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*First South Bancorp*

*Quarterly  
Financial Report*

September 30, 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 for the quarter ended September 30, 2001 (Unaudited) and the fiscal year ended September 30, 2001(Unaudited).

Net income for the quarter ended September 30, 2001 increased 56.6% to \$1,536,888, compared to \$981,651 earned in the quarter ended September 30, 2000. Basic earnings per share increased 63.6% to \$0.54 per share for the quarter ended September 30, 2001, compared to \$0.33 per share for the quarter ended September 30, 2000. Diluted earnings per share increased 57.6% to \$0.52 per share for the quarter ended September 30, 2001, compared to \$0.33 per share for the quarter ended September 30, 2000.

Net income for the year ended September 30, 2001 increased 64.3% to \$5,830,290, compared to \$3,549,032 in the year ended September 30, 2000. Basic earnings per share increased 76.3% to \$2.01 per share for the year ended September 30, 2001, compared to \$1.14 per share for the year ended September 30, 2000. Diluted earnings per share increased 72.6% to \$1.95 per share for the year ended September 30, 2001, compared to \$1.13 per share for the year ended September 30, 2000.

The year ended September 30, 2001 was an eventful one for the Company and the Bank. The Bank was recognized for being the number one Small Business Administration lender among community banks in the state of North Carolina, we opened two new full service banking offices located in Washington and Kinston, North Carolina, and we opened a new Operations Center, also located in Washington. We have also created a new leasing division called First South Leasing, LLC that will offer general equipment leases to the commercial markets of eastern North Carolina and the Piedmont, parts of South Carolina and Virginia, as well as to the existing commercial accounts and business clients of the Bank.

The Bank will open a new full service banking office located at 3000 North Elm Street, Lumberton, North Carolina during the next quarter. This will increase our branch office network to twenty full service offices and provide an additional convenient location for serving the banking needs of our growing Lumberton and Robeson County markets

Our sympathies go out to all those who suffered a personal loss and to those who were injured in the recent attack on our country. The economic turmoil created by this tragedy has made our operating environment temporarily more challenging. The Bank is attempting to meet the continuing financial needs of its customers and reassures them of our commitment to service.

On behalf of your Board of Directors, we are pleased to enclose our dividend check of \$0.18 per share payable to shareholders of record as of Oct. 3, 2001. This dividend payment represents a payout ratio of 33.3% of this quarter's basic earnings, and is the Company's eighteenth 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

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## Condensed Statements of Financial Condition

(in thousands)

	September 30, 2001	September 30, 2000
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash	\$ 40,449	\$ 14,741
Investment securities	54,742	45,186
Mortgage-backed securities	48,603	108,519
Loans and lease receivables, net	374,087	366,210
Federal Home Loan Bank stock	2,713	2,651
Premises and equipment	7,926	7,023
Other assets	<u>12,567</u>	<u>14,924</u>
<b>Total Assets</b>	<b><u>\$ 541,087</u></b>	<b><u>\$ 559,254</u></b>
<b>Liabilities and Stockholders' Equity</b>		
Deposits	\$ 470,025	\$ 471,942
Borrowings	4,909	30,388
Other liabilities	<u>15,384</u>	<u>12,089</u>
Total liabilities	490,318	514,419
Total stockholders' equity	<u>50,769</u>	<u>44,835</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 541,087</u></b>	<b><u>\$ 559,254</u></b>

## Condensed Statements of Income (unaudited)

(in thousands except per share data)

	Three Months Ended September 30		Year Ended September 30	
	2001	2000	2001	2000
Interest income	\$ 9,794	\$ 10,783	\$ 42,159	\$ 36,865
Interest expense	4,560	5,921	22,168	19,013
Net interest income	<u>5,234</u>	<u>4,862</u>	<u>19,991</u>	<u>17,852</u>
Provision for loan losses	<u>50</u>	<u>300</u>	<u>830</u>	<u>977</u>
Net interest income after provision for loan losses	5,184	4,562	19,161	16,875
Non-interest income	1,933	949	6,776	3,432
Non-interest expense	4,498	3,768	16,047	14,100
Income before taxes	<u>2,619</u>	<u>1,743</u>	<u>9,890</u>	<u>6,207</u>
Income tax expense	<u>1,082</u>	<u>761</u>	<u>4,060</u>	<u>2,658</u>
<b>Net Income</b>	<b><u>\$ 1,537</u></b>	<b><u>\$ .33</u></b>	<b><u>\$ 5,830</u></b>	<b><u>\$ 3,549</u></b>
Basic earnings per share	<u>\$ .54</u>	<u>\$ .33</u>	<u>\$ 2.01</u>	<u>\$ 1.14</u>
Diluted earnings per share	\$ .52	\$ .33	\$ 1.95	\$ 1.13
Dividends per share	\$ .18	\$ .13	\$ .67	\$ .46
Weighted average shares - basic	2,858,524	2,967,412	2,899,846	3,115,768
Weighted average shares - diluted	2,978,638	2,996,489	2,985,426	3,127,090

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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 (2)  
Lumberton  
New Bern (2)  
Rocky Mount (5)  
Tarboro  
Washington (3)

## **New Leasing Company**

### ***First South Leasing, LLC***

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First South Bank announced the creation of First South Leasing on September 12, 2001. First South Leasing will offer general equipment leases to the commercial markets of eastern North Carolina and the Piedmont, parts of South Carolina and Virginia, as well as to the existing commercial accounts and business clients of the Bank. First South Leasing is located at 239 West Main Street, Washington, N.C., and the company's toll-free number is 1-800-845-6576.

## **New Branch Locations**

### ***Washington Corner Office***

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On August 8, 2001 First South Bank announced the opening of its new "Washington Corner" branch located at 1328 John Small Avenue, Washington, N.C. Washington Corner is a full service branch that includes an ATM, drive thru window and a commercial night depository. The new office is the Bank's third office in Washington and fourth in Beaufort County.

### ***Kinston Plaza Office***

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On August 14, 2001 First South Bank announced the opening of its new "Kinston Plaza" branch located at 2430 Heritage Street, Kinston, N.C. The Plaza branch is a full service branch that includes an ATM, drive thru window and a commercial night depository. It is the Bank's second office in the city of Kinston.

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

# ***First South Bank***

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