in Hope Mills, North Carolina during the second quarter of 2003.

On behalf of your Board of Directors, we are pleased to distribute a dividend of \$0.17 per share, payable to shareholders of record as of January 3, 2003. This dividend payment is our twenty-third consecutive quarterly cash dividend.

The Board of Directors, officers and staff of the Company and the Bank pledge their 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

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# Condensed Statements of Financial Condition

(in thousands)

|   | December 31,<br>2002<br><i>(unaudited)</i> | December 31,<br>2001     |
|---|--|--------------------------|
| <b>Assets</b>                                     |  |                          |
| Cash  | \$ 34,472                                  | \$ 21,683                |
| Investment securities                             | 55,787                                     | 54,061                   |
| Mortgage-backed securities                        | 23,526                                     | 43,904                   |
| Loans and lease receivables, net                  | 490,914                                    | 405,613                  |
| Premises and equipment                            | 7,825                                      | 7,934                    |
| Intangible Assets                                 | 3,730                                      | 4,219                    |
| Federal Home Loan Bank stock                      | 2,403                                      | 2,713                    |
| Other assets                                      | 9,327                                      | 9,191                    |
| <b>Total Assets</b>                               | <b>\$ <u>600,653</u></b>                   | <b>\$ <u>549,318</u></b> |
| <b>Liabilities and Stockholders' Equity</b>       |  |                          |
| Deposits  | \$ 526,327                                 | \$ 475,589               |
| Borrowings  | 38,195                                     | 5,441                    |
| Other liabilities                                 | <u>13,362</u>                              | <u>17,256</u>            |
| Total liabilities                                 | 577,884                                    | 498,286                  |
| Total stockholders' equity                        | 50,100                                     | 51,032                   |
| <b>Total Liabilities and Stockholders' Equity</b> | <b>\$ <u>600,653</u></b>                   | <b>\$ <u>549,318</u></b> |

# Condensed Statements of Income (unaudited)

(in thousands except per share data)

|  | Three Months Ended<br>December 31, |                          | Year Ended<br>December 31, |                        |
|--|------------------------------------|--------------------------|----------------------------|------------------------|
|  | 2002                               | 2001                     | 2002                       | 2001                   |
| Interest income  | \$ 9,367                           | \$ 9,467                 | \$ 36,826                  | \$ 40,355              |
| Interest expense                                       | <u>2,871</u>                       | <u>4,092</u>             | <u>12,473</u>              | <u>19,917</u>          |
| Net interest income                                    | 6,496                              | 5,375                    | 24,353                     | 20,438                 |
| Provision for loan losses                              | <u>684</u>                         | <u>0</u>                 | <u>1,756</u>               | <u>590</u>             |
| Net interest income after provision for<br>loan losses | 5,812                              | 5,375                    | 22,597                     | 19,848                 |
| Non-interest income                                    | 2,626                              | 1,625                    | 8,462                      | 7,102                  |
| Non-interest expense - General                         | 4,519                              | 3,832                    | 16,337                     | 16,178                 |
| Non-interest expense - ESOP Termination                | <u>0</u>                           | <u>3,143</u>             | <u>0</u>                   | <u>3,143</u>           |
| Income before taxes                                    | 3,919                              | 25                       | 14,722                     | 7,629                  |
| Income tax expense                                     | <u>1,394</u>                       | <u>1,165</u>             | <u>5,210</u>               | <u>4,283</u>           |
| <b>Net Income (Loss)</b>                               | <b>\$ <u>2,525</u></b>             | <b>\$ <u>(1,140)</u></b> | <b>\$ <u>9,512</u></b>     | <b>\$ <u>3,346</u></b> |
| Basic earnings per share                               | \$ .59                             | \$ (.26)*                | \$ 2.18                    | \$ .78*                |
| Diluted earnings per share                             | \$ .56                             | \$ (.26)*                | \$ 2.06                    | \$ .75*                |
| Dividends per share                                    | \$ .17                             | \$ .12*                  | \$ .68                     | \$ .48*                |
| Weighted average shares - basic                        | 4,249,279                          | 4,308,369*               | 4,364,925                  | 4,319,737*             |
| Weighted average shares - diluted                      | 4,544,211                          | 4,308,369*               | 4,628,434                  | 4,472,062*             |

\* Adjusted for 3-for-2 stock split on April 19, 2002.

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## ***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

### **Corporate Office:**

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

### **Branch Offices:**

Chocowinity  
Elizabeth City  
Fayetteville (2)  
Greenville  
Kill Devil Hills  
Kinston (2)  
Lumberton (2)  
New Bern (2)  
Rocky Mount (5)  
Tarboro  
Washington (3)

### **Loan Production Office**

Raleigh

### **First South Leasing, LLC**

Washington

## **Featured Products and Services**

### ***UVEST Financial Services***

First South Bank has entered into a partnership with UVEST Investment Services. UVEST, which is headquartered in Charlotte, North Carolina, is a registered securities broker-dealer and a member of the National Association of Securities Dealers (NASD) and the Securities Investors Protection Corporation (SIPC), as well as the Securities Industry Association (SIA).

Through this partnership, we are now able to offer access to a full range of brokerage services including financial analysis, professional money management, stocks, bonds, mutual funds, annuities, and more. With an appointment, an investment consultant can be available at any First South Bank location for a free, no obligation consultation. For more information, contact Steve Wiggins (252-946-4178) or Tony Russ (252-451-0867), Investment Consultants, or call toll-free at 1-800-946-4178.

Investment products are not FDIC insured, are not bank guaranteed, and may lose value.

### ***Stock Buy-Back Program***

First South Bancorp, Inc. currently has a stock buy-back program for shares of its common stock. There are certain advantages of selling your shares directly to the company, such as no brokerage fees. Shareholders who are interested in selling shares that are registered in their name may contact William L. Wall, Chief Financial Officer (1-800-946-4178) for additional information.

### ***Executive Checking***

Apprehensive about investing your money in the stock market or long-term CDs? Make your money work for you with the flexibility of Executive Checking from First South Bank. Executive Checking is a personal account that allows individuals who maintain a \$5,000 minimum balance to earn premium interest rates on their checking account. Benefits include unlimited checkwriting, free checks, a no fee VISA CheckCard, and more! A maximum balance of \$500,000 applies. Call 1-800-946-4178, and ask for details!

***All The Bank You'll Ever Need***

*www.firstsouthnc.com*

***First South Bank***

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