

July 2009

# SOUND Bank

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## A Letter from the President

### Bank Remains Strong Despite Real Estate Loan Write-Downs

Dear Sound Bank Friends,

2009 has proven to be a particularly challenging year for the coastal real estate market. In the 2005 to 2007 timeframe, consumer confidence was high and real estate sales were robust. Developers with sound business plans and quality construction projects could expect to sell their units briskly for reasonable profits. From a banking perspective these land development and construction loans were considered good risks with few problems.

In 2008, however, the real estate market began to weaken, jobs were lost and consumer confidence declined. Real estate sales became sluggish and many presales fell through making it difficult for developers to meet their debt obligations. Since then sales have continued to fall to all time lows, forcing even some seasoned and well respected developers to default on their loans.

We all have been affected one way or another by the current economic climate and Sound Bank is no exception. Recently we classified several large construction and land development loans as "non-performing" and wrote them down to their estimated realizable values. This action resulted in a \$1.7 million charge against 2nd quarter earnings. Approximately half of the write-down was associated with one large condominium project in which we participated with several other banks. The remaining write-downs were associated with other construction and land development loans that faltered due to the economic downturn. We are pursuing collection of these loans and hope to recover as much as possible on the debt.

These types of loans, in both purpose and size, are a small percentage (less than 5%) of our total portfolio. Our specialty and main focus is lending to small to medium sized

local businesses and individuals. This distribution of exposure over a diverse collection of smaller loans tends to make our portfolio less vulnerable to declines in any one sector.

Although the 2nd quarter 2009 results are disappointing, earnings from core operations (excluding write-downs) were approximately \$340,000. Increases in net interest income and fees earned coupled with operating costs controls helped reduce the quarter's loss to \$1.3 million. It is also important to note that Sound Bank retains its strong capital position and is classified by bank regulators as "**well capitalized**".

I want to emphasize that Sound Bank is a safe and secure financial institution and we are committed to helping our customers navigate through these challenging times. The Bank is well positioned to continue providing the outstanding financial products and special hometown service that our customers deserve.

Sound Bank has always been very supportive of our local schools and civic and charitable organizations. Some of the creative ways we are helping our communities are highlighted in this newsletter.

We appreciate your continued confidence and support. Our goal is always to be your trusted financial partner, helping you find the right balance of loan, deposit and investment services to meet your needs.

Sincerely,



S. Phillip Collins  
President and CEO



## North Carolina Banks Remain Strong



NCBA President  
Thad Woodard

*“North Carolina  
Banks are well  
capitalized”*

Reacting to recent headlines about uncertainty in the nation’s financial services industry, North Carolina Bankers Association (NCBA) President Thad Woodard said that North Carolina’s banks remain strong.

“North Carolina banks are well capitalized, enabling them to weather the current economic downturn. NCBA members entered this current reversal following years of unprecedented earnings. Capital levels stood at an all time high,” Woodard said. The NCBA is the industry trade group representing all 141 banks, savings institutions and trust companies doing business in North Carolina.

Woodard also said that he wanted to remind the public that banks are subject to “strict supervision and

examination” by state and federal regulatory agencies and that consumers’ deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, up to \$250,000 per depositor, per bank. The FDIC is funded through assessments on the industry, not taxpayer dollars, and no depositor has ever lost a penny of insured deposits.

Commenting on the current economic conditions, Mr. Woodard stated, “Although the current recession seems more severe than any since the 1930’s, our state’s banking industry remains strong and viable. We have been through tough economic cycles before. Rest assured conditions will improve.”

## Commissioner Comments on Health of NC Banks



*“With hard work  
and cooperation  
among public and  
private sectors, we  
will make it through  
in good shape.”*

Joseph A. Smith, Jr.  
NC Commissioner of Banks

On March 3<sup>rd</sup>, 2009, Commissioner of Banks Joseph A. Smith, Jr. made a presentation to the North Carolina Senate Commerce Committee concerning the financial health of North Carolina’s banks. In his presentation he stated that, “Capital is very important to the health of our state-chartered banks and presently, capital in general is more than adequate. That is fortunate because access to the capital markets is currently unavailable or extremely expensive.” He added that of the 59 NC banks requesting capital through the Treasury Capital Purchase Program, 22 had been approved and have received \$3.5 billion in

additional capital to date. He also stated, “Asset quality has deteriorated as evidenced by increases in non-performing assets, allowances for loan losses, and other real estate owned. This is due to the concentration in real estate related loans that most state chartered banks own.” He noted that, “Statewide, earnings will trend lower as banks work through their troubled loans.” In summary, Smith stated, “The banking industry is going through a difficult period of adjustment. With hard work and cooperation among public and private sectors, it will make it through in good shape.”

## FDIC Insurance Increase Extended

On October 3, 2008, FDIC deposit insurance increased from \$100,000 to \$250,000 per depositor.

Recently the FDIC announced that “the standard insurance amount of \$250,000 per depositor is in effect through December 31, 2013. On January 1, 2014, the standard insurance amount will return to \$100,000 per depositor for all account categories except IRAs and other certain retirement accounts, which will remain at \$250,000 per depositor.”

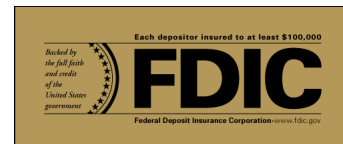
There are four categories of accounts for individuals insured by the FDIC with each category insured separately:

\$250,000 for single ownership deposit accounts.

\$250,000 for joint ownership deposit accounts.

\$250,000 for certain retirement accounts.

\$250,000 for each beneficiary of an owner’s revocable trust account that meets certain requirements.



*Ask a Sound Bank customer service representative for details on structuring your accounts to receive the most FDIC insurance coverage.*

## New Bern Loan Production Office Moves

Mark Gatlin, Vice President and Business Development Manager of the Sound Bank’s New Bern loan production office, recently announced the office’s relocation from Highway 70 East to the Altrius Capital Management building

located at 1323 Commerce Drive, New Bern.

“The central location of the office and Sound Bank’s relationship with Altrius Capital Management makes this move an ideal one,” stated Mark.



The New Bern loan production office has moved to the Altrius Capital Management Building at 1323 Commerce Drive.

## Sound Bank Sponsors “Adopt an Artist” Program

Sound Bank is a proud sponsor of the Arts Council of Carteret County “Adopt an Artist” program. Artwork by local artists is on display in the lobbies of the Morehead City and Beaufort offices. The exhibits are changed every two months and the public is invited to visit the branches and view the exhibits.

Artists working in any medium who are members in good standing of the ACCC may participate in the

program. Contact information for each featured artist is given with the description of each piece.

Art work may be purchased directly from the artists. Sponsors do not receive commissions from the sales.

For more information about the “Adopt an Artist” program contact the Carteret County Arts Council at [artscarteret@yahoo.com](mailto:artscarteret@yahoo.com).



Branch manager Shea Byrd helps Beaufort artist Heather Sink hang her acrylics on canvas in the Morehead City office lobby.



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## Sound Bank Employees Volunteer in Community

Giving back to the community is one of the founding principles of Sound Bank. We are truly dedicated to making our communities better places to live and work. Our employees volunteer countless hours for local organizations and serve on many committees, advisory boards and boards of directors.

This year, employees are focusing more than ever on hands-on ways to help.

Sound Bank employees work with over 60 local organizations from helping to build Habitat for Humanity homes to hosting the Red Cross Blood Mobile twice a year and sponsoring a team for the March of Dimes. We are

also very active in local schools, providing speakers and sponsoring programs to reinforce math skills and help students learn the importance of managing money.

We are proud of our commitment to volunteerism and the dynamic roles that we play in our communities.



DeAnna Bousman helps Blair Pearce complete her deposit slip.



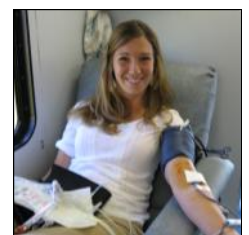
Tiger Cubs examine the safety deposit box vault with Mal Garland.



Bev Daniel reads at Morehead Primary School.



Volunteers take a break at the Sound Bank Habitat for Humanity volunteer day.



Crystal Thomas gives blood at the Sound Bank blood drive.