

---

*First South Bancorp*

*Quarterly  
Financial Report*

**December 31, 2003**

---

---

## 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, 2003 (unaudited) and the year ended December 31, 2003 (unaudited).

Net income for the quarter ended December 31, 2003 increased 7.6% to \$2,716,650 from \$2,525,472 earned in the quarter ended December 31, 2002. Basic earnings per share increased 10.2% to \$0.65 per share for the quarter ended December 31, 2003 from \$0.59 per share for the quarter ended December 31, 2002. Diluted earnings per share increased 10.7% to \$0.62 per share for the quarter ended December 31, 2003 from \$0.56 per share for the quarter ended December 31, 2002. Net income for the year ended December 31, 2003 increased 20.0% to \$11,412,996 from \$9,511,612 earned in the year ended December 31, 2002. Basic earnings per share increased 26.1% to \$2.75 per share for the year ended December 31, 2003 from \$2.18 per share for the year ended December 31, 2002. Diluted earnings per share increased 25.7% to \$2.59 per share for the year ended December 31, 2003 from \$2.06 per share for the year ended December 31, 2002.

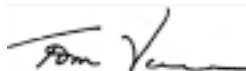
The increased 2003 earnings reflect significant growth in our commercial and consumer loan and leasing portfolios, increased mortgage loan origination volume and sales, significant growth in lower costing core checking accounts, and efforts placed on controlling operating expenses. The commercial and consumer loan and leasing portfolios increased 30.0% to \$481.5 million at December 31, 2003 from \$370.3 million at December 31, 2002. During this same period, checking accounts increased 14.2% to \$227.9 million from \$199.6 million.

The year ended December 31, 2003 was eventful for both the Company and the Bank. The Company maintained its listing in the Russell 2000® Index, helping raise its visibility with the investment community; the quarterly cash dividend payment rate was increased by 17.7%; we completed the private placement of a trust preferred securities issuance; record mortgage lending volumes allowed us to recognize significant fees on loans sold into the secondary mortgage market; and we received national recognition for our increased growth and operating efficiency from FORTUNE Small Business and the American Banker. During 2003, we opened new full service banking offices in Hope Mills and Raleigh, North Carolina, allowing us to serve the banking needs in the growing Cape Fear, Raleigh, and Research Triangle markets. During the quarter ended December 31, 2003, we announced an agreement reached with Central Carolina Bank, a division of National Bank of Commerce, to acquire two branch offices in Greenville and New Bern, North Carolina. This acquisition is expected to close during the first quarter of 2004, represents a continuation of the growth of our branch office network, and will allow us to expand our customer base in existing markets.

We are pleased to enclose our dividend check of \$0.20 per share to shareholders of record as of January 4, 2004. This dividend payment represents a payout ratio of 30.8% of this quarter's basic earnings per share and is the Company's twenty-seventh consecutive quarterly cash dividend.

The Board of Directors, officers and staff of the Company and the Bank pledge our continued commitment to you and we 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)

	December 31, 2003	December 31, 2002
	(unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 34,925	\$ 34,472
Investment securities	50,072	55,787
Mortgage backed securities	11,715	23,526
Loans and leases receivable, net	553,200	490,914
Premises and equipment	7,923	7,825
Intangible assets	4,219	4,219
Federal Home Loan Bank stock	2,127	2,403
Accrued interest receivable	3,073	3,403
Mortgage servicing rights	1,887	1,642
Other assets	7,291	4,282
<b>Total Assets</b>	<b>\$ 676,432</b>	<b>\$ 628,473</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 583,173	\$ 526,327
Borrowings	19,338	38,195
Trust preferred securities	10,000	0
Other liabilities	9,640	13,851
<b>Total Liabilities</b>	<b>622,151</b>	<b>578,373</b>
<b>Total Stockholders' Equity</b>	<b>54,281</b>	<b>50,100</b>
<b>Total Liabilities and Stockholder's Equity</b>	<b>\$ 676,432</b>	<b>\$ 628,473</b>

## CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands except per share data)

	Three Months Ended December 31,		Year Ended December 31,	
	2003	2002	2003	2002
Interest income	\$ 9,297	\$ 9,367	\$ 36,905	\$ 36,826
Interest expense	2,333	2,871	10,186	12,473
Net interest income	6,964	6,496	26,719	24,353
Provision for loan losses	137	684	988	1,756
Net interest income after provision for loan losses	6,827	5,812	25,731	22,597
Non-interest income	1,940	2,626	10,502	8,462
Non-interest expense-General	4,456	4,519	17,979	16,337
Income before taxes	4,311	3,919	18,254	14,722
Income tax expense	1,594	1,394	6,841	5,210
<b>Net Income (Loss)</b>	<b>\$ 2,717</b>	<b>\$ 2,525</b>	<b>\$ 11,413</b>	<b>\$ 9,512</b>
Basic earnings per share	\$ 0.65	\$ 0.59	\$ 2.75	\$ 2.18
Diluted earnings per share	\$ 0.62	\$ 0.56	\$ 2.59	\$ 2.06
Dividends per share	\$ 0.20	\$ 0.17	\$ 0.80	\$ 0.68
Weighted average shares Basic	4,180,132	4,249,279	4,153,719	4,364,925
Weighted average shares Diluted	4,415,110	4,544,211	4,402,928	4,628,434

---

## ***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

### **Full Service Branch Offices:**

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

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

Washington  
Raleigh

## **Featured Products and Services**

### ***CCB Branch Acquisition***

On October 29, 2003, First South Bank announced that it had reached an agreement with Central Carolina Bank ("CCB"), a Division of National Bank of Commerce, whereby First South Bank would acquire CCB's branch offices located in Greenville and New Bern, North Carolina. As part of the agreement, First South will assume the deposits of the CCB branch offices, which at September 30, 2003 totalled \$17.0 million. The two branch offices are expected to become branch offices of First South Bank, and the purchase transaction is expected to be completed in the first quarter of 2004. For more information, contact Bill Wall, Chief Financial Officer, at 1-800-946-4178.

### ***Equity Lines<sup>1</sup>***

Up to your ears in holiday debt? Now may be an ideal time for you to secure some extra funds with an Equity Line of Credit from First South Bank. First South's locally approved Home Equity Line is secured by the equity value you have built in your home, and in most cases, interest is tax deductible<sup>2</sup>. If you're looking for a new automobile, Home Equity Lines often offer lower rates than auto loans. With a Home Equity Line from First South Bank, you will receive special checks for easy access to your account and a monthly statement detailing your transactions and latest account balances. Put the equity in your home to work for you!

<sup>1</sup>All loan products are subject to credit approval. Rates are subject to change. <sup>2</sup>You should consult your tax advisor on your individual situation.

### ***Business Free Checking***

Business Free Checking is here! In September of 2003, First South Bank began offering the new account, which allows eligible businesses to maintain an account that does not require a minimum balance or service charges. The account allows a business up to 750 transactions per month, as well as unlimited ACCESS Line service, free Night Depository Service, and more! Business Free Checking also allows sole proprietorships to earn interest. For more about Business Free Checking, visit First South Bank online at [www.firstsouthnc.com](http://www.firstsouthnc.com).

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

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

***First South Bank***

---

---