
First South Bancorp

*Quarterly
Financial Report*

March 31, 2002

Dear Shareholders:

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

Net income for the quarter ended March 31, 2002 increased 59.6% to \$2,178,575, compared to \$1,365,012 earned in the quarter ended March 31, 2001. We recently announced a three-for-two stock split, payable April 19, 2002 in the form of a 50% stock dividend to stockholders of record as of April 8, 2002. Basic earnings per share, adjusted for the stock dividend, increased 58.1% to \$0.49 per share for the quarter ended March 31, 2002, compared to \$0.31 per share for the quarter ended March 31, 2001. Diluted earnings per share, adjusted for the stock dividend, increased 51.6% to \$0.47 per share for the quarter ended March 31, 2002, compared to \$0.31 per share for the quarter ended March 31, 2001.

This quarter's earnings growth reflects the Bank's success of transitioning into commercial banking. Since converting to a commercial bank, we have made significant progress in restructuring our loan portfolio. We have also focused on attracting lower costing core checking accounts, while repricing higher costing certificates of deposit at lower rates, collectively allowing the Bank to maintain more consistent net interest income.

Total assets increased to \$562.7 million at March 31, 2002 from \$549.3 million at December 31, 2001, reflecting a 9.7% annualized internal growth rate during the current quarter. The net commercial and consumer loan portfolio increased 30.0% to \$305.1 million at March 31, 2002 from \$234.7 million at March 31, 2001, while checking accounts increased 32.3% to \$171.1 million at March 31, 2002 from \$129.3 million at March 31, 2001. In order to support its loan portfolio growth, during the current quarter the Bank recorded \$309,000 of provisions for potential loan losses, increasing total loan loss reserves to \$5.6 million, or 1.3% of total loans outstanding.

The termination of the Employee Stock Ownership Plan ("ESOP") last quarter had a positive impact on our earnings, as no ESOP expense was incurred in the quarter ended March 31, 2002, compared to \$265,436 recognized during the quarter ended March 31, 2001. Since March 31, 2001, the Bank has opened three new full service branch offices located in Kinston, Lumberton, and Washington, North Carolina. The integration of these offices into the Bank's operations and branch office network has also contributed to our earnings growth.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.17 per share to shareholders of record as of April 8, 2002. This dividend represents a 41.7% payment rate increase over the previous quarterly dividend, adjusted for the stock dividend. The dividend payout ratio is 34.7% of this quarter's basic earnings and is our twentieth consecutive quarterly dividend.

The Board of Directors, officers and staff of the Company and the 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)

	<u>March 31,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
	<i>(unaudited)</i>	
Assets		
Cash	\$ 26,812	\$ 21,683
Investment securities	53,214	54,061
Mortgage-backed securities	38,113	43,904
Loans and lease receivables, net	420,353	405,613
Federal Home Loan Bank stock	2,713	2,713
Premises and equipment	7,815	7,934
Other assets	13,647	13,410
Total Assets	<u>\$ 562,667</u>	<u>\$ 549,318</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 489,362	\$ 475,589
Borrowings	4,203	5,441
Other liabilities	17,812	17,232
Total liabilities	511,377	498,262
Total stockholders' equity	51,290	51,056
Total Liabilities and Stockholders' Equity	<u>\$ 562,667</u>	<u>\$ 549,318</u>

Condensed Statements of Income (unaudited)

(in thousands except per share data)

	Three Months Ended	
	<u>March 31,</u> <u>2002</u>	<u>March 31,</u> <u>2001</u>
Interest income	\$ 9,048	\$ 10,863
Interest expense	<u>3,361</u>	<u>5,967</u>
Net interest income	5,687	4,896
Provision for loan losses	<u>309</u>	<u>540</u>
Net interest income after provision for loan losses	5,378	4,356
Non-interest income	1,804	1,854
Non-interest expense - General	3,741	3,899
Income before taxes	3,441	2,311
Income tax expense	<u>1,262</u>	<u>946</u>
Net Income	<u>\$ 2,179</u>	<u>\$ 1,365</u>
Basic earnings per share	\$.49*	\$.31*
Diluted earnings per share	\$.41*	\$.31*
Dividends per share	\$.17*	\$.12*
Weighted average shares - basic	4,438,208*	4,349,834*
Weighted average shares - diluted	4,641,088*	4,458,404*

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 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.

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
