
First South Bancorp

*Quarterly
Financial Report*

June 30, 2003

Dear Shareholders:

First South Bancorp, Inc. (the “Company”), the parent holding company of First South Bank (the “Bank”), is pleased to report its unaudited consolidated results of operations for the quarter ended June 30, 2003 and the first six months of the year ending December 31, 2003.

Net income for the quarter ended June 30, 2003 increased 22.7% to \$2,887,277 from net income of \$2,353,062 earned in the quarter ended June 30, 2002. Diluted earnings per share increased 32.0% to \$0.66 per share for the quarter ended June 30, 2003 from \$0.50 per share for the quarter ended June 30, 2002. Net income for the six months ended June 30, 2003 increased 26.4% to \$5,730,182 from net income of \$4,531,638 earned in the six months ended June 30, 2002. Diluted earnings per share increased 34.0% to \$1.30 per share for the six months ended June 30, 2003 from \$0.97 per share for the six months ended June 30, 2002.

The growth in current period earnings reflects growth in the commercial loan portfolio, increased mortgage loan origination volume and sales, growth in lower costing core checking accounts and efforts placed on controlling operating expenses. The current historical low interest rates have made our operating environment temporarily more challenging, however, we have made significant progress in restructuring our balance sheet, allowing us to maintain more consistent net interest income.

The net commercial and consumer loan portfolio increased 32.2% to \$425.3 million at June 30, 2003 from \$321.6 million at June 30, 2002, while checking accounts increased 19.5% to \$214.0 million at June 30, 2003 from \$179.1 million at June 30, 2002. Consolidated assets of the Company increased to \$663.2 million at June 30, 2003 from \$628.5 million at December 31, 2002, reflecting an 11.1% annualized internal growth rate during the current period.

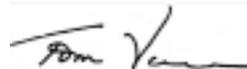
We recently opened a new full service banking office located at 3103 North Main Street, Hope Mills, North Carolina. This increased our branch office network to twenty-two full service offices and provides a convenient location for serving the banking needs of the growing Cape Fear Region and southeastern North Carolina. We believe this office will benefit our earnings in future periods.

FORTUNE Small Business magazine has ranked us 39th of the top 100 of America’s fastest growing small public companies; The News & Observer has ranked us 44th of the top 100 publicly traded companies headquartered in North Carolina; American Banker has ranked us the 77th most efficient of the largest 500 banks in America; and we remain listed in the Russell 2000® Index. We are pleased with this recognition, as these rankings further exemplify the visibility of the Company among both the business and investment communities.

We are pleased to enclose our dividend check of \$0.20 per share to shareholders of record as of July 5, 2003. This dividend payment represents a payout ratio of 28.6% of this quarter’s basic earnings and is the Company’s twenty-fifth 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

(in thousands)

	June 30 2003 <small>(unaudited)</small>	December 31 2002
Assets		
Cash and cash equivalents	\$ 33,818	\$ 34,472
Investment securities	53,435	55,787
Mortgage backed securities	22,318	23,526
Loans and leases receivable, net	528,183	490,914
Premises and equipment	7,553	7,825
Goodwill	4,219	4,219
Federal Home Loan Bank stock	2,127	2,403
Other assets	11,549	9,327
Total Assets	\$ 663,202	\$ 628,473
Liabilities and Stockholders' Equity		
Deposits	\$ 580,824	\$ 526,327
Borrowings	19,211	38,195
Other liabilities	12,481	13,851
Total Liabilities	612,516	578,373
Total Stockholders' Equity	50,686	50,100
Total Liabilities and Stockholder's Equity	\$ 663,202	\$ 628,473

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands except per share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	2003	2002
Interest income	\$ 9,250	\$ 9,185	\$ 18,391	\$ 18,233
Interest expense	2,684	3,198	5,426	6,559
Net interest income	6,566	5,987	12,965	11,674
Provision for loan losses	122	333	456	642
Net interest income after provision for loan losses	6,444	5,654	12,509	11,032
Non-interest income	2,686	1,911	5,606	3,715
Non-interest expense-General	4,506	3,993	8,925	7,734
Income before taxes	4,624	3,572	9,190	7,013
Income tax expense	1,737	1,219	3,460	2,481
Net Income (Loss)	\$ 2,887	\$ 2,353	\$ 5,730	\$ 4,532
Basic earnings per share	\$ 0.70	\$ 0.53	\$ 1.38	\$ 1.02
Diluted earnings per share	\$ 0.66	\$ 0.50	\$ 1.30	\$ 0.97
Dividends per share	\$ 0.20	\$ 0.17	\$ 0.40	\$ 0.34
Weighted average shares - basic	4,133,601	4,417,346	4,147,868	4,427,747
Weighted average shares - diluted	4,380,263	4,682,069	4,401,680	4,661,549

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)
Hope Mills
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.

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 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.

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 balance, the higher your interest rate. Executive checking customers also receive free complimentary personalized checks.

All The Bank You'll Ever Need

www.firstsouthnc.com

First South Bank
