Second Quarter 2010
Earnings Presentation

July 23, 2010

Southern Community
FINANCIAL CORPORATION

NASDAQ: SCMF

www.smallenoughtocare.com

FORWARD LOOKING STATEMENTS

This presentation may contain, in addition to historical information, various "forward-looking statements" that represent our judgment concerning the future and are subject to risks and uncertainties that could cause Southern Community's actual operating results and financial position to differ materially from those projected in the forward-looking statements. Such forward-looking statements can be identified by the use of forward looking terminology, such as "may," "will," "expect," "anticipate," "estimate," or "continue" or the negative thereof or other variations thereof or comparable terminology. We caution that any such forward-looking statements are further qualified by important factors that could cause Southern Community's actual operating results and financial position to differ materially from the forward-looking statements, including without limitation considerations described in connection with specific forward looking statements. We undertake no obligation to update any forward-looking statements to reflect events or circumstances arising after the date of this presentation.

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Substantial Reduction in Net Loss

- Reduction in credit related expenses
  - Charged off $4.2 million land development loan with reserves allocated in the first quarter, contributing to the $4.5 million sequential decrease in provision for loan losses and the $6.4 million decrease in allowance for loan losses
- Strong core earnings
  - 41 bps NIM improvement to 3.46% y/y
  - Net interest income improvement driven by improved funding mix:
    - 20% growth y/y in non-interest bearing deposits
    - 36% growth y/y in MM, Savings and NOW deposits
  - Non-interest income increased 21%, excluding securities gains and OTTI write-downs
  - Pre-tax, pre-provision earnings improved 3% over Q1 and 274% over Q2 2009

Outlook

- Expect some moderation in NPLs beginning in the third quarter 2010:
  - Progress made in the identification of large $ problem assets
  - Continue focus on resolution of non-performing assets
  - Write downs on foreclosed assets are expected to moderate
- Loan demand to remain muted over next few quarters
- Funding costs are expected to remain stable at the current low levels
- Reduced expense base will serve us well once economy improves
- Remain well capitalized with ratios exceeding regulatory requirements

Southern Community continues to be well positioned for sustainable improvement in the economy

Second Quarter 2010 Financial Highlights

- Net loss available to common shareholders of $372 thousand for second quarter 2010 represents a decrease of $4.8 million sequentially and $2.9 million year-over-year

- Provision for loan losses of $5.5 million decreased $4.5 million compared to the first quarter; allowance for loan losses decreased $6.4 million
  - $4.2 million loan charged off in 2Q10 with reserves allocated in a prior quarter

- NPLs of $55.5 million, or 4.63% of total loans, compared to $50.6 million, or 4.19% of total loans at March 31, 2010

- NPAs of $74.3 million, or 4.47% of total assets, compared to $70.9 million, or 4.15% of total assets at March 31, 2010
  - $4.9 million increase in non-performing loans offset by $1.5 million decrease in foreclosed assets

Second Quarter 2010 Financial Highlights

- Net interest margin of 3.46% increased 5 bps on a linked quarter basis and 41 bps year-over-year
  - Lower deposit costs resulting from improved deposit mix

- Linked quarter improvements in non-interest income of 11% in total and 21% excluding securities gains and OTTI write-downs

- Non-interest expenses increased 4% sequentially
  - $335,000 increase in costs associated with OREO, including write-downs and expenses related to foreclosed real estate
  - $198,000 in legal expenses related to the resolution of problem credits

- Total assets decreased 3% over 1Q10, and 4% y/y
  - 1% sequential decrease in loan portfolio; 4% decrease y/y

- Funding mix continued to improve
  - Non-interest bearing deposits increased 9% sequentially, MM/Savings/NOW balances increased 1%, while CD balances decreased 5% over Q1

Core Deposit & Fee Income Initiatives

- ME Banking continues to significantly contribute to improved funding mix and fee income growth:
  - On average, open 400 new ME Banking accounts/month
  - Average balance approximately $10,000/account
  - Approximately 20 debit card purchases/month, well above the minimum of 10 to qualify for premium rate

- Stated rate decreased to 3.00% from 4.00%; however, weighted average cost of these funds much lower
  - ~70% of customers comply with all requirements to earn premium rate
  - Fee income contribution further reduces the cost of funds

Core Deposit & Fee Income Initiatives

- Strong growth in non-interest bearing deposits
  - Addition of quality commercial and municipal relationships
  - Continue to benefit from market disruption – larger competitors no longer offer free checking
- Increased Brokerage Income
  - Company-wide emphasis on brokerage resulted in large customer acquisitions
  - Pipeline for brokerage is strong heading into 3Q10
- Mortgage volumes increased in May
  - Refinance activity has increased due to low interest rate environment
  - Mortgage pipeline is strong as we move into 3Q10

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