
First South Bancorp

*Quarterly
Financial Report*

June 30, 2001

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, 2001 and the first nine months of its fiscal year ending September 30, 2001.

Net income for the quarter ended June 30, 2001 was \$1,583,744, representing a 75.4% increase over the net income of \$902,849 earned in the quarter ended June 30, 2000. Basic earnings per share increased 83.3% to \$0.55 per share for the quarter ended June 30, 2001, from \$0.30 per share for the quarter ended June 30, 2000, while diluted earnings per share increased 76.7% to \$0.53 per share for the quarter ended June 30, 2001, from \$0.30 per share for the quarter ended June 30, 2000.

Net income for the nine months ended June 30, 2001 was \$4,293,404, representing a 67.2% increase over the net income of \$2,567,471 earned in the nine months ended June 30, 2000. Basic earnings per share increased 81.5% to \$1.47 per share for the nine months ended June 30, 2001, from \$0.81 per share for the nine months ended June 30, 2000, while diluted earnings per share increased 77.8% to \$1.44 per share for the nine months ended June 30, 2001, from \$0.81 per share for the nine months ended June 30, 2000.

The Company's significant earnings growth continues to be enhanced by the performance of the offices we added from two prior year acquisitions. In addition, current quarter earnings were also enhanced by \$391,000 of gains from the sale of loans and mortgage-backed securities. Most are aware that the Federal Reserve is in the process of reducing interest rates, which has the effect of pressuring our net interest income as the yield on loans tends to drop faster than the cost of deposits. This current period of declining interest rates has made our operating environment temporarily more challenging. We have made significant progress in restructuring our loan portfolio since converting to a commercial bank. We also continue to focus on attracting lower costing core checking accounts, and we are currently repricing higher costing certificates of deposit at lower rates, collectively allowing us to maintain more consistent net interest income.

During the next quarter, the Bank will open two new full service banking offices located at 1328 John Small Avenue, Washington, North Carolina and 2430 Heritage Street, Kinston, North Carolina. This will increase our branch office network to nineteen full service offices and provide additional convenient locations for serving the banking needs of our growing Beaufort County and Lenoir County markets. We believe these offices will benefit our earnings in future periods.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.18 per share to shareholders of record as of July 5, 2001. This dividend payment represents payout ratio of 32.7% of this quarter's basic earnings, and is the Company's seventeenth 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
Chief Executive Officer



Condensed Statements of Financial Condition

(in thousands)

	June 30, 2001	September 30, 2000
	<i>(unaudited)</i>	
Assets		
Cash	\$ 31,463	\$ 14,741
Investment securities	52,553	45,186
Mortgage-backed securities	60,808	108,519
Loans and lease receivables, net	366,400	366,210
Federal Home Loan Bank stock	2,713	2,651
Premises and equipment	7,029	7,023
Other assets	<u>14,148</u>	<u>14,924</u>
Total Assets	<u>\$ 535,114</u>	<u>\$ 559,254</u>
Liabilities and Stockholders' Equity		
Deposits	\$ 467,620	\$ 471,942
Borrowings	4,594	30,388
Other liabilities	<u>14,641</u>	<u>12,554</u>
Total liabilities	486,855	514,884
Total stockholders' equity	<u>48,259</u>	<u>44,835</u>
Total Liabilities and Stockholders' Equity	<u>\$ 535,114</u>	<u>\$ 559,719</u>

Condensed Statements of Income (unaudited)

(in thousands except per share data)

	Three Months Ended June 30		Nine Months Ended June 30	
	2001	2000	2001	2000
Interest income	\$ 10,231	\$ 10,099	\$ 32,365	\$ 26,082
Interest expense	<u>5,298</u>	<u>5,241</u>	<u>17,608</u>	<u>13,092</u>
Net interest income	4,933	4,858	14,757	12,990
Provision for loan losses	<u>0</u>	<u>250</u>	<u>780</u>	<u>677</u>
Net interest income after provision for loan losses	4,933	4,608	13,977	12,313
Non-interest income	1,690	1,052	4,842	2,483
Non-interest expense	<u>3,949</u>	<u>4,058</u>	<u>11,548</u>	<u>10,332</u>
Income before taxes	2,674	1,602	7,271	4,464
Income tax expense	<u>1,090</u>	<u>699</u>	<u>2,978</u>	<u>1,897</u>
Net Income	<u>\$ 1,537</u>	<u>\$ 903</u>	<u>\$ 4,293</u>	<u>\$ 2,567</u>
Basic earnings per share	\$.55	\$.30	\$ 1.47	\$.81
Diluted earnings per share	\$.53	\$.30	\$ 1.44	\$.81
Dividends per share	\$.18	\$.13	\$.49	\$.33
Weighted average shares - basic	2,888,640	3,035,340	2,913,550	3,164,459
Weighted average shares - diluted	2,975,876	3,056,067	2,986,878	3,165,716

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
Lumberton
New Bern (2)
Rocky Mount (5)
Tarboro
Washington (2)

These are just a few of our featured products and services designed to meet your financial needs.

Executive Checking

First South Bank's Executive Checking is an investment checking account for the customer who wants a high yield and unlimited checkwriting. Executive Checking customers earn premium money market interest rates as balance tiers increase and also receive free specialty gray wallet checks. There are no monthly charges if the minimum balance of \$10,000 is maintained.*

Senior Checking

Tired of monthly fees and restrictions on checkwriting? First South Bank's Senior Checking is designed for customers age 50 and over, totally FREE, interest earning and easy to maintain. Benefits include no minimum balance, no monthly fees, free checks, no penalty CD withdrawal and more!*

**Please see our Personal Checking and Savings brochure for more information or stop by one of our 17 full-service branches conveniently located throughout eastern North Carolina to learn about the various products and services First South Bank has to offer. We will be pleased to assist you in opening an account or answering any questions you may have.*

All The Bank You'll Ever Need
www.firstsouthnc.com

First South Bank
