
First South Bancorp

*Quarterly
Financial Report*

June 30, 2002

Dear Shareholders:

First South Bancorp, Inc. (the "Company"), the parent holding company of First South Bank (the "Bank"), is pleased to report its unaudited consolidated results of operations for the quarter ended June 30, 2002 and the first six months of its fiscal year ending December 31, 2002.

Net income for the quarter ended June 30, 2002 increased 46.9% to \$2,327,197, from net income of \$1,583,744 earned in the quarter ended June 30, 2001. Basic earnings per share increased 43.2% to \$0.53 per share for the quarter ended June 30, 2002, from \$0.37 per share for the quarter ended June 30, 2001. Diluted earnings per share increased 42.9% to \$0.50 per share for the quarter ended June 30, 2002, from \$0.35 per share for the quarter ended June 30, 2001.

Net income for the six months ended June 30, 2002 increased 52.8% to \$4,505,772 from net income of \$2,948,756 earned in the six months ended June 30, 2001. Basic earnings per share increased 50.0% to \$1.02 per share for the six months ended June 30, 2002 from \$0.68 per share for the six months ended June 30, 2001. Diluted earnings per share increased 46.9% to \$0.97 per share for the six months ended June 30, 2002 from \$0.66 per share for the six months ended June 30, 2001.

Our earnings growth continues to reflect the Bank's success of restructuring its deposit cost, the net growth of the commercial and consumer loan portfolio, the expansion of our full-service banking network and the addition of new products and services. Our net commercial and consumer loan portfolio increased 32.1% to \$323.4 million at June 30, 2002 from \$244.9 million at June 30, 2001, while checking accounts increased 30.2% to \$179.1 million at June 30, 2002 from \$137.5 million at June 30, 2001. During the six months ended June 30, 2002, consolidated assets increased to \$578.1 million, reflecting a 10.5% annualized internal growth rate.

We recently opened a new full service banking office located at 1906 South Croatan Highway, Kill Devil Hills, North Carolina. This increased our branch office network to twenty-one full service offices and provides a convenient location for serving the banking needs of the growing Dare County and Outer Banks market. We believe this office will benefit our earnings in future periods.

Beginning July 1, 2002, the Company was added to the Russell 2000® Index. We are pleased that First South Bancorp has reached another milestone with its addition to the Russell indexes. This listing exemplifies the growing recognition and visibility that the Company is experiencing with the investment community. Inclusion in the Russell 2000® Index will help raise First South's visibility with investors that rely on the Russell indexes as part of their investment strategy.

We are pleased to enclose our dividend check of \$0.17 per share to shareholders of record as of July 3, 2002. This dividend payment represents a payout ratio of 32.1% of this quarter's basic earnings and is the Company's twenty-first 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

Condensed Statements of Financial Condition

(in thousands)

	June 30, 2002 <i>(unaudited)</i>	December 31, 2001
Assets		
Cash	\$ 30,964	\$ 21,683
Investment securities	54,478	54,061
Mortgage-backed securities	35,709	43,904
Loans and lease receivables, net	433,709	405,613
Federal Home Loan Bank stock	2,713	2,713
Premises and equipment	7,876	7,934
Other assets	12,652	13,410
Total Assets	\$ 578,101	\$ 549,318
Liabilities and Stockholders' Equity		
Deposits	\$ 506,829	\$ 475,589
Borrowings	4,809	5,441
Other liabilities	13,493	17,232
Total liabilities	525,131	498,262
Total stockholders' equity	52,970	51,056
Total Liabilities and Stockholders' Equity	\$ 578,101	\$ 549,318

Condensed Statements of Income (unaudited)

(in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Interest income	\$ 9,185	\$ 10,213	\$ 18,233	\$ 21,094
Interest expense	3,198	5,298	6,559	11,265
Net interest income	5,987	4,933	11,674	9,829
Provision for loan losses	333	0	642	540
Net interest income after provision for loan losses	5,654	4,933	11,032	9,289
Non-interest income	1,885	1,690	3,689	3,543
Non-interest expense - General	3,993	3,949	7,734	7,847
Income before taxes	3,546	2,674	6,987	4,985
Income tax expense	1,219	1,090	2,481	2,036
Net Income	\$ 2,327	\$ 1,584	\$ 4,506	\$ 2,949
Basic earnings per share	\$.53*	\$.37*	\$ 1.02*	\$.68*
Diluted earnings per share	\$.50*	\$.35*	\$.97*	\$.66*
Dividends per share	\$.17*	\$.12*	\$.34*	\$.24*
Weighted average shares - basic	4,417,346*	4,332,960*	4,427,747*	4,341,8397*
Weighted average shares - diluted	4,682,069*	4,463,814*	4,461,109*	4,661,549*

* Adjusted for 3-for2 stock split on April 19, 2002.

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

Featured Products and Services

24 Hour AccessLine

First South Bank's AccessLine is designed to give you access to your account information 24 hours a day, 7 days a week. Just call the local number in Washington, NC, (252-946-0184) or the toll-free number from anywhere else (1-888-317-0097), and receive up to date information about your First South Bank Checking, Savings, CD, Mortgage Loan, or Installment Loan account.

You can also use AccessLine to transfer funds between your First South Bank Checking and Savings accounts, or to verify funds on checks that you receive from First South Bank customers. How do you set up your accounts? Just stop into your local branch and fill out the AccessLine Telephone Transfer Authorization application. It's that simple!

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.

New Branch Location

Kill Devil Hills Office

On June 3, 2002 First South Bank announced the opening of a new branch located at 1906 South Croatan Highway, Kill Devil Hills, NC. Kill Devil Hills is a full service branch that includes ATM, drive thru windows and a commercial night depository. It is the bank's first office on the Outer Banks.

Stop by any of our full service branch offices and we will gladly assist you in opening an account or answer any questions you might have.

All The Bank You'll Ever Need

www.firstsouthnc.com

First South Bank
