
First South Bancorp

*Quarterly
Financial Report*

March 31, 2003

Dear Shareholders:

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

Net income for the quarter ended March 31, 2003 increased 30.5% to \$2,842,905, compared to \$2,178,575 earned in the quarter ended March 31, 2002. Basic earnings per share increased 38.8% to \$0.68 per share for the quarter ended March 31, 2003, compared to \$0.49 per share for the quarter ended March 31, 2002. Diluted earnings per share increased 36.2% to \$0.64 per share for the quarter ended March 31, 2003, compared to \$0.47 per share for the quarter ended March 31, 2002. Basic and diluted per share data for the quarter ended March 31, 2002 have been adjusted to reflect a three-for-two stock split, paid in the form of a 50% stock dividend on April 19, 2002.

The growth in current period 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.

Total assets increased to \$634.0 million at March 31, 2003 from \$562.7 million at March 31, 2002, reflecting a 12.7% annualized internal growth rate. The net commercial and consumer loan portfolio increased 30.4% to \$397.4 million at March 31, 2003 from \$305.1 million at March 31, 2002, while checking accounts increased 23.1% to \$210.6 million at March 31, 2003 from \$171.1 million at March 31, 2002. In order to support its loan portfolio growth, the Bank recorded \$333,919 of provisions for potential loan losses during the current quarter, increasing total loan loss reserves to \$7.3 million, or 1.4% of total loans outstanding.

The Bank will open a new full service banking office located at 3103 North Main Street, Hope Mills, North Carolina during the next quarter. This will increase our branch office network to twenty-two full service offices and provide additional convenient locations for serving the banking needs of our growing Cumberland County market. We also believe this office will benefit our earnings in future periods. We plan to open additional full service banking offices in existing and expanded markets in order to better serve existing customers and continue enhancing the Company’s franchise value.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.20 per share to shareholders of record as of April 7, 2003. This dividend represents a 17.7% payment rate increase over the previous quarterly dividend. The dividend payout ratio is 29.4% of this quarter’s basic earnings and is our twentieth consecutive quarterly dividend.

The Board of Directors, officers, and staff of the Company and the 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

Condensed Statements of Financial Condition

(in thousands)

	March 31, 2003 <i>(unaudited)</i>	December 31, 2002
Assets		
Cash	\$ 30,306	\$ 34,472
Investment securities	55,581	55,787
Mortgage-backed securities	20,112	23,526
Loans and lease receivables, net	502,394	490,914
Premises and equipment	7,690	7,825
Goodwill	4,219	4,219
Federal Home Loan Bank stock	2,403	2,403
Other assets	11,265	9,327
Total Assets	\$ 633,970	\$ 628,473
Liabilities and Stockholders' Equity		
Deposits	\$ 561,845	\$ 526,327
Borrowings	11,018	38,195
Other liabilities	11,507	13,851
Total liabilities	584,370	578,373
Total stockholders' equity	49,600	50,100
Total Liabilities and Stockholders' Equity	\$ 633,970	\$ 628,473

Condensed Statements of Income (unaudited)

(in thousands except per share data)

	Three Months Ended	
	March 31, 2003	March 31, 2002
Interest income	\$ 9,141	\$ 9,048
Interest expense	3,742	3,361
Net interest income	6,399	5,687
Provision for loan losses	334	309
Net interest income after provision for loan losses	6,065	5,378
Non-interest income	2,920	1,804
Non-interest expense - General	4,419	3,741
Income before taxes	4,566	3,441
Income tax expense	1,723	1,262
Net Income (Loss)	\$ 2,843	\$ 2,179
Basic earnings per share	\$.68	\$.49*
Diluted earnings per share	\$.64	\$.47*
Dividends per share	\$.20	\$.17*
Weighted average shares - basic	4,162,358	4,438,208*
Weighted average shares - diluted	4,423,319	4,641,088*

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
Kinston (2)
Lumberton (2)
New Bern (2)
Rocky Mount (5)
Tarboro
Washington (3)

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 Investment Consultants Steve Wiggins (252-946-4178) or Tony Russ (252-451-0867), or call toll-free at 1-800-946-4178.

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

Free Basic & Senior Checking

Tired of monthly fees and restrictions on checkwriting? First South Bank's Basic and Senior Checking are totally FREE, with benefits including no minimum balance, no monthly fees, and unlimited checkwriting. For customers age 50 and over, our Senior Checking Account also provides free checks and interest earned. Call 1-800-946-4178, and ask for details!

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
