
First South Bancorp

*Quarterly
Financial Report*

December 31, 2001

Dear Shareholders:

First South Bancorp, Inc. (the "Company"), the parent holding company of First South Bank (the "Bank"), is pleased to report its consolidated results of operations for the quarter ended September 30, 2001 (Unaudited) and the fiscal year ended December 31, 2001 (Unaudited). The Company previously announced it has changed its fiscal year end from September 30, 2001 to December 31, 2001.

For the three months ended December 31, 2001, the Company reports a net loss of \$1,139,973, compared to net income of \$1,344,649 earned in the three months ended December 31, 2000. We recently announced the termination of our Employee Stock Ownership Plan ("ESOP") effective as of December 31, 2001, and we 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 three months ended December 31, 2001 would have been \$2,003,494, representing a 49.0% increase over the net earnings for the three months ended December 31, 2000. For future periods, the Company will not incur any charges related to the ESOP.

As a result of the one-time ESOP termination charge, diluted earnings per share was \$(0.38) for the three months ended December 31, 2001, compared to \$0.45 for the three months ended December 31, 2000. Diluted earnings per share on net income for the three months ended December 31, 2001 before the one-time ESOP termination charge would have been \$0.67 per share, representing a 48.9% increase over the diluted earnings per share for the three months ended December 31, 2000.

We remain pleased with our core earnings, before the one-time ESOP termination charge. Our primary strategy is to focus on enhancing the Company's franchise value and providing superior returns to our shareholders. The Board of Directors felt that the benefits of maintaining the ESOP were not sufficient to justify the ongoing annual expense. We believe the cost savings achieved in future periods will more than compensate for the one-time charge we incurred to terminate the ESOP and that it should have a positive impact on our earnings in future periods.

At December 30, 2001, the Company had total assets of approximately \$549.3 million, total deposits of \$475.6 million and stockholders' equity of \$51.1 million.

During the three months ended December 31, 2001, the Bank filed an application to open a new full service branch office located at 1906 South Croatan Highway, Kill Devil Hills, North Carolina. We anticipate receiving regulatory approval in a timely manner and opening this office during the second quarter of 2002. This will expand our branch office network to twenty-one full service offices and will provide a convenient location for serving the banking needs of the growing Dare County and North Carolina outer banks market area.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.18 per share payable to shareholders of record as of January 3, 2002. This dividend payment is our Company's nineteenth 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 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)

	December 31, 2001	September 30, 2001
	<i>(unaudited)</i>	
Assets		
Cash	\$ 21,683	\$ 40,449
Investment securities	54,061	54,742
Mortgage-backed securities	43,904	48,603
Loans and lease receivables, net	405,613	374,087
Federal Home Loan Bank stock	2,713	2,713
Premises and equipment	7,934	7,926
Other assets	<u>13,410</u>	<u>12,675</u>
Total Assets	<u>\$ 549,318</u>	<u>\$ 541,195</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 475,589	\$ 471,939
Borrowings	5,441	4,909
Other liabilities	<u>17,232</u>	<u>13,578</u>
Total liabilities	498,262	490,426
Total stockholders' equity	<u>51,056</u>	<u>50,769</u>
Total Liabilities and Stockholders' Equity	<u>\$ 549,318</u>	<u>\$ 541,195</u>

Condensed Statements of Income (unaudited)

(in thousands except per share data)

	Three Months Ended	
	December 31, 2001	December 31, 2000
Interest income	\$ 9,467	\$ 11,271
Interest expense	<u>4,092</u>	<u>6,343</u>
Net interest income	5,375	4,928
Provision for loan losses	<u>0</u>	<u>240</u>
Net interest income after provision for loan losses	5,375	4,688
Non-interest income	1,625	1,299
Non-interest expense - General	3,832	3,701
Non-interest expense - ESOP Termination	<u>3,143</u>	<u>0</u>
Income before taxes	2,619	2,286
Income tax expense	<u>1,082</u>	<u>941</u>
Net Income (Loss)	<u>\$ (1,140)</u>	<u>\$ 1,345</u>
Basic earnings per share	\$ (.40)	\$.46
Diluted earnings per share	\$ (.38)	\$.45
Dividends per share	\$.18	\$.13
Weighted average shares - basic	2,872,246	2,951,535
Weighted average shares - diluted	2,998,135	3,014,126

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 & Services

Individual Retirement Account

Starting in taxable years after December 31, 2001, the amount qualified IRA owners are permitted to contribute annually to their IRAs will be gradually increased to \$5,000 by the year 2008. We are currently offering three types of IRAs: the Traditional IRA, Roth IR, and the SEP (Simplified Employer Pension). Each IRA has its own advantages. Check with your local first south Bank branch to find the IRA that is right for you.

Stock Buy-Back Program

First South Bancorp, Inc. currently has a stock buy-back program for shares of its common stock. There are certain advantages of selling your shares directly to the company, such as no brokerage fees. Shareholders who are interested in selling shares that are registered in their name may contact William L. Wall, Chief Financial Officer (1-800-946-4178) for additional information.

Biggs Park Office

On November 8, 2001 First South Bank announced the opening of its new "Biggs Park" branch located at 3000 North Elm Street, Lumberton, N.C. Biggs Park is a full service branch that includes an ATM, drive thru window and a commercial night depository. It is the Bank's second office in the city of Lumberton.

All The Bank You'll Ever Need

First South Bank
