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*First South Bancorp*

*Quarterly  
Financial Report*

September 30, 2002

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## Dear Shareholders:

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

Net income for the quarter ended September 30, 2002 increased 59.7% to \$2,454,503 from \$1,536,888 earned in the quarter ended September 30, 2001. Basic earnings per share increased 55.6% to \$0.56 per share for the quarter ended September 30, 2002 from \$0.36 per share for the quarter ended September 30, 2001. Diluted earnings per share increased 55.9% to \$0.53 per share for the quarter ended September 30, 2002 from \$0.34 per share for the quarter ended September 30, 2001. Net income for the nine months ended September 30, 2002 increased 55.7% to \$6,986,141 from \$4,485,644 earned in the nine months ended September 30, 2001. Basic earnings per share increased 52.9% to \$1.59 per share for the nine months ended September 30, 2002 from \$1.04 per share for the nine months ended September 30, 2001. Diluted earnings per share increased 50.0% to \$1.50 per share for the nine months ended September 30, 2002 from \$1.00 per share for the nine months ended September 30, 2001.

Our earnings growth reflects the Bank's success of increasing its net interest income during the current environment of declining interest rates. Our net commercial loan portfolio increased to \$261.8 million at September 30, 2002 from \$198.2 million at December 31, 2001, reflecting a 42.8% annualized growth rate. During this same period, our checking accounts increased to \$190.5 million from \$152.6 million, reflecting a 33.1% annualized growth rate. The significant growth in our commercial loan portfolio, combined with the growth in lower costing core checking accounts, has contributed to our increased net interest income. To support the risk in our loan portfolio growth, we recorded \$430,000 of loan loss provisions this quarter, increasing total loan loss reserves to 1.4% of loans outstanding.

During this quarter we opened a new loan production office located at 8408 Six Forks Road, Raleigh, North Carolina. In addition, our leasing division, First South Leasing, LLC opened a new office located at 3770 Clemmons Road, Clemmons, North Carolina. This expansion will help us be better prepared to offer full-service banking in the Raleigh and Piedmont marketplaces. We believe these offices will benefit our earnings in future periods.

The Bank has entered into a partnership with UVEST Investment Services, a registered securities broker-dealer, to offer our customers and the general public access to a complete line of securities brokerage services, including mutual funds, stocks and bonds, annuities, financial planning, professional money management and other valuable investment services.

We are pleased to enclose our dividend check of \$0.17 per share to shareholders of record as of October 2, 2002. This dividend payment represents a payout ratio of 30.4% of this quarter's basic earnings and is the Company's twenty-second 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

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## Condensed Statements of Financial Condition

(in thousands)

	September 30, 2002 <i>(unaudited)</i>	December 31, 2001
<b>Assets</b>		
Cash	\$ 33,909	\$ 21,683
Investment securities	55,937	54,061
Mortgage-backed securities	32,886	43,904
Loans and lease receivables, net	454,777	405,613
Federal Home Loan Bank stock	2,713	2,713
Premises and equipment	7,847	7,934
Other assets	12,584	13,410
<b>Total Assets</b>	<b>\$ 600,653</b>	<b>\$ 549,318</b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 524,366	\$ 475,589
Borrowings	4,183	5,441
Other liabilities	20,149	17,232
Total liabilities	548,698	498,262
Total stockholders' equity	51,955	51,056
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 600,653</b>	<b>\$ 549,318</b>

## Condensed Statements of Income (unaudited)

(in thousands except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Interest income	\$ 9,226	\$ 9,794	\$ 27,459	\$ 30,888
Interest expense	3,043	4,560	9,602	15,825
Net interest income	6,183	5,234	17,857	15,063
Provision for loan losses	430	50	1,072	590
Net interest income after provision for loan losses	5,753	5,184	16,785	14,473
Non-interest income	2,121	1,933	5,836	5,477
Non-interest expense - General	4,084	4,498	11,818	12,346
Income before taxes	3,790	2,619	10,803	7,604
Income tax expense	1,335	1,082	3,817	3,118
<b>Net Income</b>	<b>\$ 2,455</b>	<b>\$ 1,537</b>	<b>\$ 6,986</b>	<b>\$ 4,486</b>
Basic earnings per share	\$ .56*	\$ .36*	\$ 1.59*	\$ 1.04*
Diluted earnings per share	\$ .53*	\$ .34*	\$ 1.50*	\$ 1.00*
Dividends per share	\$ .17*	\$ .12*	\$ .51*	\$ .36*
Weighted average shares - basic	4,355,880*	4,287,960*	4,403,670*	4,323,527*
Weighted average shares - diluted	4,647,378*	4,467,814*	4,654,174*	4,463,329*

\* Adjusted for 3-for-2 stock split on April 19, 2002.

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## ***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)

### **Loan Production Office:**

Raleigh

## **Featured Products and Services**

### ***UVEST Financial Services***

First South Bank has entered into a partnership with UVEST Investment Services. UVEST, which is headquartered in Charlotte, North Carolina, is a registered securities broker-dealer and a member of the National Association of Securities Dealers (NASD) and the Securities Investors Protection Corporation (SIPC), as well as the Securities Industry Association (SIA).

Through this partnership, we are now able to offer access to a full range of brokerage services including financial analysis, professional money management, stocks, bonds, mutual funds, annuities, and more. With an appointment, an investment consultant can be available at any First South Bank location for a free, no obligation consultation. For more information, contact Steve Wiggins (252-946-4178) or Tony Russ (252-451-0867), Investment Consultants, or call toll-free at 1-800-946-4178.

Investment products are not FDIC insured, are not bank guaranteed, and may lose value.

### ***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 Raleigh Office***

On September 17, 2002 First South Bank announced the opening of a new loan production office located at 8408, Suite 203, Six Forks Road, Raleigh, N.C. This new office will primarily serve to market the Bank's loan products and services to consumers, local businesses, and residential homebuilders. From there, the Bank hopes to move forward with plans to offer full service branch banking capabilities within the next year. For more information, contact Bobby Ross, Raleigh Area Executive (1-919-845-9897).

***All The Bank You'll Ever Need***

*www.firstsouthnc.com*

***First South Bank***

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