



Southern Bancorp

Building communities. Changing lives.

Annual Report 2009



v Xx Yy Zz

RIT goals

165 | 160
Math | Reading

Tonight I will...

Math Lesson 53
Read 20min

We are reading...

The Great Turkey
Race

We are listening to...

Classical
Music

Learn my ABC's - Jokes
A B C D E F G
H I J K L M
N O P Q R S T U
V W X Y Z

to learn ABC's
A B C D E F
G H I J K L M
N O P Q R S T U
V W X Y Z

to learn Numbers - Learn
1 2 3 4 5 6 7 8 9 10
11 12 13 14

Learn Numbers - Rays

Learn

Handwritten practice sheet with lines and some text.

1
2
3
4
5



HOPES AND DREAMS

Southern Bancorp

Building communities. Changing lives.

Southern Bancorp's mission creates a specific value proposition based on three transformational goals:

- Help children graduate high school and attend college
- Advance rural economies so individuals and families can find work
- And reduce the number of people living in poverty

Numbers

Math Center

Shape



circle



squa

SAXON MATH K



Contents

- Financial Report 6
- Financial Strength 8
- Social Innovation 10
- Educational Opportunity 13
- Economic Opportunity 14
- Building On Culture to Create Opportunity 17
- Governing Board 18
- Senior Officers 18
- Stockholders 19





MESSAGE FROM THE PRESIDENT: PHILLIP BALDWIN

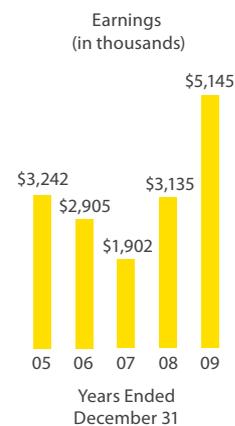
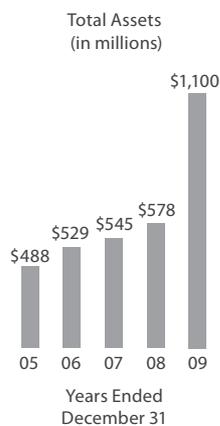
Southern Bancorp navigated the national economic crisis of 2009 with strength and stability.

In 2009, our nation endured its most significant financial crisis since the Great Depression. The economic, social and individual challenges of this time will define us as a people and determine the course of future generations.

Southern Bancorp is prepared to address these important challenges with financial strength and social innovation. In 2009, we increased our size and capacity when others contracted. We extended our social network when others retreated. Southern understands our responsibility is to serve those in poverty and to seek to end poverty.

It is with determination and responsibility we move towards the next decade—executing social innovation across our region, engaging communities in change processes that produce real impact and measurable change.

To this end, we have established an aggressive vision of change that involves 50% reductions in unemployment and poverty built on a 50% increase in high school graduation and college attendance. We have chosen to seek the transformative, to set our goals so high we force change in everyone, including ourselves.



FINANCIALS

CONSOLIDATED BALANCE SHEETS

Years Ended December 31

	2009	2008
Assets:		
Cash and due from banks	\$ 32,045,569	\$ 18,399,772
Federal funds sold	44,747,417	7,100,000
Total cash and cash equivalents	76,792,986	25,499,772
Interest-bearing deposits in other banks	16,092,394	26,491,025
Investment securities	265,046,967	135,315,666
Loans:		
Commercial, financial, and agricultural	144,508,000	83,309,046
Real estate	418,124,747	226,137,860
Installment	48,675,000	24,785,821
Total loans	611,307,747	334,232,727
Allowance for loan losses	(8,806,624)	(4,440,821)
Net loans	602,501,123	329,791,906
Premises and equipment, net	39,674,487	24,603,531
Goodwill	36,956,618	14,065,974
Other assets	39,406,407	22,680,149
Total assets	<u>\$1,076,470,982</u>	<u>\$578,448,023</u>
Liabilities:		
Deposits:		
Non-interest bearing demand	\$ 127,156,427	\$ 72,309,905
Interest-bearing demand	279,942,452	130,200,678
Savings	50,043,722	26,819,809
Time deposits less than \$100,000	228,063,374	136,174,900
Time deposits greater than or equal to \$100,000	225,453,466	93,666,506
Total deposits	910,659,441	459,171,798
Federal funds purchased and securities sold under agreements to repurchase	15,214,620	14,809,054
Federal Home Loan Bank advances	37,344,116	34,023,132
Subordinated debentures	17,437,000	17,437,000
Notes payable	21,483,000	1,000,000
Other liabilities	5,366,279	4,202,007
Total liabilities	1,007,504,456	530,642,991
Stockholders' Equity:		
Common stock, \$1 par value; 1,600,000 shares authorized; shares issued and outstanding:		
Series A-1, 44,038 in 2009 and 2008	44,038	44,038
Series A-2, 42,240 in 2009 and 2008	42,240	42,240
Series A-3, 66,217 in 2009 and 2008	66,217	66,217
Series A-4, 4,218 in 2009 and 2008	4,218	4,218
Series A-5, 9,091 in 2009 and 2008	9,091	9,091
Preferred stock	24,698,293	9,726,231
Capital surplus	23,109,401	22,113,619
Retained earnings	19,463,463	16,033,232
Accumulated other comprehensive income (loss)	1,529,565	(229,636)
Total Stockholders' Equity	68,966,526	47,805,032
Total Liabilities and Stockholders' Equity	<u>\$1,076,470,982</u>	<u>\$578,448,023</u>

CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31

	2009	2008	2007
Interest income:			
Loans, including fees	\$29,787,483	\$23,582,471	\$26,246,463
Investment securities:			
Taxable	5,012,741	4,820,863	5,019,473
Tax exempt	1,352,979	1,280,524	1,481,582
Federal funds sold and other	457,284	1,631,190	802,879
Total interest income	<u>36,610,487</u>	<u>31,315,048</u>	<u>33,550,397</u>
Interest expense:			
Deposits	8,181,941	10,111,389	13,500,615
Subordinated debentures	902,689	876,317	1,549,856
Other	750,124	1,003,359	518,766
Total interest expense	<u>9,834,754</u>	<u>11,991,065</u>	<u>15,569,237</u>
Net interest income	<u>26,775,733</u>	<u>19,323,983</u>	<u>17,981,160</u>
Provision for loan losses	<u>2,491,086</u>	<u>1,387,332</u>	<u>2,598,677</u>
Net interest income after provision for loan losses	24,284,647	17,936,651	15,382,483
Other income:			
Service charges on deposit accounts	4,202,851	4,057,623	4,175,585
Net investment securities gains	515,908	21,719	3,788
Fees, commissions, and other	1,994,895	1,915,079	2,628,407
Total	<u>6,713,654</u>	<u>5,994,421</u>	<u>6,807,780</u>
Other expense:			
Salaries and employee benefits	13,270,877	10,671,485	11,447,679
Net occupancy and equipment expense	3,187,996	2,784,419	2,607,268
Other	8,638,692	6,527,524	6,100,208
Total	<u>25,097,565</u>	<u>19,983,428</u>	<u>20,155,155</u>
Income before income taxes	<u>5,900,736</u>	<u>3,947,644</u>	<u>2,035,108</u>
Income tax expense	<u>755,744</u>	<u>812,297</u>	<u>133,359</u>
Net income	<u><u>\$5,144,992</u></u>	<u><u>\$3,135,347</u></u>	<u><u>\$1,901,749</u></u>

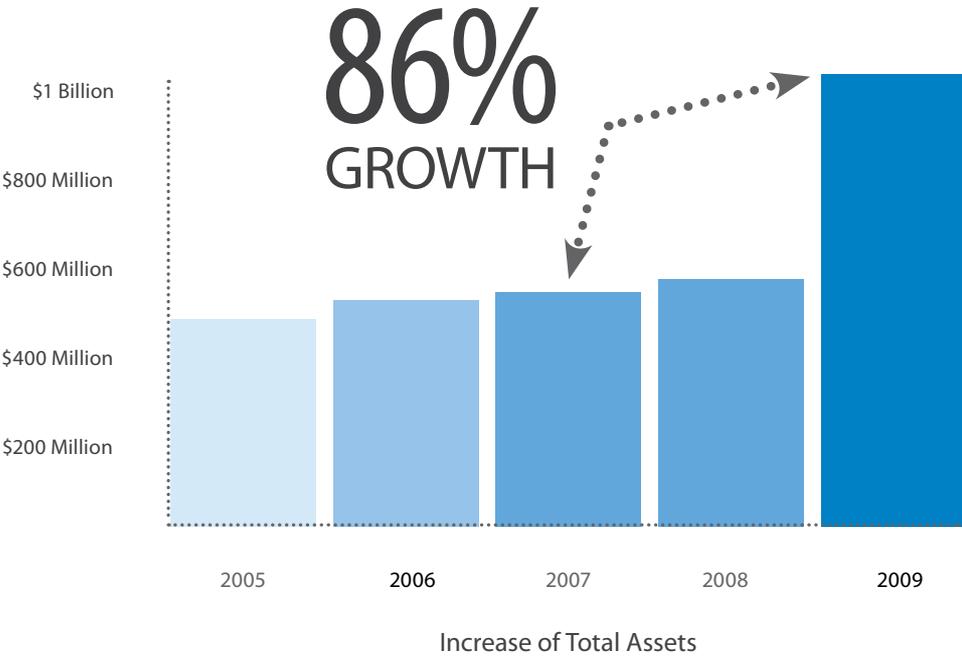
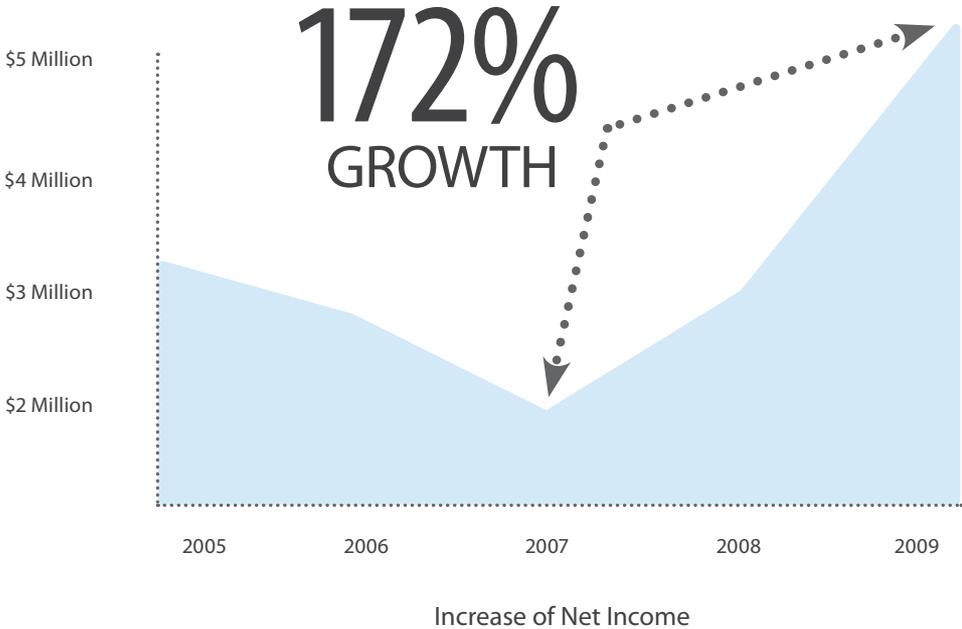
Mission Banking

Building communities.
Changing lives.

Through state of the art internet banking applications, Southern Bancorp is helping philanthropic organizations and individuals across America extend their social impact by banking with a mission focused institution.



FINANCIAL STRENGTH



Running the Numbers

- **\$1.1 Billion**
in total assets
- **\$2.3 Billion**
in development loans since 1988
- **1.45%**
non-performing loans to total loans
- **95% of Loans**
in distressed areas
- **9.10%**
return on equity
- **67% of Borrowers**
are minorities and female
- **\$252 Million**
in loans funded in high poverty areas
- **57% of Loans**
less than \$10,000

A YEAR OF GROWTH AND FOCUS

In 2009, Southern Bancorp extended its geographic footprint, now operating 39 banking offices across the rural south. As we advanced our banking activities into additional low-income rural communities, we focused our philanthropic and mission directed efforts to geographically align such with our banking presence.

This focus resulted in the initiation of a comprehensive community development

effort in Clarksdale, Mississippi, the termination of a similar effort in Forrest City, Arkansas, and a decision to close the Southern Good Faith Fund office in Pine Bluff, Arkansas.

The combined focus of our banking and philanthropic/mission activities is a Southern Bancorp innovation that has produced the most profitable and impactful Community Development Financial Institution in the United States.

Peer Comparison: Key Ratios

<i>Based On the Percent of Average Assets</i>	Southern Bancorp	CDFI Bank Average	All Banks < \$3 Billion
Quality of Earnings			
Return on Average Assets	1.03%	-0.42%	0.28%
Return on Average Equity	9.10%	-3.48%	1.80%
Gross Earnings Analysis			
Net interest margin	4.54%	3.84%	3.70%
Non-interest income	0.89%	1.02%	2.06%
Non-interest expense	2.78%	3.95%	4.35%
Non-performing assets	1.45%	4.38%	2.06%

SOCIAL INNOVATION: JOBS

Southern Bancorp Value Proposition:

Decrease unemployment by 50%

Challenges

In many rural communities job opportunities are virtually nonexistent—creating aggressive outmigration of individuals and families who leave to find work elsewhere. A substantially reduced population bankrupts small business and destroys the tax base needed for adequate municipal services and quality education. Those who remain lose hope and the cycle of decline accelerates.

Opportunities

Southern Bancorp seeks to create an environment where individuals and families can find meaningful employment. We believe availability of quality jobs across the employment spectrum is a fundamental building block of community transformation.

Helena-West Helena: A Case Study

1. INVEST IN VISIBLE CHANGE

Neighborhood Revitalization

Through acquisition and re-use, Southern cleaned up the Biscoe Corridor and downtown areas of Helena-West Helena to create visible change so that people can begin to believe that change is possible.

Merged Cities

The merged city of Helena-West Helena is geographically located to serve as a regional hub community for Southeast Arkansas.

2. BUILD KEY ASSETS

Small Business Loan Fund

This loan fund will help bring small businesses back to downtown Helena-West Helena.

Court Square Park

Under reconstruction, this downtown attraction is already providing a new home for Phillips County's new farmers market.

Cleburne Hotel

Southern acquired this historic property, which anchors a key street in downtown Helena-West Helena, and is identifying how it may be stabilized.

Estevan Hall

Southern acquired this historic Helena-West Helena home, which has rich Civil War historical connections, for redevelopment to encourage tourism.

Arkansas Blues & Heritage Festival

Southern provided financial support to keep the festival financially viable.

Ft. Curtis Reconstruction

Southern will fund reconstruction of the Fort to its original glory—a vital part of the overall Civil War Helena Plan.

Running the Numbers

- **\$4.5 Million**
expected revenue in Philips County each year from Civil War tourism
- **40% Boost**
to the Indianola, Mississippi tax base from the B.B. King Museum
- **90,000 Tourists**
expected in Philips County each year from Civil War tourism
- **\$3 Million**
low interest loan funds for new business and historic property
- **27 Historic Sites**
will be developed as part of the Civil War Helena plan

We realize that many communities we serve are not capable of meaningful job creation because of a low skilled workforce, inadequate community and civic infrastructure, high crime rates, substandard housing, deteriorating downtown areas, and failing education systems.

Solutions

Southern Bancorp believes no single solution, program or effort can reduce unemployment. Rather, we believe the challenges and opportunities of job creation exist within complex webs of societal interaction involving community residents and the business, philanthropic, faith based, civic and governmental sectors—all working in concert to address challenges and capitalize on opportunities.

3. BUILD INFRASTRUCTURE

Civil War Helena Master Plan

will develop 27 historic sites, draw 90,000 visitors and generate \$4.5 million annually by focusing revitalization efforts in a unified direction towards identifiable goals. Success is more attainable with clear expectations.

Helena Branding

Creating a new cohesive brand fully establishes a new personality for the city and strengthens the promise it makes both internally and externally.

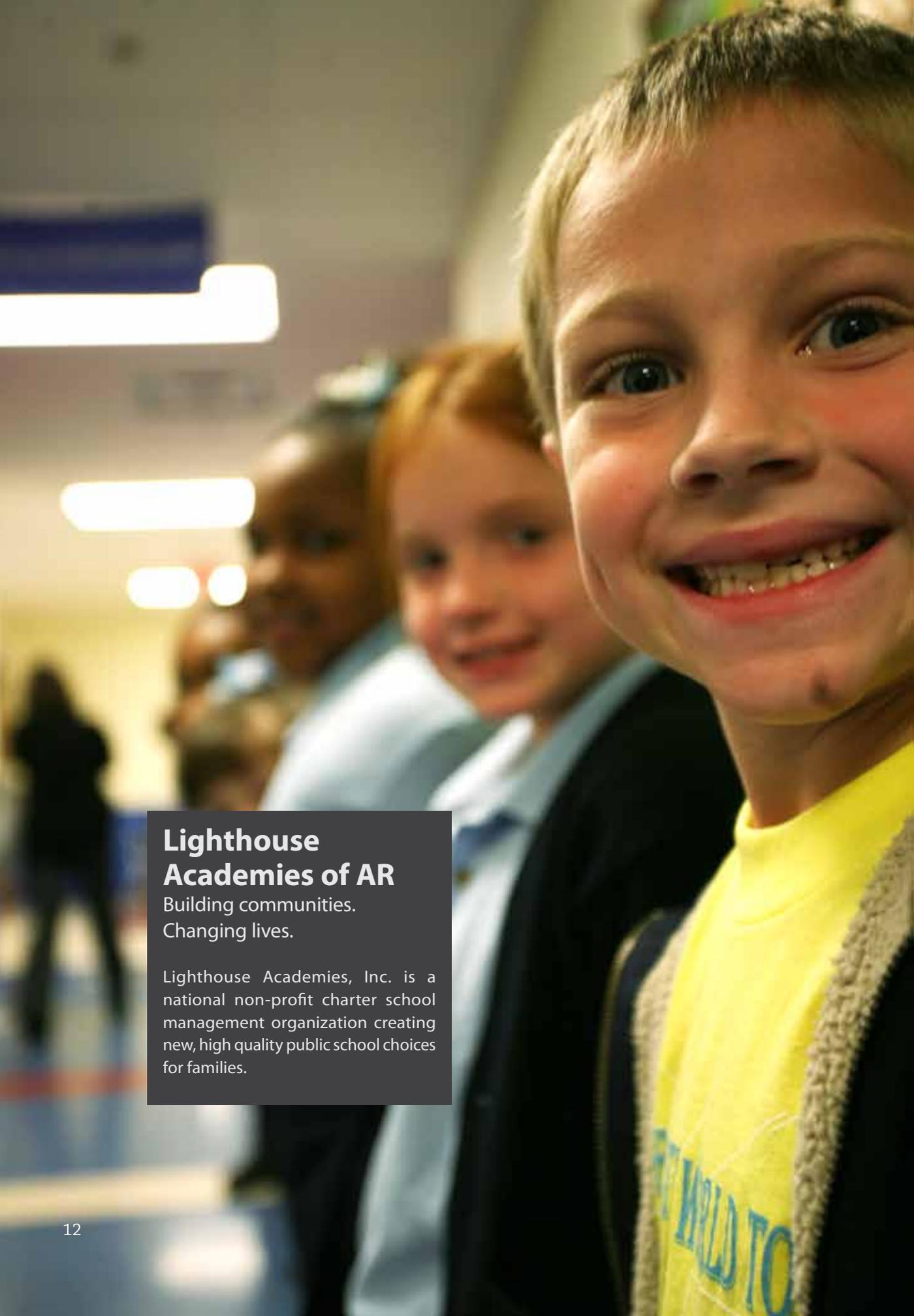
4. INVEST IN PEOPLE

KIPP Delta Public Charter School

This innovative school employs 90 people, making it one of the largest employers in Phillips County. As a highly successful charter school, KIPP proves that youth can excel if given the right environment.

Helena-West Helena Library

This \$1.6 million project is located at a major intersection to help make the library a community hub as a direct investment in the edification and culture of the citizens.



Lighthouse Academies of AR

Building communities.
Changing lives.

Lighthouse Academies, Inc. is a national non-profit charter school management organization creating new, high quality public school choices for families.

EDUCATIONAL OPPORTUNITY

Southern Bancorp Value Proposition:

Increase high school graduation and college attendance by 50%

Running the Numbers

- **1,300 Students**
provided with state of the art classroom space and quality education in Little Rock, Jacksonville, Helena-West Helena
- **75% of Students**
in 10th and 11th grade increased their ACT Prep scores after just one year of the Arkadelphia College Prep Academy
- **344 Students**
provided with a new facility at Lighthouse Academies of Arkansas
- **DOUBLE**
the number of college-ready high school seniors in Phillips County by 2013

Southern works to reduce high school dropout rates by supporting a series of innovative public charter schools across Arkansas that are raising the bar of educational performance for students. The life changing KIPP Delta charter school is expected to double the number of college-ready high school seniors in Phillips County by 2013. Students graduating in 2010 moved from the 29th to the 91st percentile in math on achievement tests and from the 29th to the 84th percentile in language.

Building on its support of proven charter school models in Arkansas in 2009, Southern acquired the old Federal Reserve building in Little Rock for eStem Public Charter School, an open-enrollment public charter school. 375 students in grades 9 through 11 will go to class in the newly renovated Federal Reserve building. Southern also financed the Lighthouse Academies of Arkansas in Jacksonville,

eStem

**Building communities.
Changing lives.**

eStem is an open-enrollment public charter school educating children in Little Rock that emphasizes economics, science, technology, engineering, and math, and will graduate its first class in the spring of 2012.

affiliated with a highly successful charter school model active in five other states. The school is now home to 344 students in grades K through 6.

Southern's support of charter schools, as well as its many efforts to improve traditional public schools in the communities it serves, are part of a long-term strategy of planting seeds of educational opportunity across the region.

ECONOMIC OPPORTUNITY

Southern Bancorp Value Proposition:

Reduce Poverty by 50%



VITA Volunteer

VOLUNTEER INCOME TAX ASSISTANCE PROGRAM (VITA)

Southern Bancorp's Volunteer Income Tax Assistance program—the largest rural VITA program in the country—helped

VITA

Building communities.
Changing lives.

Southern's VITA program prepared more than 1,500 returns for low- to moderate income taxpayers (generally earning \$49,000 a year and below).

more than 1,500 low-income individuals and families file their taxes free of charge. Southern's IRS-certified, committed volunteer tax preparers generated more than \$2.3 million in Earned Income Tax Credits and refunds for VITA clients—money that stayed in the pockets of taxpayers and in local communities, helping to reduce poverty and give low-income families a chance to save money and build assets.

Southern also reduces poverty and empowers families to build assets through matched savings accounts that enable families to become homeowners, go to college or start a business; home buyer and credit counseling; and small dollar loans.

Running the Numbers

- **\$252 Million**
in loans to high poverty areas

- **1,500 Tax Returns**
filed free of charge for low-income individuals and families

- **\$2.3 Million**
in Earned Income Tax Credits and refunds for VITA clients

- **\$3 Million**
low interest loan fund targeting business creation and historic property rehabilitation

EDWARDIAN INN RESTORATION

Southern works to reduce unemployment and create jobs by offering loans and grants to promising projects with potential to economically revive struggling

Low Interest Loan Fund

Building communities.
Changing lives.

The Edwardian Inn was the first recipient of Southern's launch of a \$3 million low interest loan fund targeting business creation and historic property rehabilitation.



communities. To create jobs in distressed downtown Helena-West Helena, Arkansas, Southern launched a \$3 million low interest loan fund targeting business creation and historic property rehabilitation. The first loan from the fund was made to The Edwardian Inn, a historic Victorian home that was converted into a bed and breakfast. Southern also improves local economies by helping communities leverage their cultural riches, including blues music and Civil War historic sites, into economic development opportunities.



Edwardian Inn



BUILDING ON CULTURE TO CREATE OPPORTUNITY

The Arkansas Blues & Heritage Festival in Phillips County is one of the largest blues festivals in the country, attracting thousands from all over the world.



With a difficult economic environment eliminating key sponsorships, organizers were struggling to make the event economically viable. In 2009, Southern stepped in to provide financial and technical support to this key economic and cultural event. The festival drew tens of thousands of tourists

to Phillips County creating business opportunities for local merchants. The revitalized festival has announced its biggest and best headlining lineup in recent memory for its 25th anniversary event in 2010: B.B. King, Dr. John, and Taj Mahal.

GOVERNING BOARD

Phillip N. Baldwin

*President and Chief Executive Officer
Southern Bancorp*

Tony Berkley

*Program and Portfolio Officer
Mission Driven Investing
W.K. Kellogg Foundation*

Jerry Damerow

Retired Ernst & Young Partner

Herman Davenport

*President and Chief Executive Officer
Davenport Group*

Kim Evans

*Director of Center for Nonprofit
Organizations
University of Arkansas at Little Rock*

Elizabeth Glasbrenner

*Vice President of Administration
Smiley Technologies*

LaVerne Feaster

Retired Educator and Administrator

Dr. Robert Fisher

President, Belmont University

James Harrington

President, Harrington Construction

Dr. Glendell Jones, Jr.

*Senior Associate Vice Chancellor for
Academic Affairs and Research
Arkansas State University*

Dr. Jacquelyn Williams McCray

*Retired 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*

Walt Patterson

*Senior Vice President
Affiliated Computer Services*

Freddye Petett

*Assistant Professor of Leadership and
Philanthropy, Clinton School*

Jerry Sims

*President
Blytheville Unlimited*

Walter Smiley

*Chairman of the Board
Southern Bancorp*

Dorothy Stuck

Retired Civic Leader and Businesswoman

Sherman Tate

*Vice President and General Manager of
Operations, Verizon Corporation*

SENIOR OFFICERS

Phillip N. Baldwin

President and Chief Executive Officer

REGIONAL CHIEF EXECUTIVE OFFICERS

James E. Boyd

Central Region

Joseph Ricotta

East Region

William Wright

West Region

Jerry Sims

North Region

Brent Black

Vice President and Chief Financial Officer

Joe Black

*President
Southern Bancorp Capital Partners*

John French

*President
Southern Bancorp CDC*

George Purcell

Chief Credit Officer

Tanya Wright

Group President

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.

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
Calvert Foundation	Southern Bancorp Capital Partners
Charles A. Frueauff Foundation	Levi Strauss Foundation
Fannie Mae	United States Treasury Department
Fred Darragh Estate/Pulaski Bank Trustee	Community Development Financial
Dominican Sisters of Springfield, IL	Institution Fund
Jean T. Gordon	Walton Family Foundation
Hampshire College	Weyerhaeuser Company
James Harrington	Arthur White
International Paper Company	W.K. Kellogg Foundation
Robert B. Lifton Trust	Winrock International
Local Church Ministries	Winthrop Rockefeller Foundation
Metropolitan Life Foundation	Verizon Corporation

ONGOING MISSION

The highlights in this report offer a snapshot of Southern's activities in 2009. Many positive things were accomplished, and much remains to be done. Southern's significant growth through acquisitions and sound business practices gives us even greater tools and opportunities to continue and expand our work throughout the areas we serve. Building communities, changing lives is much more than a motto; it is a mission that will endure.



605 Main Street, Suite 202, Arkadelphia, AR 71923, banksouthern.com, 870.246.3945