



Building communities. Changing lives.

2007 Annual Report



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On the cover:



Southern supports small businesses in rural Arkansas and the Mississippi Delta.

Willard Ryland began offering affordable lawn services to his Forrest City, Arkansas, neighbors while working a full-time job. What originally started as a hobby soon became a six day-a-week commitment, convincing him that his services were needed. Mr. Ryland participated in the Southern Business Development Center's Minority Business Certification to help him start his own business, Pyramid Lawn Services. In 2007, Southern helped 1,284 small businesses like Mr. Ryland's in Arkansas and Mississippi.



Largest rural Volunteer Income Tax Assistance program in America.

Southern offered Volunteer Income Tax Assistance (VITA) at ten locations in Arkansas and Mississippi. IRS-certified volunteer tax preparers filed almost all returns electronically, speeding up the refund process; and determined whether participants qualified for the federal Earned Income Tax Credit (EITC) and Child Tax Credit. For the 2007 tax season, Southern helped over 2,000 families file for over \$1.2 million in tax returns, including over \$747,000 in EITCs delivered to the residents of Southern's communities.

Letter from the President

No single event, program or experience is enough to reinvigorate a struggling community. Only by building a collective vision, working for substantive change, and committing for the long-term can a community marshal sufficient resources in both leadership and financial areas to support a change process.

Southern Bancorp realized this challenge several years ago and moved beyond single purpose initiatives, focusing instead on fostering broad-based community change. The goal of our community change initiatives is nothing short of transforming rural communities. Transformation involves real improvement in education and all aspects of the economic equation. This new development model has seen remarkable success as community after community rallies around the change effort.



Phillip N. Baldwin
President and Chief Executive Officer
Southern Bancorp

Creating a new national rural development model

Southern spearheads comprehensive development initiatives in targeted distressed rural communities. Southern's comprehensive approach—making fundamental investments in education and economic development—is showing tremendous results by leveraging resources and stimulating local engagement.

In Phillips and Clark Counties, Arkansas, Southern's work has already leveraged over \$65 million in projects targeting needs identified by community residents. This place-based, bank-centered model is now being successfully replicated in the Mississippi Delta and in rural Arkansas, proving that Southern's

approach truly can revitalize rural communities and turn around local economies.



Victory over payday lenders

On March 18, 2008, Arkansas Attorney General Dustin McDaniel ordered payday lenders licensed and regulated in Arkansas to stop making loans and forgive all outstanding loans. Michael Rowett from Southern's Public Policy team chairs Arkansans Against Abusive Payday Lending (AAAPL), a coalition that played a central role in raising awareness of the payday lending issues. In response to the clear demand for non-predatory alternatives to payday loans, Southern has begun developing a program that will provide small, short-term, affordable loans for working families.

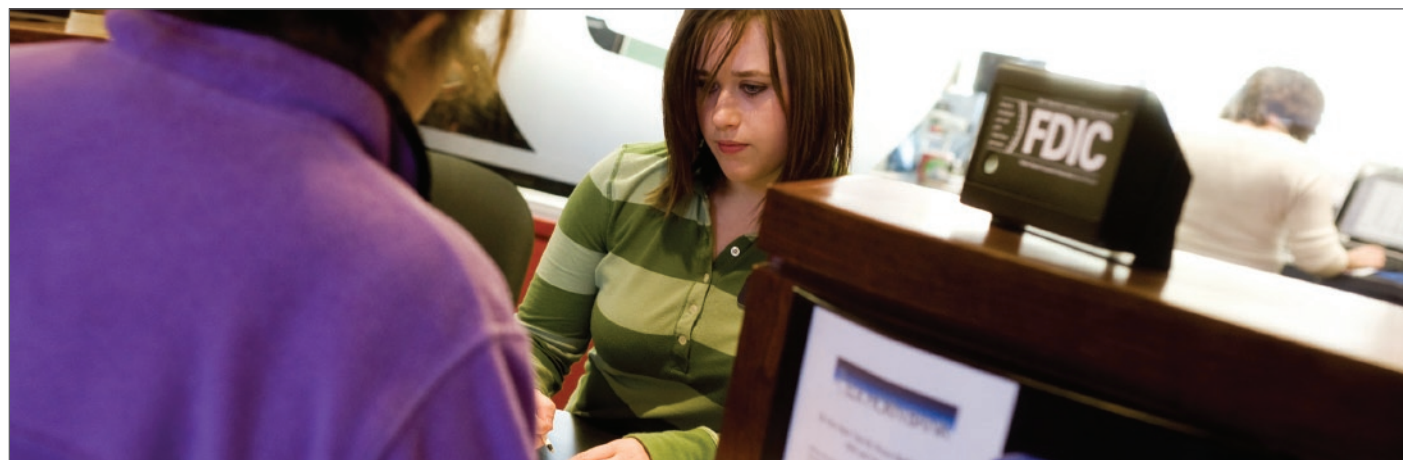
Financials

CONSOLIDATED BALANCE SHEETS

	December 31,	
	<u>2007</u>	<u>2006</u>
Assets:		
Cash and due from banks	\$ 17,447,505	\$ 18,350,100
Federal funds sold	<u>9,419,278</u>	<u>6,260,000</u>
Total cash and cash equivalents	26,866,783	24,610,100
Interest-bearing deposits in other banks	19,571,214	11,668,958
Investment securities	140,671,242	168,769,426
Loans:		
Commercial, financial and agricultural	88,243,702	91,050,045
Real estate	190,837,428	153,797,849
Installment	<u>24,835,089</u>	<u>23,090,144</u>
Total loans	303,916,219	267,938,038
Allowance for loan losses	<u>(5,165,200)</u>	<u>(4,700,701)</u>
Net loans	298,751,019	263,237,337
Premises and equipment, net	23,325,178	23,541,542
Rental real estate, net	-	2,396,083
Goodwill	14,065,974	14,065,974
Other assets	<u>22,084,723</u>	<u>20,768,324</u>
Total Assets	<u>\$545,336,133</u>	<u>\$529,057,744</u>
Liabilities:		
Deposits:		
Non-interest bearing demand	\$ 64,846,856	\$ 64,972,879
Interest-bearing demand	128,223,386	115,469,105
Savings	23,250,001	26,519,455
Time deposits less than \$100,000	140,089,412	145,055,527
Time deposits greater than or equal to \$100,000	<u>108,727,089</u>	<u>97,937,996</u>
Total deposits	465,136,744	449,954,962
Federal funds purchased and securities sold under agreements to repurchase	577,608	2,817,210
Federal Home Loan Bank advances and other short-term borrowings	3,524,271	1,911,913
Subordinated debentures	22,592,000	22,592,000
Notes payable	1,351,639	1,736,639
Other liabilities	<u>5,809,902</u>	<u>4,825,172</u>
Total liabilities	498,992,164	483,837,896
Stockholders' Equity:		
Common stock, \$1 par value; 1,600,000 shares authorized; shares issued and outstanding:		
Series A-1, 44,038 in 2007 and 2006	44,038	44,038
Series A-2, 42,240 in 2007 and 2006	42,240	42,240
Series A-3, 66,217 in 2007, 57,484 in 2006	66,217	57,484
Series A-5, 9,091 in 2007 and 2006	9,091	9,091
Preferred stock	9,726,231	9,726,231
Capital surplus	22,113,619	22,677,979
Retained earnings	14,678,568	14,019,242
Accumulated other comprehensive loss	<u>(336,035)</u>	<u>(1,356,457)</u>
Total stockholders' equity	<u>46,343,969</u>	<u>45,219,848</u>
Total Liabilities and Stockholders' Equity	<u>\$545,336,133</u>	<u>\$529,057,744</u>

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest income:			
Loans, including fees	\$26,246,463	\$21,254,592	\$16,357,654
Investment securities:			
Taxable	5,019,473	5,690,924	5,669,644
Tax exempt	1,481,582	1,668,506	1,859,300
Federal funds sold and other	<u>802,879</u>	<u>743,025</u>	<u>388,179</u>
Total interest income	<u>33,550,397</u>	<u>29,357,047</u>	<u>24,274,777</u>
Interest expense:			
Deposits	13,500,615	10,827,849	6,886,217
Subordinated debentures	1,549,856	2,225,870	1,306,472
Other	<u>518,766</u>	<u>706,375</u>	<u>554,562</u>
Total interest expense	<u>15,569,237</u>	<u>13,760,094</u>	<u>8,747,251</u>
Net interest income	17,981,160	15,596,953	15,527,526
Provision for loan losses	<u>2,598,677</u>	<u>180,000</u>	<u>84,000</u>
Net interest income after provision for loan losses	<u>15,382,483</u>	<u>15,416,953</u>	<u>15,443,526</u>
Other income:			
Service charges on deposit accounts	4,175,585	3,959,933	3,985,733
Net investment securities gains	3,788	5,257	10,591
Fees, commissions and other	<u>2,628,407</u>	<u>2,854,468</u>	<u>1,837,177</u>
Total	<u>6,807,780</u>	<u>6,819,658</u>	<u>5,833,501</u>
Other expense:			
Salaries and employee benefits	11,447,679	10,417,521	9,227,519
Net occupancy and equipment expense	2,607,268	2,343,699	2,102,969
Other	<u>6,100,208</u>	<u>6,102,766</u>	<u>6,447,489</u>
Total	<u>20,155,155</u>	<u>18,863,986</u>	<u>17,777,977</u>
Income before income taxes	<u>2,035,108</u>	3,372,625	3,499,050
Income tax expense	<u>133,359</u>	<u>467,005</u>	<u>256,536</u>
Net income	<u>\$ 1,901,749</u>	<u>\$ 2,905,620</u>	<u>\$ 3,242,514</u>



Rebekah Williams serves customers at Southern's branch in Hot Springs.

Community Development

Southern's bank-centered development model is based on the premise that change occurs at a community level. Consequently, Southern concentrates its efforts in communities where it has a banking presence. By making its locally-governed community banks the centerpiece of its revitalization efforts, Southern is able to employ local connections, exert institutional leverage, and signal long-term commitment to a community. The banks provide essential financial services to residents, while serving as platforms

from which Southern's nonprofits launch their development services.



There's something happening in



- The 20-unit, \$2.1 million Southern Place Apartments opened in Phillips County, providing safe and affordable housing and offering a 30% monthly income subsidy by the United States Department of Agriculture. Southern Place has an outdoor common area with a gazebo, flower gardens, and picnic areas; in 2008 it will feature a common room, a fitness center, and a computer room with Internet access.
- The Delta Area Health Education Center—part of the University of Arkansas for Medical Sciences system of medical facilities—has a membership of 1,500 Phillips County residents. Southern worked with several partners to finance and build this \$4.5 million facility, which provides a wellness center with exercise equipment and exercise classes, a community health library, and health education classrooms.
- After merging cities and the election of a new generation of leaders, the people of Helena-West Helena passed a 2-cent sales tax, which is expected to bring in over \$3 million per year. The additional revenue will be earmarked for uses such as paving streets, hiring new police officers and firefighters, tearing down rundown houses, and building a city reserve fund.
- KIPP Delta College Preparatory School's test scores demonstrated that it is the best public school in the Delta. With the help of Southern, KIPP expanded its classroom space and prepares for the groundbreaking on a new gymnasium.
- Phillips County residents launched a master plan to restore and revitalize historic downtown Helena-West Helena.



- The Boys and Girls Club of Phillips County raised \$1.5 million, half of it locally, in a capital campaign for a permanent, expanded facility. The Boys and Girls Club plans to serve over 1,000 Phillips County youth in the first three years of operation and also has plans to expand into additional Phillips County communities.

(Continued on next page)

Community Development



● A \$2 million sweet potato storage and distribution facility opened for business, with significant funding by Southern. The facility will allow for diversification of crops raised in eastern Arkansas, increase the number of farmers involved in sweet potato farming, and create a new industry in Phillips County.

Progress in Sunflower County

Mississippi



● Southern provided \$575,000 in grants to the town of Drew, Mississippi to help revitalize Main Street in the downtown area. As a result of Southern's development work, ten businesses were formed in Drew, and over 150 jobs were created within the community. After revitalizing downtown Drew, residents contacted the Mississippi Community College about putting a collegiate satellite facility in the town. Two buildings on Main Street were converted in 2007 to house the

satellite college. The college holds 20 classes with 17 faculty and administrative personnel, 140 students, and a GED program, giving Drew a resource to increase the education level of its residents.

- In the nearby city of Indianola, Southern provided a \$200,000 grant to sponsor a wing in the B.B. King Museum, which is poised to become an economic anchor that will bring tourism dollars to the Indianola economy. Southern's grant helped the museum and the Delta Interpretive Center meet the terms of a \$2.5 million challenge.
- To bring life back into the center of town and provide Ruleville residents a place to gather, socialize, and fulfill their civic duty of voting, Southern provided a \$63,000 grant to redevelop the Ruleville Community House, a gathering place that once held weddings, family reunions, banquets, and elections.

Clark County is on the move Arkansas

● The Clark County Strategic Community Plan was launched in October 2007 with Arkansas Governor Mike Beebe as the keynote speaker. Over 500 people engaged in the development of the plan.

● After the Clark County community developed a common vision under the strategic plan, 68% of county residents voted to pass a 1/2-cent county sales tax for economic development, showing that Clark County is ready to invest in its future. The sales tax is projected to bring in over \$1.3 million a year.

● Clark County appointed a 20-member board for the newly formed Economic Development Corporation of Clark County.



● A \$7.5 million retirement housing project began in Arkadelphia, a goal identified in the Clark County Strategic Plan.

● Southern secured a \$690,000 grant and plans to provide a \$300,000 loan to fund an innovative 24/7 childcare facility at the Clark County Industrial Park.

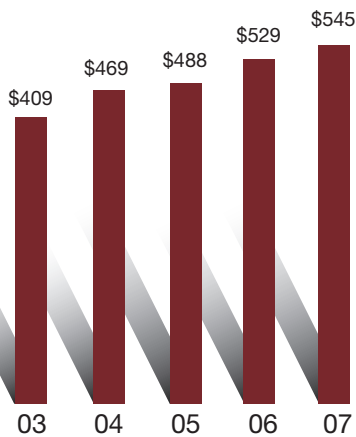
● Southern's neighborhood clean-up project led to the abatement of over 30 abandoned, blighted structures in Clark County.

Economic Development

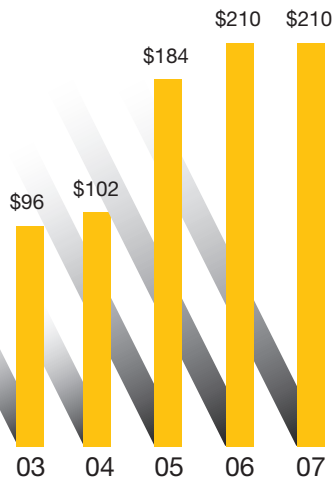
Banking Services

Since 1988, Southern has provided more than \$1.9 billion in loans in high poverty areas. Vital to Southern's lending are small loans and microloans. Over 40 percent of loans made in 2007 were for less than \$10,000. Through small loans that most banks would not make, Southern helps rural residents start small businesses, repair their homes, purchase transportation, and access health care. Small loans are a critical part of Southern's strategy to restart the economic engine in struggling rural markets. Southern's banks serve over 50,000 customers, where 67% reside in low-income communities.

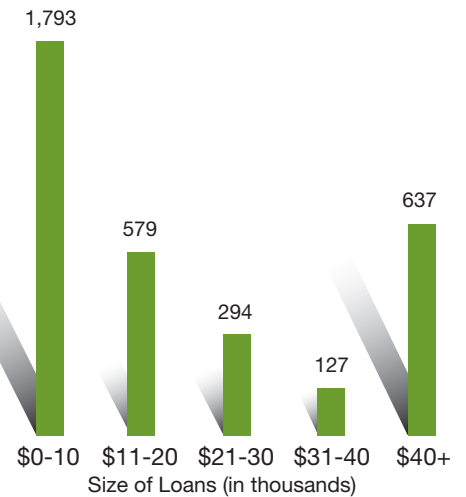
Total Assets
(in millions)



Annual Loans Funded In High Poverty Areas
(in millions)



Loan Originations in 2007
Number of Loans in Each Category



Project Deserve

Southern partners with Entergy Arkansas, Inc., the regional electric utility, to provide emergency payment assistance to elderly and disabled customers who are facing financial difficulties throughout the state. In 2007, Project Deserve awarded 3,166 grants for a total of \$675,441 in energy bill assistance.



Deborah Papadakis was able to keep her lights on when health problems kept her from working.



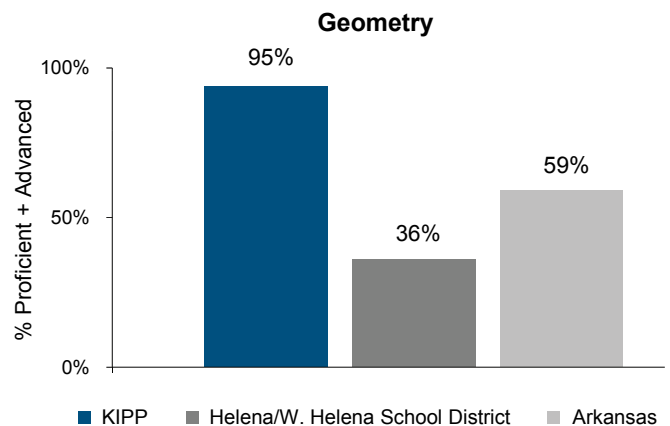
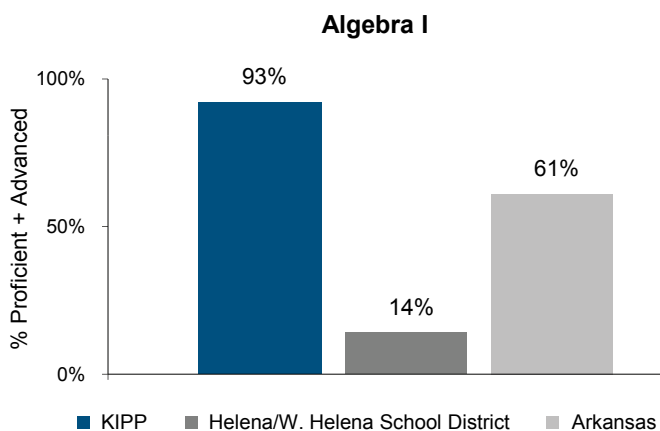
Phillips County Public Schools are Coming Back
 Parents and other stakeholders in Phillips County's traditional school districts are exploring ways to improve their schools' performance, and Southern has supported these efforts by securing a \$1.2 million grant through the Delta Bridge Project. The grant will be combined with in-kind matching funds for a total three-year investment of \$2.3 million in the Learning, Excelling, Achieving in the Delta (LEAD) initiative. LEAD will work on a classroom-by-classroom, building-by-building basis to increase the number and percentage of students scoring at proficient level or higher by four percentage points or to state averages in each of the reported indicators.

KIPP Delta College Preparatory School: Best school in the Delta

The KIPP Delta College Preparatory School has become one of the greatest success stories of the Delta Bridge Project and is a strong example of the community turning a page and focusing on solutions to shared problems. Southern has provided KIPP with over \$2.7 million in grants and loans, including \$1 million financing for an expansion of its gymnasium.



End-of-Course Exam Results



Shareholders

Southern Bancorp is proud to have been funded by a generous group of foundations, corporations, and individuals who believe in our mission. They invested in an idea of bringing economic opportunity to those who needed it most, without the expectation of any financial return.

Alltel	Metropolitan Life Foundation
Aman & Company	Gwen Morgan Trust
Arkansas Best Corporation	Charles Stewart Mott Foundation
Arkansas Capital Corporation	National Community Investment Fund
Arkansas Community Foundation	Regions Bank
Arkansas Electric Cooperatives	Reliant Energy
Calmeadow Foundation, Canada	SF Holding Corporation
Fannie Mae	Southern Financial Partners
Fred Darragh Estate/Pulaski Bank Trustee	Levi Strauss Foundation
Dominican Sisters of Springfield, IL	United States Treasury Department Community Development Financial Institution Fund
Jean T. Gordon	Walton Family Foundation
Hampshire College	Weyerhaeuser Company
James Harrington	Arthur White
International Paper Company	Winrock International
Robert B. Lifton Trust	Winthrop Rockefeller Foundation
Local Church Ministries	

Supporters

None of what we do would be possible without grant, lending, and investment support. Southern Bancorp gratefully acknowledges the individuals and institutions that have supported our development efforts over the past years.

Alltel Corporation	Carl B. and Florence E. King Foundation
Arkansas Advocates for Children and Families	Knox Nelson Literacy Fund
Arkansas Area Health Education Centers	The John D. and Catherine T. MacArthur Foundation
Arkansas Community Foundation	Charles Stewart Mott Foundation
Arkansas Department of Higher Education	Ms. Foundation for Women
Arkansas Department of Human Services	Opportunity Finance Network
Arkansas Department of Workforce Services	National Community Investment Fund
Arkansas Development Finance Authority	National Governors Association
Annie E. Casey Foundation	National Network of Sector Partners
Mary Reynolds Babcock Foundation	National Rural Funders Collaborative
Bank of America	The David and Lucille Packard Foundation
Calvert Foundation	Phillips Community College of the University of Arkansas
Catholic Campaign for Human Development	Public Welfare Foundation
Catholic Health Initiatives	Winthrop Rockefeller Foundation
Center for Law and Social Policy	Seton Enablement Fund
CFED	The Sisters of St. Joseph of Carondelet
CHRISTUS Health	Smiley Investment Company
City of Clarendon, Arkansas	Southeast Arkansas College
Clark County Community Foundation	Southeast Arkansas Workforce Investment Board
Delta Regional Authority	Levi Strauss Foundation
Entergy Charitable Foundation	Synergy Forum
Enterprise Corporation of the Delta	United States Department of Agriculture
The Ford Foundation	United States Department of Agriculture - Rural Development
Foundation for the Mid South	United States Department of Health and Human Services
Charles A. Frueauff Foundation	United States Department of Housing and Urban Development
Charles and Mary Grant Foundation	United States Department of Interior
William Randolph Hearst Foundation	United States Department of Labor
F. B. Heron Foundation	United States Small Business Administration
The Hitachi Foundation	United States Treasury Department Community Development Financial Institution Fund
Isle of Capri Corporation	United Way of Southeast Arkansas
Robert Wood Johnson Foundation	Walton Family Foundation
W.K. Kellogg Foundation	

Community Depositors

Southern is honored by the involvement of community depositors in our mission of building communities and changing lives. Many of our community depositors have elected to earn a lower interest rate to support the social mission of Southern.

Adorers of the Blood of Christ
Adrian Dominican Sisters
Frances Dean Allan
Ben & Jerry's Foundation, Inc.
Calvert Social Investment Foundation
Central Conference of American Rabbis
Charles Schwab & Co, Inc.
The Citizens Bank
Community Bank
Congregation of the Humility of Mary
Conscience & Military Tax
The CRA Qualified Investment Fund
Domini Social Bond Fund
Dominican Sisters of Springfield Illinois
Victor L. Dubrowski
E&H Stowell Trust
Episcopal Diocese of Northern Michigan
Fleet National Bank as Custodian
Funding Exchange Endowment
Catherine Gibson
F. B. Heron Foundation
Home Missioners of America
Gail J. Kirkland
Janet Kranzberg
Rebecca Liebman
Loretto Literary & Benevolent Inst.
Arthur S. Lloyd
Mercy Partnership Fund
Missionary Sisters Servants Holy Spirit
MMA Community Development
More Than Money

Mutual Bank
Nazareth Literary & Benevolent Inst.
Rabbinical Pen PI Tr
Seton Enablement Fund
School Sisters of Notre Dame
School Sisters of Notre Dame of Dallas
Jane Shapiro
Maurice Shepherd
Martha Sibert
Sinsinawa Dominicans, Inc.
Sister of St. Francis of Philadelphia
Sisters of Mercy of St. Louis Reg Comm
Sisters of St. Joseph of Carondelet
Sisters of St. Francis of Millvale
Sisters of St. Francis of Peace
Sisters of St. Francis of Tiffin Ohio
Sisters of the Order of St. Benedict
Sisters of the Sorrowful Mother
Society of the Divine Word
St. Louis Institute
St. Scholastica Monastery
SW Dittenhofer III
Tides Foundation-Exploring EIF
Union for Reform Judaism
Unitarian Universalist Association
UST Social Balanced Fund
Walden Balanced Trust Fund
Joshua Wallman
Tanis Walters
Winrock International



With the help of Southern's Business Development Center, Gloria Grubbs and her daughter, Gail, started a home-based catering business.

Governing Board

Phillip N. Baldwin
President and Chief Executive Officer
Southern Bancorp

Herman Davenport
President and Chief Executive Officer
Davenport Group

John Edwards
Partner
Anible & Edwards

LaVerne Feaster
Retired Educator and Administrator

Dr. Robert Fisher
President
Belmont University

James Harrington
President
Harrington Construction

Dr. Glendell Jones, Jr.
Assistant to the President for Diversity Initiatives
Arkansas State University

Dr. Jacquelyn McCray
Dean, School of Agriculture, Fisheries and Human Sciences
University of Arkansas at Pine Bluff

Brian Miller
United States District Judge
United States District Court, Eastern District of Arkansas

Walter Patterson
Senior Vice President
Affiliated Computer Services

Rodney Slater
Partner
Patton Boggs, LLP
Former U.S. Secretary of Transportation

Walter Smiley
Chairman of the Board
Southern Bancorp

Dorothy Stuck
Retired Civic Leader and Businesswoman

Sherman Tate
Vice President and General Manager of Operations
Alltel Corporation

Senior Officers

Phillip N. Baldwin
President and Chief Executive Officer
Southern Bancorp

Brent Black
Vice President and Chief Financial Officer
Southern Bancorp

James E. Boyd
President and Chief Executive Officer
First Bank of the Delta N. A.

Angela Duran
President
Southern Good Faith Fund

John French
President
Southern Community Development Corporation

George Purcell
Chairman and Chief Executive Officer
Southern Bancorp Bank of Mississippi

Joseph Ricotta
President and Chief Operating Officer
Southern Bancorp Bank of Mississippi

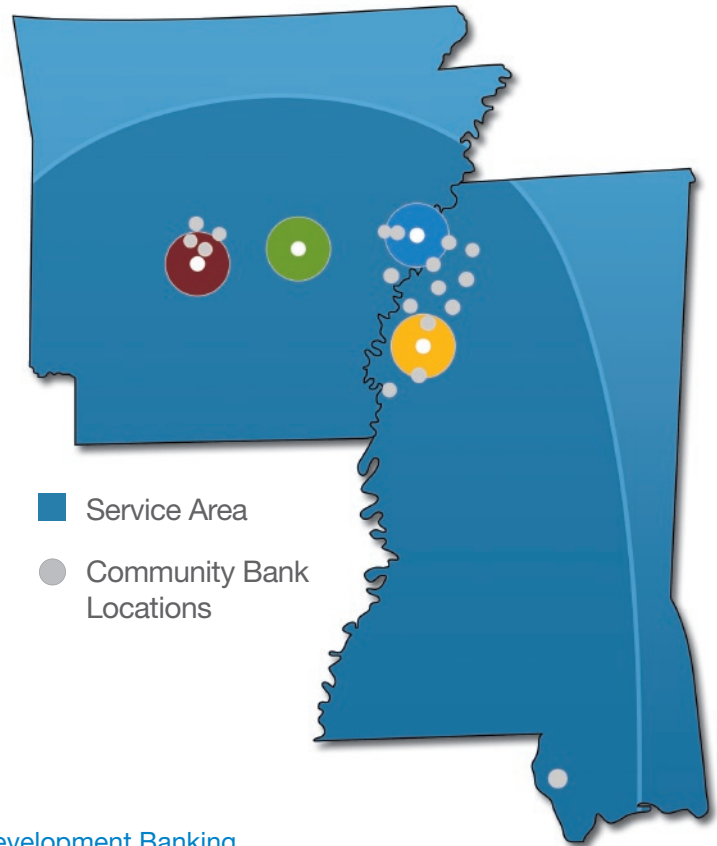
Ben Steinberg
President
Southern Financial Partners

William Wright
Chairman and Chief Executive Officer
Elk Horn Bank

Alan Sing
President and Chief Operating Officer
Elk Horn Bank

Service Area

- **Phillips County**
Median Household Income: \$23,132
38% without high school diploma
Homeownership Rate: 52%
- **Clark County**
Median Household Income: \$30,681
25% without high school diploma
Homeownership Rate: 66%
- **Jefferson County**
Median Household Income: \$32,188
25% without high school diploma
Homeownership Rate: 66%
- **Sunflower County**
Median Household Income: \$23,019
41% without high school diploma
Homeownership Rate: 62%



- Southern Community Banks ● Development Banking
- Southern CDC ● Affordable Housing
- Southern Financial Partners ● Community Development
- Southern Good Faith Fund ● Education, Entrepreneurship, Homeownership



Helena-West Helena youth attend the ceremony launching the Aspiring Scholars Matching Grant Program.