

**CPP ANNUAL USE OF CAPITAL SURVEY - 2010**



NAME OF INSTITUTION  
(Include Holding Company Where Applicable)

Sound Banking Company

Point of Contact:	Allen Nelson, CFO919-616-2067	RSSD: (For Bank Holding Companies)	0
UST Sequence Number:	144	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	3,224,000	FDIC Certificate Number: (For Depository Institutions)	57095
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Morehead City
Date Repaid <sup>1</sup> :	N/A	State:	North Carolina

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

Increase lending or reduce lending less than otherwise would have occurred.

To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).

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Increase securities purchased (ABS, MBS, etc.).

Empty response box for 'Increase securities purchased (ABS, MBS, etc.).'

Make other investments.

Empty response box for 'Make other investments.'

Increase reserves for non-performing assets.

Empty response box for 'Increase reserves for non-performing assets.'

Reduce borrowings.

Approximately \$3 million of FHLB borrowing was repaid in 2010

Empty response box for 'Reduce borrowings.'

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Increase charge-offs.

Empty response box for 'Increase charge-offs.'

Purchase another financial institution or purchase assets from another financial institution.

Empty response box for 'Purchase another financial institution or purchase assets from another financial institution.'

Held as non-leveraged increase to total capital.

The initial plan for the CPP funds was to use it to support additional lending in our market. However, the demand for loans has been soft primarily due to the weak economy.

Empty response box for 'Held as non-leveraged increase to total capital.'

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**What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?**

Even though the demand for loans is soft and our outstanding loans are down, the capital infusion of CPP funds has improved our capital ratios and has allowed the Bank to be in position to make more loans available to borrowers when demand increases than would otherwise be the case.

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**What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?**

See the above answer.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**

None