

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Southern Heritage Bancshares, Inc.

Point of Contact:	Steve Ledbetter EVP423-303-1721	RSSD: (For Bank Holding Companies)	2798897
UST Sequence Number:	1115	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	4,862,000	FDIC Certificate Number: (For Depository Institutions)	35093
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	May 15, 2009	City:	Cleveland
Date Repaid ¹ :	N/A	State:	Tennessee

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) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI 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/CDCI investment was deployed or how many CPP/CDCI 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/CDCI 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/CDCI funds were outstanding).

Increase lending or reduce lending less than otherwise would have occurred.

See Below

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.).

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Increase securities purchased (ABS, MBS, etc.).

See Below

Empty response area for 'Increase securities purchased (ABS, MBS, etc.).'

Make other investments.

Empty response area for 'Make other investments.'

Increase reserves for non-performing assets.

Empty response area for 'Increase reserves for non-performing assets.'

Reduce borrowings.

Empty response area for 'Reduce borrowings.'

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Increase charge-offs.

Empty response box for 'Increase charge-offs.'

Purchase another financial institution or purchase assets from another financial institution.

Empty response box for 'Purchase another financial institution or purchase assets from another financial institution.'

Held as non-leveraged increase to total capital.

See Below

Empty response box for 'Held as non-leveraged increase to total capital.'

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

A large, empty rectangular box with a black border, intended for the respondent to provide their answer to the question above.

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

Southern Heritage Bancshares transferred \$4,500,000 of the \$4,862,000 received, down to the bank (Southern Heritage Bank) as additional paid in capital. The \$362,000 balance was retained at the holding company for the purpose of meeting the dividend requirements for the next year without passing the burden to the bank. This funding provides "additional capital" to the already "well capitalized bank" in a period of economic uncertainty in the financial markets. This capital injection allowed the bank to maintain its loan and deposit levels instead of shrinking. Net charge offs of \$927,100 were reported for 2010, compared to \$2,379,000 in 2009; \$1,323,000 in 2008 and \$3,765,000 in 2007. The bank's profit or (loss) during the same period was \$1,639,134 in 2010; \$913,00 in 2009; (\$2,540,000) in 2008 and (\$392,000) in 2007. The funds have been invested in US Agency securities until such time as required to fund increased loan demand.

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

A large, empty rectangular box with a black border, intended for the respondent to provide a detailed description of actions taken with the capital infusion of CPP/CDCI funds.