



January 29, 2010

Dear Customer/Shareholder,

Last year, I began updating you quarterly on the state of our Bank and industry in response to the financial crisis that occurred in late 2008. Fortunately, since then our industry has continued to recover; however we believe it is still important to keep you informed and up to date on the state of our Bank and industry.

In 2009, our primary focus was on problem loan resolution. It was critical that we identify and resolve issues in our loan portfolio immediately by taking prudent steps to increase reserves, take charge offs, and write downs on foreclosed real estate values where necessary. Our year end numbers reflect our diligent efforts to manage our problem assets. We added \$18 million to our loan loss reserves in the fourth quarter and also charged off \$9.2 million in problem assets. The majority of these loans were performing well when they were originated, and met or exceeded our stringent underwriting criteria. However, many of our borrowers were hit hard by a weak economy that has continued for two years and was beyond their control. I think you will agree, this downturn has been broad based, affecting all of us in some way.

Southern Community remains safe and sound, despite having posted a net loss for the year. Our regulatory capital ratios remain in excess of well capitalized thresholds, and your deposits are safe and secure.

On a positive note, the Bank's core earnings continued to improve during 2009. We opened new offices in Asheville and Raleigh, both of which are off to a great start. Our employees have done an exceptional job serving our customers, and I am thankful for their hard work and dedication during these difficult economic times.

The positive trends in our core earnings, combined with the difficult, but necessary, decisions we made in 2009, bode well for our future. We believe these steps will accelerate our return to profitability, and ultimately have a positive impact on our stock. The Bank is now in a stronger position for when the economy improves.

Will the recession end in 2010? While we are encouraged by some positive trends we are seeing in the economy, we do not yet see enough of these signs to say for sure. When businesses start hiring again and consumer confidence returns, the recession will end with much better times ahead.

I am hopeful that 2010 will be a great year. Regardless of what happens with the economy, we will be here to serve your needs. Great times are ahead of us!

Please let me know if we may be of assistance. You may call me directly at 888-768-2666 or email me at Scott.Bauer@smallemoughtocare.com. Any of our dedicated employees are available to you.

As always, thank you for your business and support.

A handwritten signature in black ink, appearing to read "Scott", with a long, sweeping flourish extending upwards and to the right.

F. Scott Bauer
Chairman and CEO
Southern Community Financial Corporation