



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Southern Community Financial Corporation and Southern Community Bank and Trust

Person to be contacted regarding this report:	James Hastings
CPP Funds Received:	\$42,750,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	12/5/2008
Date Repaid ¹ :	

RSSD: (For Bank Holding Companies)	2981831
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	34321
City:	Winston Salem
State:	North Carolina

¹If 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). To answer that question, Treasury is seeking responses that describe generally how the CPP 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 investment was deployed or how many CPP 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 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 funds were outstanding).

<input type="checkbox"/> Increase lending or reduce lending less than otherwise would have occurred.	
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<input type="checkbox"/>	<p>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.).</p>	
<input type="checkbox"/>	<p>Increase securities purchased (ABS, MBS, etc.).</p>	
<input type="checkbox"/>	<p>Make other investments</p>	
<input checked="" type="checkbox"/>	<p>Increase reserves for non-performing assets</p>	<p>The CPP capital bolstered our capital as we increased our allowance for loan losses by \$10.8 million during 2009 (in addition to increasing our loan charge-offs shown below) to reserve for increasing nonperforming loans throughout 2009.</p>

<input checked="" type="checkbox"/>	Reduce borrowings	During 2009, we reduced borrowings by \$88.6 million. In addition, we reduced our reliance on brokered certificates of deposit by \$34 million. We became more core retail deposit funded by these reductions.
<input checked="" type="checkbox"/>	Increase charge-offs	We increased our loan charge-offs by \$20 million in our resolution of troubled loans in 2009 during this challenging time. We also expensed \$2.5 million writedowns in foreclosed real estate values and \$1.3 million to incent consumers to purchase builder new home inventory.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	The CPP capital increased our regulatory capital so we remained a "well capitalized" bank despite asset quality pressures. Our consolidated total risk-based capital ratio rose from 10.67% (pre-CPP) to 13.80% and 12.92% at 12/31/2008 and 12/31/2009, respectively.

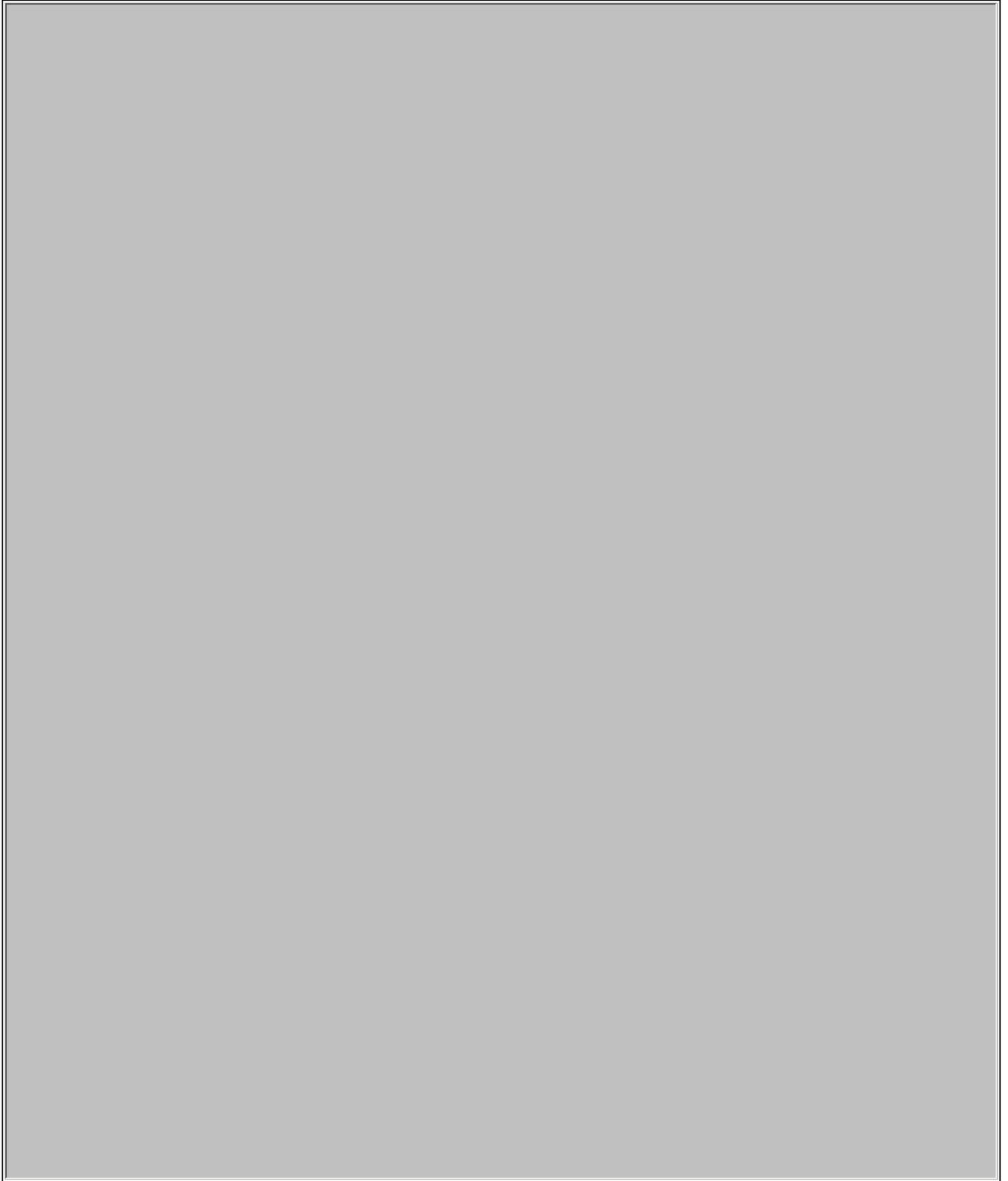
What actions were you able to avoid because of the capital infusion of CPP funds?

The amount of CPP capital that we received from the Treasury on December 5, 2008 was \$42.75 million, or approximately 3% of risk-weighted assets, which increased one of our regulatory ratios to 13.80% at December 31, 2008, well above the 10% minimum for a "well capitalized" bank. This total risk-based capital ratio at December 31, 2009 decreased to 12.92%. Had we not participated in the CPP program, our total risk-based capital ratio would have been about 9.92%, slightly below the regulatory minimum for a "well capitalized" bank. This would have diminished our financial strength and hampered our core deposit gathering efforts, putting potential pressure on our Bank's liquidity. Furthermore, if we were not a "well capitalized" bank, it would have restricted our ability and increased our cost to borrow any required wholesale funding from correspondent banks and in the brokered certificate of deposit market. Overall, this CPP capital infusion provided us with financial strength that bolstered our reputation as a financially safe and sound banking institution and enhanced our efforts to continue to serve our communities.

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

- * As stated above, we had greater flexibility in funding our bank by growing our core deposit base and favorably changing our funding mix away from brokered deposits and borrowings.
- * Enabled us to continue to serve our communities as before. gave our customers, employees and shareholders confidence in our financial stability and safety.
- * Ability to keep lending even though loan demand has been severely impacted by the economy.
- * Provided financial resources to aggressively resolve troubled loans during this difficult economic period. As stated above, increased reserves sufficiently to charge-off nonperforming loans and build an adequate allowance for loan losses throughout 2009 to work through the significant increase we experienced in nonperforming loans.
- * We established a home buyer incentive program under which we paid up to \$10,000 each to buyers of our builders' new home inventory financed by us. Under this program, we spent \$1.3 million to incent the purchase of 130 homes.
- * We have been able to weather the storm of a poor economy and the resulting loan portfolio credit problems.
- * Enabled us as a healthy bank to take a look a FDIC assisted transactions.
- * Provided a safety net against the uncertainty in the marketplace.
- * This CPP capital provided us with the then current infusion and the ongoing prospective access to capital that was not and has not been available due to the economic conditions.
- * As stated above, this CPP capital has kept us very well capitalized and in good standing with regulatory requirements.

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



According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.