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*First South Bancorp*

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*Quarterly  
Financial Report*

September 30, 2003

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## Dear Shareholders:

First South Bancorp, Inc., the parent holding company of First South Bank, is pleased to report its unaudited consolidated results of operations for the quarter ended September 30, 2003 and the first nine months of its fiscal year ending December 31, 2003.

Net income for the quarter ended September 30, 2003 increased 20.9% to \$2,966,164 from \$2,454,503 earned in the quarter ended September 30, 2002. Basic earnings per share increased 28.6% to \$0.72 per share for the quarter ended September 30, 2003 from \$0.56 per share for the quarter ended September 30, 2002. Diluted earnings per share increased 28.3% to \$0.68 per share for the quarter ended September 30, 2003 from \$0.53 per share for the quarter ended September 30, 2002.

Net income for the nine months ended September 30, 2003 increased 24.5% to \$8,696,346 from \$6,986,140 earned in the nine months ended September 30, 2002. Basic earnings per share increased 32.1% to \$2.10 per share for the nine months ended September 30, 2003 from \$1.59 per share for the nine months ended September 30, 2002. Diluted earnings per share increased 32.0% to \$1.98 per share for the nine months ended September 30, 2003 from \$1.50 per share for the nine months ended September 30, 2002.

The growth in current period earnings reflect significant growth in our commercial and consumer loan and leasing portfolios, increased mortgage loan origination volume and sales, growth in lower costing checking accounts and efforts placed on controlling operating expenses. The net commercial and consumer loan and leasing portfolios have increased 31.8% to \$447.4 million at September 30, 2003 from \$339.4 million at September 30, 2002. During this same period, checking accounts increased 14.5% to \$218.1 million from \$190.5 million. We have made significant progress in restructuring our balance sheet, allowing us to maintain more consistent net interest income. To support the risk with the commercial loan portfolio growth, \$395,000 of loan loss provisions was recorded this quarter, increasing general and specific loan loss reserves to 1.4% of loans outstanding.

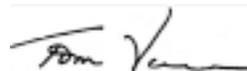
During this quarter we opened a new full service banking office located at 4800 Six Forks Road, Raleigh, North Carolina. This increased our branch office network to twenty-three full service banking offices and allows us to serve the banking needs in the growing Raleigh and Research Triangle markets. We believe this office will benefit our earnings in future periods.

On September 26, 2003, we completed the private placement issuance of \$10.0 million of trust preferred securities. The Company will treat the issue as capital for regulatory purposes and intends to use the proceeds to support future growth.

We are pleased to enclose our dividend check of \$0.20 per share to shareholders of record as of October 3, 2003. This dividend payment represents a payout ratio of 27.8% of this quarter's basic earnings and is the Company's twenty-sixth 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, 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)

	<u>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2002</u>
	(unaudited)	
<b>Assets</b>		
Cash and cash equivalents	\$ 40,473	\$ 34,472
Investment securities	50,759	55,787
Mortgage backed securities	12,717	23,526
Loans and leases receivable, net	523,616	490,914
Premises and equipment	7,892	7,825
Goodwill	4,219	4,219
Federal Home Loan Bank stock	2,127	2,403
Other assets	11,910	9,327
Total Assets	<u>\$ 653,713</u>	<u>\$ 628,473</u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 575,583	\$ 526,327
Borrowings	15,775	38,195
Other liabilities	9,991	13,851
Total Liabilities	<u>601,349</u>	<u>578,373</u>
Total Stockholders' Equity	<u>52,364</u>	<u>50,100</u>
Total Liabilities and Stockholder's Equity	<u>\$ 653,713</u>	<u>\$ 628,473</u>

## CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Interest income	\$ 9,217	\$ 9,226	\$ 27,607	\$ 27,459
Interest expense	2,428	3,043	7,853	9,602
Net interest income	<u>6,789</u>	<u>6,183</u>	<u>19,754</u>	<u>17,857</u>
Provision for loan losses	395	430	851	1,072
Net interest income after provision for loan losses	6,394	5,753	18,903	16,785
Non-interest income	2,955	2,121	8,561	5,836
Non-interest expense-General	4,597	4,084	13,522	11,818
Income before taxes	<u>4,752</u>	<u>3,790</u>	<u>13,942</u>	<u>10,803</u>
Income tax expense	<u>1,786</u>	<u>1,335</u>	<u>5,246</u>	<u>3,817</u>
Net Income	<u>\$ 2,966</u>	<u>\$ 2,455</u>	<u>\$ 8,696</u>	<u>\$ 6,986</u>
Basic earnings per share	\$ 0.72	\$ 0.56	\$ 2.10	\$ 1.59
Diluted earnings per share	\$ 0.68	\$ 0.53	\$ 1.98	\$ 1.50
Dividends per share	\$ 0.20	\$ 0.17	\$ 0.60	\$ 0.51
Weighted average shares - basic	4,138,741	4,355,880	4,144,779	4,403,670
Weighted average shares - diluted	4,392,976	4,647,378	4,396,192	4,654,174

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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

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

Chocowinity	Kinston (2)
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**

### ***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).

### ***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.

### ***Raleigh Branch Opens***

On September 8, 2003, First South Bank announced the opening of a new branch office located at 4800 Six Forks Road in Raleigh, N.C. Although the Bank has operated a Loan Production Office in Raleigh since September of 2002, this is the Bank's first full service branch in Raleigh and the Triangle market area. The branch will provide a drive thru window and commercial night depository in addition to the wide variety of products and services the Bank offers. The Raleigh branch is the Bank's twenty-third office in North Carolina. For more information, call Bob Branch, Triangle Area Executive, at (919) 783-5222.

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

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

***First South Bank***

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