



 **Southern Bancorp**
Building communities. Changing lives.

2008 Annual Report



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On the cover:



Through personal discipline and with the help of an Individual Development Account provided by Southern Bancorp, Donna Taylor was able to purchase her first home.



Southern Bancorp serves more than 50,000 customers at 40 locations from Little Rock, Arkansas, to New Orleans, Louisiana. Since 1988, Southern Bancorp has provided over \$2 billion in loans in high-poverty areas across the rural South.



Southern Bancorp provided financing to expand Craigen's Garage, a family owned business. Across the rural South, thousands of people have been able to open or expand their small businesses because of Southern's financing.



Gloria Wilson enrolled in Southern's Career Pathways program to complete her college prerequisites and is scheduled to graduate with her associate degree in May 2009. She is also saving for home repair through a Southern Individual Development Account. Across Arkansas and Mississippi, Southern is helping hundreds of people, like Ms. Wilson, plan for their futures and their families.

Building communities. Changing lives.

Letter from the President

I am pleased to report a very successful year for Southern Bancorp - a year of strong financial performance and substantial mission accomplishment. Today's challenging environment has forced many organizations to reduce mission focus at a time of critical need. Our approach is to move against this trend by expanding into additional distressed markets while focusing on core elements of poverty, unemployment and inadequate education.

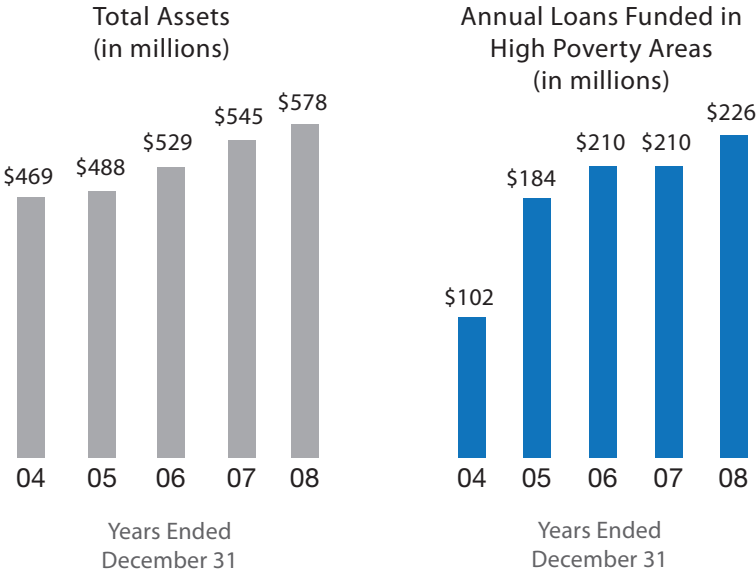


The 2008 Annual Report describes our efforts to improve rural America by focusing on comprehensive community change processes. The stories contained in our Annual Report represent the hopes and dreams of people - for themselves, their children and their communities. Southern Bancorp's role is to make hopes and dreams become reality - a reality you can see in the faces of the people - the quiet dignity of overcoming difficult challenges and pride in accomplishing a difficult task.



Phillip N. Baldwin
President and Chief Executive Officer
Southern Bancorp

Southern Bancorp 2008 Growth and Impact



Financials

December 31

Consolidated Balance Sheets

Assets:

	<u>2008</u>	<u>2007</u>
Cash and due from banks	\$ 18,399,772	\$ 17,447,505
Federal funds sold	<u>7,100,000</u>	<u>9,419,278</u>
Total cash and cash equivalents	25,499,772	26,866,783
Interest-bearing deposits in other banks	26,491,025	19,571,214
Investment securities	135,315,666	140,671,242
Loans:		
Commercial, financial and agricultural	83,309,046	88,243,702
Real estate	226,137,860	190,837,428
Installment	<u>24,785,821</u>	<u>24,835,089</u>
Total loans	334,232,727	303,916,219
Allowance for loan losses	<u>(4,440,821)</u>	<u>(5,165,200)</u>
Net loans	329,791,906	298,751,019
Premises and equipment, net	24,603,531	23,325,178
Goodwill	14,065,974	14,065,974
Other assets	<u>22,680,149</u>	<u>22,084,723</u>
Total Assets	<u>\$ 578,448,023</u>	<u>\$ 545,336,133</u>

Liabilities:

Deposits:		
Non-interest bearing demand	\$ 72,309,905	\$ 64,846,856
Interest-bearing demand	130,200,678	128,223,386
Savings	26,819,809	23,250,001
Time deposits less than \$100,000	136,174,900	140,089,412
Time deposits greater than or equal to \$100,000	<u>93,666,506</u>	<u>108,727,089</u>
Total deposits	459,171,798	465,136,744
Federal funds purchased and securities sold under agreements to repurchase	14,809,054	577,608
Federal Home Loan Bank advances	34,023,132	3,524,271
Subordinated debentures	17,437,000	22,592,000
Notes payable	1,000,000	1,351,639
Other liabilities	<u>4,202,007</u>	<u>5,809,902</u>
Total liabilities	<u>\$ 530,642,991</u>	<u>\$ 498,992,164</u>

Stockholders' Equity:

Common stock, \$1 par value; 1,600,000 shares authorized; shares issued and outstanding:

Series A-1, 44,038 in 2008 and 2007	44,038	44,038
Series A-2, 42,240 in 2008 and 2007	42,240	42,240
Series A-3, 66,217 in 2008 and 2007	66,217	66,217
Series A-5, 9,091 in 2008 and 2007	9,091	9,091
Preferred stock	9,726,231	9,726,231
Capital surplus	22,113,619	22,113,619
Retained earnings	16,033,232	14,678,568
Accumulated other comprehensive loss	<u>(229,636)</u>	<u>(336,035)</u>
Total stockholders' equity	<u>47,805,032</u>	<u>46,343,969</u>
Total Liabilities and Stockholders' Equity	<u>\$ 578,448,023</u>	<u>\$ 545,336,133</u>

Consolidated Statements of Income	December 31		
	2008	2007	2006
Interest income:			
Loans, including fees	\$ 23,582,471	\$ 26,246,463	\$ 21,254,592
Investment securities:			
Taxable	4,820,863	5,019,473	5,690,924
Tax exempt	1,280,524	1,481,582	1,668,506
Federal funds sold and other	1,631,190	802,879	743,025
Total interest income	31,315,048	33,550,397	29,357,047
Interest expense:			
Deposits	10,111,389	13,500,615	10,827,849
Subordinated debentures	876,317	1,549,856	2,225,870
Other	1,003,359	518,766	706,375
Total interest expense	11,991,065	15,569,237	13,760,094
Net interest income	19,323,983	17,981,160	15,596,953
Provision for loan losses	1,387,332	2,598,677	180,000
Net interest income after provision for loan losses	17,936,651	15,382,483	15,416,953
Other income:			
Service charges on deposit accounts	4,057,623	4,175,585	3,959,933
Net investment securities gains	21,719	3,788	5,257
Fees, commissions and other	1,915,079	2,628,407	2,854,468
Total	5,994,421	6,807,780	6,819,658
Other expense:			
Salaries and employee benefits	10,671,485	11,447,679	10,417,521
Net occupancy and equipment expense	2,784,419	2,607,268	2,343,699
Other	6,527,524	6,100,208	6,102,766
Total	19,983,428	20,155,155	18,863,986
Income before income taxes	3,947,644	2,035,108	3,372,625
Income tax provision	812,297	133,359	467,005
Net income	\$ 3,135,347	\$ 1,901,749	\$ 2,905,620



Southern Bancorp's 2009 Student Advisory Board - Arkadelphia, Arkansas.

Community Banking

While recent economic turbulence has caused many large banks to reduce their banking services or even fail, Southern has kept its commitment to the communities it serves and continues to provide essential financial services to residents. In 2008, Southern made 4,018 loans; 52% of which were for less than \$10,000. These small loans, which most banks do not offer, are an important part of Southern's approach to customer service and community development.

REBUILDING AFTER THE HURRICANE

In hurricane-damaged Hancock County, Mississippi, Southern Bancorp financed a new housing subdivision to provide homes for 70 displaced families. This effort is in partnership with Habitat for Humanity and comes at a time when 15,000 people in the area are planning to move from FEMA trailers and will need affordable, safe, and permanent housing.



New home financed by Southern Bancorp in Hancock County, MS.



MORTGAGE LOANS

For many people, homeownership is a key step in attaining financial stability. In 2008, Southern Bancorp provided more than \$54 million in mortgage loans to families across the rural South.

Edel Ruiz Moreno has lived in Clark County, Arkansas, for more than ten years with his mother, sisters, and brothers. Mr. Moreno is employed with Shields Wood Products and had a long-term goal to purchase a home for his family. Through Southern's Home Loan Program, Mr. Moreno was able to purchase his first home.

SMALL BUSINESS LENDING

The Corner Market in Helena-West Helena, Arkansas, is a favorite neighborhood grocery and deli. Southern Bancorp has provided financing for many businesses, like the Corner Market, in high poverty areas.



Building Communities

Southern Bancorp has continued its targeted development work in Phillips and Clark Counties, Arkansas, and in Sunflower County, Mississippi. Our approach is focused on the fundamentals of economic development: educational improvement and the development of strong local leadership.



Phillips County Strategic Plan Launch Event

PHILLIPS COUNTY, ARKANSAS

Since the Delta Bridge Project was launched in Phillips County, Arkansas, in 2005, Southern has leveraged investments exceeding \$70 million. Over 1,000 people have seen their lives dramatically improved (e.g., 350 at-risk youths are climbing the mountain to college). By working with communities in its target market, Southern is able to make results-driven strategic investments. Over the next 20 years, Southern expects to achieve three transformational goals in Phillips County: reduce the unemployment rate by 50 percent; reduce the poverty rate by 50 percent; and increase high school graduation by 50 percent. While these goals are ambitious, Southern and the community are confident they can be achieved.



Youth of Clark County, Arkansas

CLARK COUNTY, ARKANSAS

During the Southern-sponsored strategic planning process, Clark County residents set a goal to establish a 24/7 child care center. The center, located in the Clark County Industrial Park, opened March 31, 2009. It primarily serves children of the 1,500 people who work in the industrial park area and will eventually employ more than 40 people. Southern helped secure the funding needed to build the center, just a portion of the more than \$40 million that Southern has leveraged for development in Clark County.

SUNFLOWER COUNTY, MISSISSIPPI

After a ten-month planning process, more than 120 residents participated in the unveiling of the Ruleville Strategic Community Plan on August 21, 2008. Southern was instrumental in supporting local leadership during the organizational planning process.



Joe Black, President of Southern Bancorp Capital Partners

Changing Lives

Southern Bancorp helps families navigate the troubled economy and provides them with opportunities to improve their lives with services such as credit counseling, homebuyer counseling, emergency energy bill assistance grants, matched savings accounts, free tax filing assistance, and alternative financial products. Southern provided these crucial development services to more than 6,000 people in 2008.

REACHING PEOPLE

Willie Mae Williams' success is an example of how Southern Bancorp is able to use these services to help people improve their lives. She came to Southern because she was facing foreclosure. Ms. Williams was determined to keep her house, and she worked diligently with Southern's Credit and Housing Counselors to prevent the mortgage company from foreclosing. And not only is Ms. Williams still in her house, she is making repairs that will help increase the value of her home. Southern provided her with an Individual Development Account (IDA) to help her save money for these repairs. Southern provides IDAs—matched savings accounts that help income-qualified families make appreciating, asset-building purchases—to more than 300 people each year. Ms. Williams returns each year to Southern to take advantage of the Volunteer Income Tax Assistance (VITA) program. Last year, she was one of more than 2,000 Southern VITA clients.



REACHING SCALE - ARKANSAS GOVERNOR'S SUMMIT

More than 1,400 representatives from all 75 counties in Arkansas met at the Arkansas Governor's Summit for Education and Economic Development to begin developing strategic visions for their communities. Speaking before the assembled leaders, Governor Mike Beebe recognized Southern Bancorp's strategic planning efforts in Phillips and Clark Counties and encouraged and advocated the process to other communities across the state of Arkansas. In this and other ways, Southern's approach is becoming a model for community change initiatives in the state and the region.



2008 Arkansas Governor's Summit for Education and Economic Development

Education

Rural communities have limited resources that can be developed for short-term economic turnaround, so revitalizing rural America must be approached as a long-term project. And the most important long-term resource that must be developed is the next generation of leaders. For this reason, residents of Phillips County, Arkansas, identified improving education as a primary goal in their strategic plan.

PHILLIPS COUNTY PUBLIC SCHOOLS ARE SEEING IMPROVEMENTS

Southern awarded a \$1.2 million, three-year grant to help fund an initiative to improve student performance in Phillips County's three public school districts, which serve 4,500 students, and which have several schools in state-designated academic distress. This innovative leadership program for teachers and principals is aimed at increasing students' test scores, and the results in 2008 have been outstanding. The number of students reaching the advanced or proficient levels on standardized math and literacy exams increased by eight percent in the first year.



BOYS & GIRLS CLUBS CREATE COMMUNITY CHANGE

The Boys & Girls Club of Phillips County (BGCPC), a specific objective of the Phillips County Strategic Plan, has had unprecedented success in bringing a divided community together. In less than two years, the Club raised \$1.1 million—more than half of it locally—to create a world-class facility now serving more than 400 members. The organization and its members have received numerous regional and national awards recognizing rapid growth, program outcomes, and youth achievement. Inspired by the success of the Boys & Girls Club of Phillips County, Clark County residents are organizing to launch their own club. In 2009, the newly-formed Board of Directors plans to open a temporary facility at Goza Middle School while raising funds for an expansion of the program in future years.



Stockholders

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 Corporation
Aman & Company
Arkansas Best Corporation
Arkansas Capital Corporation
Arkansas Community Foundation
Arkansas Electric Cooperatives
Calmeadow Foundation, Canada
Fannie Mae
Dominican Sisters of Springfield, IL
Jean T. Gordon
Hampshire College
James Harrington
International Paper Company
Robert B. Lifton Trust
Local Church Ministries
Metropolitan Life Foundation

Gwen Morgan Trust
Charles Stewart Mott Foundation
National Community Investment Fund
Regions Bank
Reliant Energy
SF Holding Corporation
Southern Bancorp Capital Partners
Levi Strauss Foundation
United States Treasury Department Community
Development Financial Institution Fund
Walton Family Foundation
Weyerhaeuser Company
Arthur White
Winrock International
Winthrop Rockefeller Foundation

None of what we do would be possible without investment support. Southern Bancorp gratefully acknowledges the individuals and institutions that have supported our community development efforts.



Jason Hall saved for aviation tuition and flight fees by using a Southern Bancorp Individual Development Account.

Governing Board

Phillip N. Baldwin

President & Chief Executive Officer
Southern Bancorp

Jerry Damerow

Chief Financial Officer
InterveXion Therapeutics

Herman Davenport

President & Chief Executive Officer
Davenport Group

John Edwards

Arkansas State Representative
Partner, Anible & Edwards

Kim Evans

Research Associate & Nonprofit Coordinator
University of Arkansas at Little Rock -
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LaVerne Feaster

Retired Educator & Administrator

Dr. Robert Fisher

President
Belmont University

Elizabeth Glasbrenner

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Smiley Technologies, Inc

James Harrington

President
Harrington Construction

Dr. Glendell Jones, Jr.

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Academic Affairs & Research
Arkansas State University

Dr. Jacquelyn Williams McCray

Retired Dean
School of Agriculture, Fisheries
& Human Sciences
University of Arkansas at Pine Bluff

Brian Miller

United States District Judge
United States District Court
Eastern District of Arkansas

Walt Patterson

Senior Vice President
Affiliated Computer Services

Freddye Petett

Emeritus Assistant Professor & Founding Director
Center on Community Philanthropy
University of Arkansas' Clinton School of
Public Service

Rodney Slater

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

Walter Smiley

Chairman of the Board
Southern Bancorp
President, Smiley Investment Company

Dorothy Stuck

Retired Civic Leader & Businesswoman

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Vice President & General Manager of
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Angela Duran

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Southern Good Faith Fund

John French

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Southern Bancorp CDC

George Purcell

Chairman & Chief Executive Officer
Southern Bancorp Bank - Mississippi

Joseph Ricotta

President & Chief Operating Officer
Southern Bancorp Bank - Mississippi

Alan Sing

President & Chief Operating Officer
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Senior Vice President
Southern Bancorp

William Wright

Chairman & Chief Executive Officer
Southern Bancorp Bank - Arkansas



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