

PRESS RELEASE
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First South Bancorp, Inc.

FOR IMMEDIATE RELEASE
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**First South Bancorp, Inc. Reports December 31, 2002 Quarterly Earnings and
December 31, 2002 Fiscal Year Earnings (Unaudited)**

Washington, North Carolina - First South Bancorp, Inc. (Nasdaq: FSBK)

First South Bancorp, Inc. (“the Company”), the parent holding company of First South Bank (the “Bank”), reports its earnings for the quarter ended December 31, 2002 (unaudited), the fourth quarter of its fiscal year ending December 31, 2002, and its earnings for the fiscal 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 the Company 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 was \$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 was \$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.

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.

Tom Vann, President and Chief Executive Officer of the Company and the Bank, stated, “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.

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 will open its twenty-second full service banking office in Hope Mills, North Carolina during the second quarter of 2003.”

First South Bank currently operates through its headquarters located in Washington, North Carolina with twenty-one full service branch offices, one loan production office and two leasing offices, located throughout eastern, southeastern and central North Carolina.

Statements contained in this release, which are not historical facts, are forward-looking statements as defined in the Private Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

(More)

(Nasdaq: FSBK)

FIRST SOUTH BANCORP, INC.

(NASDAQ: FSBK)

Summary of Financial Highlights

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

(dollars in thousands)

	December 31 2002	December 31 2001
Assets		
Cash and cash equivalents	\$ 34,472	\$ 21,683
Investment securities	55,787	54,061
Mortgage backed securities	23,526	43,904
Loans and leases receivable, 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	<u>9,327</u>	<u>9,191</u>
Total Assets	<u>\$ 627,984</u>	<u>\$ 549,318</u>
Liabilities		
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	<u>50,100</u>	<u>51,032</u>
Total Liabilities and Stockholders' Equity	<u>\$ 627,984</u>	<u>\$ 549,318</u>

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(dollars in thousands except per share data)

	Three Months Ended December 31		Year Ended December 31	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
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	684	0	1,756	590
Noninterest income	2,626	1,625	8,462	7,102
Noninterest expense-General	4,519	3,832	16,337	16,178
Noninterest expense-ESOP termination	<u>0</u>	<u>3,143</u>	<u>0</u>	<u>3,143</u>
Income before income 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>
Net Income (Loss)	\$ <u><u>2,525</u></u>	\$ <u><u>(1,140)</u></u>	\$ <u><u>9,512</u></u>	\$ <u><u>3,346</u></u>
Basic earnings per share	\$ 0.59	\$ (0.26) (1)	\$ 2.18	\$ 0.78 (1)
Diluted earnings per share	\$ 0.56	\$ (0.26) (1)	\$ 2.06	\$ 0.75 (1)
Dividends per share	\$ 0.17	\$ 0.12 (1)	\$ 0.68	\$ 0.48 (1)
Weighted average shares Basic	4,249,279	4,308,369 (1)	4,364,925	4,319,737 (1)
Weighted average shares Diluted	4,544,211	4,308,369 (1)	4,628,434	4,472,062 (1)

(1) Adjusted for April 19, 2002 three-for-two stock split.

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SOURCE: First South Bancorp, Inc. (Nasdaq:FSBK)