



SOUTHERN HERITAGE BANCSHARES, INC.

Dear Shareholder:

July 25, 2011

As owners of Southern Heritage Bank, I think you will enjoy the 2011 second quarter news. It is nice to send these positive greetings to our shareholders in the midst of so much negative news in the media regarding our country's debt and the current state of the economy. We are not totally isolated from the impact of all the negative news, but we are defying the trends and are pleased to report an increase in earnings and capital for the second quarter and the first six months of the year.

The *bank only* financials for 6/30/11 show a net income of \$1,238,000 which is an increase of 85% over the same period last year. The all-important capital ratios continue to improve, and the quality of the loan portfolio continues to move swiftly in a positive direction. Here are the actual comparable numbers:

	<u>6/30/10</u>	<u>12/31/10</u>	<u>3/31/11</u>	<u>6/30/11</u>
<i>(in thousands)</i>				
Total Deposits	183,848	179,422	182,021	188,634
Total Loans	150,311	143,112	141,972	137,898
Total Assets	209,845	206,408	210,281	218,441
	<u>6/30/10</u>	<u>12/31/10</u>	<u>3/31/11</u>	<u>6/30/11</u>
Net Income	313	449	537	701
By Quarter	(3 months)	(3 months)	(3 months)	(3 months)
YTD	670	1,639	537	1,238
	(6 months)	(12 months)	(3 months)	(6 months)
Tier One Capital Ratio	10.94%	11.97%	12.08%	12.15%

In regard to the dividend announced at the Annual Shareholder's Meeting, I reported then that I expected regulatory approval to come within a sixty-day period. To date, we have not received approval but still expect this to come. The timing continues to be harder to predict with all that is going on in Washington. We have prepared for the approval, and the distribution of checks will be easily completed once we are given the notice. The Small Business Lending Fund program (which for us will replace the TARP program) must have their process completed by September 27, but it is also possible that approval will be received within the next week. With this being our first cash dividend paid, and knowing that future dividends will not require approval, it will be much easier to communicate the timing when we declare the next dividend. I apologize for this small delay and assure you we will expedite the delivery of checks upon approval.

There are many regulatory changes taking effect in July because of the Dodd – Frank legislation. These changes will dictate that we continue to examine our procedures and alter some products. Be assured we will continue to offer products and services that will be consistent with our Mission. You can always "Expect a Difference" at Southern Heritage Bank. Once again, we are excited about our performance and especially the improved profitability. Please call me or stop by to see us if you would like to discuss the state of your bank. We are grateful for your continued support.

Yours truly,

Lee Stewart
President and CEO