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*First South Bancorp*

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*Quarterly  
Financial Report*

**March 31, 2001**

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## 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 (unaudited) for the quarter ended March 31, 2001 and the first six months of its fiscal year ending September 30, 2001.

Net income for the quarter ended March 31, 2001 was \$1,365,012; representing a 59.8% increase over the net income of \$853,956 earned in the quarter ended March 31, 2000. Diluted earnings per share increased 70.4% to \$0.46 per share for the quarter ended March 31, 2001, compared to \$0.27 per share for the quarter ended March 31, 2000.

Net income for the six months ended March 31, 2001 was \$2,709,661, representing a 62.8% increase over the net income of \$1,664,622 earned in the six months ended March 31, 2000. Diluted earnings per share increased 75.0% to \$0.91 per share for the six months ended March 31, 2001, compared to \$0.52 per share for the six months ended March 31, 2000.

The performance of the branch offices added from two prior year acquisitions continues to contribute to the Company's significant earnings growth. During the previous fiscal year, the Company acquired Home Federal Savings and Loan Association with offices in Fayetteville and Lumberton, North Carolina and purchased six Triangle Bank branch offices in Rocky Mount, Dortches and Tarboro, North Carolina. Current period earnings were also enhanced by \$771,000 of gains from the sale of certain mortgage loans and mortgage-backed securities held-for-sale, as interest rates declined to more favorable levels. In order to support consumer and commercial loan portfolio growth and the potential risks associated with these types of loans, during the current quarter the Bank recorded \$540,000 of provisions for potential loan losses, increasing total loan loss reserves to \$5.8 million, or 1.5% of total loans outstanding.

During the quarter ended March 31, 2001, the Bank filed applications to open two new full service branch offices located at 1328 John Small Avenue, Washington, North Carolina and 2430 Heritage Street, Kinston, North Carolina. We anticipate receiving regulatory approval in a timely manner and opening these offices during the fourth quarter. This will expand our branch office network to nineteen full service offices and will provide convenient locations for serving the banking needs of our growing Beaufort and Lenoir County markets.

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 April 3, 2001. This dividend payment represents a 38.5% payment rate increase over the previous quarterly dividend payment, and represents a cumulative 80.0% payment rate increase over the dividend payment a year ago. In addition, this dividend payment represents a payout ratio of 38.3% of this quarter's earnings and is our sixteenth consecutive quarterly cash 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  
Chief Executive Officer

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## Condensed Statements of Financial Condition

(in thousands)

	<u>March 31,</u> <u>2001</u>	<u>September 30,</u> <u>2000</u>
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash	\$ 31,669	\$ 14,741
Investment securities	53,094	45,186
Mortgage-backed securities	69,862	108,519
Loans and lease receivables, net	369,014	366,210
Federal Home Loan Bank stock	2,713	2,651
Premises and equipment	6,943	7,023
Other assets	<u>13,471</u>	<u>15,389</u>
<b>Total Assets</b>	<u><u>\$ 551,766</u></u>	<u><u>\$ 559,719</u></u>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 483,647	\$ 471,942
Borrowings	6,118	30,388
Other liabilities	<u>14,099</u>	<u>12,554</u>
Total liabilities	503,864	514,884
Total stockholders' equity	<u>47,902</u>	<u>44,835</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u><u>\$ 551,766</u></u>	<u><u>\$ 559,719</u></u>

## Condensed Statements of Income (unaudited)

(in thousands except per share data)

	<u>Three Months Ended</u> <u>March 31</u>		<u>Six Months Ended</u> <u>March 31</u>	
	2001	2000	2001	2000
Interest income	\$ 10,863	\$ 9,178	\$ 22,134	\$ 15,984
Interest expense	<u>5,967</u>	<u>4,680</u>	<u>12,310</u>	<u>7,851</u>
Net interest income	4,896	4,498	9,824	8,133
Provision for loan losses	<u>540</u>	<u>200</u>	<u>780</u>	<u>427</u>
Net interest income after provision for loan losses	4,356	4,298	9,044	7,706
Non-interest income	1,853	815	3,153	1,430
Non-interest expense	<u>3,898</u>	<u>3,631</u>	<u>7,600</u>	<u>6,274</u>
Income before taxes	2,311	1,482	4,597	2,862
Income tax expense	<u>946</u>	<u>628</u>	<u>1,887</u>	<u>1,197</u>
<b>Net Income</b>	<u><u>\$ 1,365</u></u>	<u><u>\$ 854</u></u>	<u><u>\$ 2,710</u></u>	<u><u>\$ 1,665</u></u>
Basic earnings per share	\$ .47	\$ .27	\$ .93	\$ .52
Diluted earnings per share	\$ .46	\$ .27	\$ .91	\$ .52
Dividends per share	\$ .18	\$ .10	\$ .31	\$ .20
Weighted average shares - basic	2,889,889	3,195,141	2,925,909	3,229,019
Weighted average shares - diluted	2,972,269	3,195,141	2,993,395	3,229,019

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

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### ***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.\*

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### ***Access Line- Funds Verification***

Now you can verify funds on a First South Bank check with AccessLine 24-Hour Telephone Banking. Call the AccessLine at 252-946-0184 or toll free 1-888-317-0097 to take advantage of this service. This is offered to customers, non-customers and merchants to take the risk out of accepting checks written on First South Bank accounts. Why wait until banking hours when you can get an answer any time of the day, any day of the week?

*Stop by one of our 17 full-service branches conveniently located throughout eastern North Carolina to learn more 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.*

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

***First South Bank***

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