

PRESS RELEASE
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First South Bancorp, Inc.

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**First South Bancorp, Inc. Reports June 30, 2003 Quarterly and Six Months 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 June 30, 2003 (unaudited), the second quarter of its fiscal year ending December 31, 2003, and its earnings for the six months ended June 30, 2003 (unaudited).

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. Basic earnings per share increased 32.1% to \$0.70 per share for the quarter ended June 30, 2003, from \$0.53 per share for 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. Basic earnings per share increased 35.3% to \$1.38 per share for the six months ended June 30, 2003, from \$1.02 per share for 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.

Tom Vann, President and Chief Executive Officer of the Company, stated, "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. The current period of historical low interest rates has made our operating environment temporarily more challenging. 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.

First South Bank has been serving the citizens of eastern North Carolina since 1902 and offers a variety of financial products and services, including a Leasing Company and securities brokerage services through an affiliation with a broker/dealer. The Bank operates through its main office headquartered in Washington, North Carolina, and has twenty-two full service branch offices and a loan production office located throughout eastern and southeastern 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 the effects of future economic conditions, governmental fiscal and monetary policies, legislative and regulatory changes, the risks of changes in interest rates, the effects of competition, and including without limitation to other factors that could cause actual results to differ materially as discussed in documents filed by the Company with the Securities and Exchange Commission from time to time.

(More)

(Nasdaq: FSBK)

First South Bancorp, Inc.
Consolidated Statements of Financial Condition

Assets	<u>June 30, 2003</u> (unaudited)	<u>December 31, 2002</u>
Cash and due from banks	\$ 32,148,494	\$ 30,540,790
Interest-bearing deposits in financial institutions	1,669,137	3,931,369
Investment securities - available for sale	53,435,332	55,786,842
Mortgage-backed securities - available for sale	22,317,423	23,526,435
Loans and leases receivable, net:		
Held for sale	28,625,132	38,664,967
Held for investment	499,557,834	452,248,942
Premises and equipment, net	7,553,166	7,825,003
Deferred income taxes	227,383	-
Real estate owned	309,634	401,632
Federal Home Loan Bank of Atlanta stock, at cost which approximates market	2,127,200	2,402,500
Accrued interest receivable	3,093,924	3,403,195
Goodwill	4,218,575	4,218,576
Mortgage servicing rights	1,878,762	1,642,172
Prepaid expenses and other assets	4,740,611	2,544,807
Note receivable	1,299,007	1,336,194
	<u>663,201,614</u>	<u>628,473,424</u>
Total assets	\$ <u>663,201,614</u>	\$ <u>628,473,424</u>

Liabilities and Stockholders' Equity

Deposits:		
Demand	\$ 213,961,428	\$ 199,615,945
Savings	19,566,280	18,950,380
Large denomination certificates of deposit	108,318,752	80,021,790
Other time	238,977,056	227,739,049
Total deposits	<u>580,823,516</u>	<u>526,327,164</u>
Borrowed money	19,211,164	38,194,727
Other liabilities	12,480,945	13,851,721
Total liabilities	<u>612,515,625</u>	<u>578,373,612</u>
Common stock, \$.01 par value, 8,000,000 shares authorized, 6,545,848 shares issued	65,458	65,458
Additional paid-in capital	48,368,377	48,466,569
Retained earnings, substantially restricted	39,162,212	35,086,795
Treasury stock at cost, 2,412,318 and 2,099,561 shares	(40,273,453)	(37,317,469)
Accumulated other comprehensive income, net	3,363,395	3,798,459
Total stockholders' equity	<u>50,685,989</u>	<u>50,099,812</u>

First South Bancorp, Inc.
Consolidated Statements of Operations
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30	
	2003	2002	2003	2002
Interest income:				
Interest and fees on loans	\$ 8,045,728	\$ 7,673,884	\$ 15,958,368	\$ 15,141,300
Interest and dividends on investments and deposits	1,203,817	1,511,202	2,432,509	3,091,196
Total interest income	<u>9,249,545</u>	<u>9,185,086</u>	<u>18,390,877</u>	<u>18,232,496</u>
Interest expense:				
Interest on deposits	2,648,485	3,180,154	5,352,914	6,532,085
Interest on borrowings	35,310	17,667	72,846	26,941
Total interest expense	<u>2,683,795</u>	<u>3,197,821</u>	<u>5,425,760</u>	<u>6,559,026</u>
Net interest income before provision for possible loan losses	6,565,750	5,987,265	12,965,117	11,673,470
Provision for possible loan losses	122,000	333,000	455,918	642,000
Net interest income	<u>6,443,750</u>	<u>5,654,265</u>	<u>12,509,199</u>	<u>11,031,470</u>
Noninterest income:				
Loan fees and service charges	1,533,383	1,082,447	2,876,527	2,101,159
Loan servicing fees	156,470	180,009	295,087	358,276
Gain (loss) on sale of real estate, net	(6,388)	(10,199)	42,240	74,948
Gain (loss) on sale of mortgage loans	783,394	390,477	1,800,091	695,787
Gain (loss) on sale of mortgage-backed securities	0	(5,622)	168,938	52,666
Other income	219,589	273,495	423,331	431,951
Total noninterest income	<u>2,686,448</u>	<u>1,910,607</u>	<u>5,606,214</u>	<u>3,714,787</u>
Noninterest expenses:				
Compensation and fringe benefits	2,632,700	2,444,208	5,277,480	4,633,528
Federal insurance premiums	21,092	20,897	43,130	42,236
Premises and equipment	377,753	303,220	740,311	612,452
Advertising	46,964	54,876	95,492	115,955
Payroll and other taxes	243,259	211,239	482,238	432,797
Data processing	484,888	443,134	948,732	869,637
Amortization of mortgage servicing rights	57,215	36,638	109,409	68,642
Other	641,795	478,696	1,228,277	958,599
Total noninterest expenses	<u>4,505,666</u>	<u>3,992,908</u>	<u>8,925,069</u>	<u>7,733,846</u>
Income before income taxes	4,624,532	3,571,964	9,190,344	7,012,411
Income taxes	<u>1,737,255</u>	<u>1,218,902</u>	<u>3,460,162</u>	<u>2,480,773</u>
Net income	<u>\$ 2,887,277</u>	<u>\$ 2,353,062</u>	<u>\$ 5,730,182</u>	<u>\$ 4,531,638</u>

First South Bancorp, Inc.
Supplemental Quarterly Financial Data (Unaudited)

	<u>6/30/03</u>	<u>3/31/03</u>	<u>12/31/02</u>	<u>9/30/02</u>	<u>6/30/02</u>
(dollars in thousands except share and per share data)					
Consolidated balance sheet data:					
Total assets	\$ 663,202	\$ 633,970	\$ 627,984	\$ 600,653	\$ 578,126
Loans receivable (net)	528,183	502,394	490,914	454,777	433,709
Cash and investments	87,253	85,887	90,259	93,846	85,442
Mortgage-backed securities	22,317	20,112	23,526	32,886	35,709
Goodwill		4,219	4,219	4,219	4,219
Deposits	580,824	561,845	526,327	524,366	506,829
Borrowings	19,211	11,018	38,195	4,183	4,809
Stockholders' equity	50,686	49,600	50,100	51,956	52,996
Consolidated earnings summary:					
Interest income	\$ 9,250	\$ 9,141	\$ 9,367	\$ 9,226	\$ 9,185
Interest expense	<u>2,684</u>	<u>2,742</u>	<u>2,871</u>	<u>3,043</u>	<u>3,198</u>
Net interest income	6,566	6,399	6,496	6,183	5,987
Loan loss provision	122	334	684	430	333
Noninterest income	2,686	2,920	2,626	2,121	1,911
Noninterest expense-General	4,506	4,419	4,519	4,084	3,993
Income taxes	<u>1,737</u>	<u>1,723</u>	<u>1,394</u>	<u>1,335</u>	<u>1,219</u>
Net income	<u>\$ 2,887</u>	<u>\$ 2,843</u>	<u>\$ 2,525</u>	<u>\$ 2,455</u>	<u>\$ 2,353</u>
Per Share Data:					
Earnings per share-Basic	\$ 0.70	\$ 0.68	\$ 0.59	\$ 0.56	\$ 0.53
Earnings per share-Diluted	\$ 0.66	\$ 0.64	\$ 0.56	\$ 0.53	\$ 0.50
Dividends per share	\$ 0.20	\$ 0.20	\$ 0.17	\$ 0.17	\$ 0.17
Book value per share	\$ 12.26	\$ 11.95	\$ 11.92	\$ 12.07	\$ 12.05
Average shares-Basic	4,133,601	4,162,358	4,249,279	4,355,880	4,417,346
Average shares-Diluted	4,380,263	4,423,319	4,544,211	4,647,378	4,682,069
Shares outstanding end of period	4,133,530	4,150,601	4,203,912	4,305,129	4,397,477
Performance ratios:					
Yield on earning assets	6.21%	6.36%	6.65%	6.80%	6.98%
Cost of funds	<u>1.83%</u>	<u>1.94%</u>	<u>2.14%</u>	<u>2.34%</u>	<u>2.54%</u>
Net interest spread	4.38%	4.42%	4.51%	4.46%	4.44%
Net interest margin on earning assets	4.41%	4.45%	4.61%	4.55%	4.55%
Earning assets to total assets	91.64%	91.77%	91.81%	92.13%	92.45%
Return on average assets	1.78%	1.81%	1.65%	1.66%	1.65%
Return on average equity	22.91%	22.76%	19.78%	18.74%	18.06%
Efficiency ratio	48.70%	47.42%	49.54%	49.18%	50.56%
Dividend payout ratio	28.57%	29.41%	28.81%	30.36%	32.08%
Asset quality data and ratios:					
Nonperforming loans	\$ 1,202	\$ 2,244	\$ 1,544	\$ 1,387	\$ 1,016
Real estate owned	\$ 310	\$ 131	\$ 402	\$ 342	\$ 454
Reserve for loan losses	\$ 7,310	\$ 7,273	\$ 6,959	\$ 6,314	\$ 5,923
Net charge-offs	\$ 85	\$ 20	\$ 40	\$ 38	\$ 45
Net charge-offs to loans	0.10%	0.01%	0.01%	0.01%	0.01%
Nonperforming loans to assets	0.21%	0.35%	0.25%	0.23%	0.18%
Reserves to total loans	1.37%	1.43%	1.40%	1.37%	1.35%
Loans to deposits	90.94%	89.42%	93.27%	86.73%	85.57%
Loans to assets	79.64%	79.25%	78.17%	75.71%	75.02%
Loans serviced for others	\$ 277,753	\$ 273,672	\$ 261,823	\$ 268,018	\$ 274,810