Building communities. Changing lives.
You must be the change you wish to see in the world.

Mahatma Gandhi
Our Mission

Southern Bancorp is a development bank holding company committed to helping transform rural economies by creating new trends of investment in people, jobs, businesses, and property.
To Our Stockholders

In the 2004 Presidents Letter I said rural America stands at a crossroads as I witnessed the relentless deterioration of the rural south. In 2005, the crossroads still exists but a new wave of optimism has appeared and is taking hold. I have witnessed a groundswell of citizens taking charge of their future, changing political realities, putting aside long-term problems, rolling up their sleeves - working together for community change.

I believe Southern Bancorp is helping create this new reality with its action oriented and community based approach. The methods we use require inclusive discussion, diverse application and a healthy disregard for what some say can't happen. Unfortunately, 2005 also showed me that certain communities are not able to overcome past problems or work together in a constructive manner. In these instances, Southern will consider the redeployment of its resources to areas where we can make a difference.

As I look forward to 2006 and beyond, I believe that Southern is positioned to change the dynamics of rural community development, will effectively resolve the challenges of the unbanked population, will win the daily battle of integrity over skepticism and will refuse to limit its choices to what seems possible.

I encourage you to join us in this effort - to become a part of this urgent call to action. There is no time like the present to become a partner in building communities and changing lives.

Highlights in 2005

The Phillips County Strategic Plan was officially adopted by the Citizens of Phillips County on August 8, 2005. Adoption of the plan signals the beginning of the implementation of this new and exciting community development model.

The Career Pathways Program, developed by Southern Good Faith Fund and Southeast Arkansas College, was replicated at 10 community colleges around the state with $16 million in funding from the state of Arkansas.
The Southern Approach to Community Change

Because economic decline erodes the institutional infrastructure essential for communities and people to flourish, comprehensive community development is, at its core, a process of revitalizing local institutions. That process is perhaps best represented by a series of linked circles, each circle highlighting a major determinant of a community’s quality of life. Interrelated and interdependent, each circle has the capacity to stimulate and reinforce the other. Southern believes that every healthy community not only requires economic development, but skilled leadership, sufficient housing, available health care, and an excellent public school system.

Unfortunately, the revitalization process is both complex and demanding. It requires coordination and collaboration across a broad diversity of public, private, non-profit and civic entities. It demands the skill to forge consensus between competing perspectives; the know-how to manage complex, long-term processes; and the financial capacity to stay a long and sometimes difficult course.

The ability of struggling communities to navigate these complexities, arrive at a shared vision for the future, and translate that vision into a new reality depends, almost entirely, on the availability of partners with the financial and managerial capacity to support and sustain the multi-level process. By interfacing its community banks and its highly specialized nonprofit development affiliates, Southern is uniquely equipped to manage such a process. Focusing its attention and resources on the Delta region of Arkansas and Mississippi, Southern is helping struggling communities strengthen institutions that support education, business, housing and healthcare.

Theory of Change

Southern believes that effective community development must be locally initiated, planned and implemented. Development processes inserted into a community by outside organizations generally fail because of a lack of community support.

As such, community development is fundamentally a local institution building process, requiring the emergence of community organizations, processes and structures that provide for:

1. A broad and inclusive community vision.
2. The creation of sufficient planning systems and structures that ensure sustainability of community vision and development of reasonable action steps.
3. Financial capacity.
4. Staff talent to manage long-term and multifaceted development processes.
How We Work

1. Southern concentrates its efforts in communities where it has a banking presence, including areas within a 75-mile radius of such communities.

2. Southern uses its community banks as catalysts through which local development activities are supported. As long-term community institutions, Southern's banks provide significant degrees of institutional influence in local financial, business and political environments.

   Southern’s banks operate with a local board of directors, local management and local employees who hold positions of community leadership. Through the community leadership positions, bank directors, management and staff are able to help influence both public and private policy initiatives and create local support for Southern’s community development initiatives.

3. Southern’s role in community development is to act as a catalyst and facilitator in cities that contain a Southern banking presence. To this end, Southern works with local community organizations to:
   - Develop long-term and comprehensive community strategic plans.
   - Increase capacity of local organizations to enable sustained community development work by supporting community leadership.
   - Work with community organizations to keep development initiatives moving forward on a defined timeline.
   - Provide the full range of Southern’s development programs.
Southern continued its expansion in 2005 through the acquisition and opening of new branches in Mississippi and Arkansas and is recognized as the largest rural community development bank in the United States.

- Delta Southern Bank opened a full service branch in Indianola, Mississippi increasing its branch network to twelve locations in the Mississippi Delta.

- Elk Horn Bank opened a full service branch in Hot Springs, Arkansas increasing its banking network to seven locations in rural Arkansas.

- First Bank of the Delta opened a loan production office in Southaven, Mississippi. This office represents First Bank’s initial expansion into the State of Mississippi.

In addition to growing total assets and expanding development loans to record levels, Southern is working to expand the offering of special purpose financial products to the unbanked population in the rural south. We are developing new products to better meet low-income people’s needs like special purpose stored value cards that allow low income individuals the opportunity to move away from cash only transactions, a credit and savings builder certificate of deposit that will assist people improve their credit scores and tax refund savings accounts that combine our free tax services with the opportunity to split a refund into multiple bank accounts, including high yield savings accounts, IDAs, and checking accounts.

William Thomas Jr. lives in the small town of Mellwood, Arkansas about 30 miles from Helena. He and his mother enrolled in the SEED program in June 2004. The SEED Program is an innovative college saving program where Southern provides a 100% match on college savings up to $1,000. William is very excited about saving for his future education.

### Financials

#### Consolidated Balance Sheets

Southern Bancorp and Subsidiaries  
December 31,

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and due from banks</td>
<td>$14,985,217</td>
<td>$14,790,915</td>
</tr>
<tr>
<td>Federal funds sold</td>
<td>7,705,000</td>
<td>7,060,000</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>22,690,217</td>
<td>21,850,915</td>
</tr>
<tr>
<td>Interest-bearing deposits in other banks</td>
<td>666,720</td>
<td>3,644,268</td>
</tr>
<tr>
<td>Investment securities</td>
<td>185,268,229</td>
<td>196,809,679</td>
</tr>
<tr>
<td>Loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial, financial and agricultural</td>
<td>65,807,237</td>
<td>62,453,381</td>
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<tr>
<td>Real estate</td>
<td>144,946,341</td>
<td>117,092,499</td>
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<tr>
<td>Installment</td>
<td>20,092,081</td>
<td>20,277,395</td>
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<tr>
<td>Total loans</td>
<td>230,845,659</td>
<td>199,823,275</td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>(5,641,855)</td>
<td>(5,990,788)</td>
</tr>
<tr>
<td>Net loans</td>
<td>225,203,804</td>
<td>193,832,487</td>
</tr>
<tr>
<td>Premises and equipment, net</td>
<td>18,564,267</td>
<td>18,431,130</td>
</tr>
<tr>
<td>Rental real estate, net</td>
<td>2,286,846</td>
<td>2,296,968</td>
</tr>
<tr>
<td>Goodwill</td>
<td>14,065,974</td>
<td>14,025,636</td>
</tr>
<tr>
<td>Other assets</td>
<td>19,184,249</td>
<td>18,144,407</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$487,930,306</td>
<td>$469,035,490</td>
</tr>
</tbody>
</table>

|                      |                 |                 |
| **Liabilities**      |                 |                 |
| Deposits:            |                 |                 |
| Non-interest bearing demand | $60,576,480     | $64,817,470     |
| Interest-bearing demand | 117,985,623     | 124,742,905     |
| Savings              | 29,959,561      | 31,384,766      |
| Time deposits less than $100,000 | 128,980,109  | 119,976,965     |
| Time deposits greater than or equal to $100,000 | 86,215,103    | 58,077,888     |
| Total deposits       | 423,716,876     | 398,999,994     |
| Federal funds purchased and securities sold under agreements to repurchase | 1,933,119      | 5,445,076       |
| Federal Home Loan Bank advances and other short-term borrowings | 2,055,515      | 5,914,950       |
| Subordinated debentures | 22,592,000     | 22,592,000     |
| Note payable         | 851,639         | 851,639         |
| Other liabilities    | 3,313,562       | 3,610,965       |
| **Total liabilities**| 454,462,711     | 437,414,624     |

|                      |                 |                 |
| **Stockholders’ Equity** |               |                 |
| Common stock, $1 par value; 500,000 shares authorized; shares issued and outstanding: |               |                 |
| Series A-1, 47,788 in 2005 and 41,925 in 2004 | 47,788         | 41,925          |
| Series A-2, 42,990 in 2005 and 2004 | 42,990         | 42,990          |
| Series A-3, 57,484 in 2005 and 2004 | 57,484         | 57,484          |
| Series A-5, 9,091 in 2005 and 2004 | 9,091          | 9,091          |
| Capital surplus      | 22,673,479      | 20,879,401      |
| Retained earnings    | 12,464,753      | 9,972,239       |
| Accumulated other comprehensive (loss) income | (1,827,990)   | 617,736         |
| **Total stockholders’ equity** | 33,467,595     | 31,620,866      |

|                      |                 |                 |
| **Total Liabilities and Stockholders’ Equity** |                 |                 |
| $487,930,306         | $469,035,490    |                 |
## Consolidated Statements of Income

**Southern Bancorp and Subsidiaries**

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td><strong>Interest income</strong></td>
</tr>
<tr>
<td>Loans, including fees</td>
</tr>
<tr>
<td>Investment securities:</td>
</tr>
<tr>
<td>Taxable</td>
</tr>
<tr>
<td>Tax exempt</td>
</tr>
<tr>
<td>Federal funds sold and other</td>
</tr>
<tr>
<td><strong>Total interest income</strong></td>
</tr>
<tr>
<td><strong>Interest expense</strong></td>
</tr>
<tr>
<td>Deposits</td>
</tr>
<tr>
<td>Subordinated debentures</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Total interest expense</strong></td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
</tr>
<tr>
<td>Provision for loan losses</td>
</tr>
<tr>
<td><strong>Net interest income after provision for loan losses</strong></td>
</tr>
<tr>
<td><strong>Other income</strong></td>
</tr>
<tr>
<td>Service charges on deposit accounts</td>
</tr>
<tr>
<td>Net investment securities gains</td>
</tr>
<tr>
<td>Fees, commissions and other</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
</tr>
<tr>
<td><strong>Other expense</strong></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
</tr>
<tr>
<td>Net occupancy and equipment expense</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td><strong>Other expense</strong></td>
</tr>
<tr>
<td>** Income before income taxes**</td>
</tr>
<tr>
<td>** Income tax expense**</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
</tr>
</tbody>
</table>

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**Building communities. Changing Lives.**

Southern Bancorp 9
Leadership

Successes

In 2005, Southern worked in Phillips County Arkansas to improve community leadership. The results are unmatched in community development. The following key leadership events occurred in 2005:

- Merger of Helena and West Helena, creating the community of Helena-West Helena. This is only the second time in Arkansas history communities of this size merged.
- Election of a new mayor and progressive city council.
- Election of a new school board.
- Adoption of a Strategic Community Plan.
- Updating of City zoning codes.
- Establishment of a code enforcement officer.
- Forty Nine dilapidated buildings condemned and demolished.
- Two Hundred abandoned vehicles removed.
- Construction completed on a 32,000 square foot Health Center.
- Renovation completed on Historic Horner Home.
- Expansion plan for the KIPP School completed and all necessary land purchased.
- Initiated a plan for building an interstate highway system passing through Phillips County.

Challenges

A more somber assessment of community planning efforts also occurred in 2005. After a two year process of community planning in Friars Point, Mississippi, it became apparent that the Strategic Community Plan developed in 2004 had not been successful. The citizens of Friars Point did not take ownership of the Strategic Plan and were not engaged in the process.

Southern has committed to make additional efforts in 2006 and 2007 to stimulate community engagement and to maintain its banking presence in Friars Point. We believe constructive community engagement supporting a higher level of banking activity is necessary for Southern to continue both its community development mission and banking presence in Friars Point.
Economic Development

Again in 2005, Southern provided the capital and expertise needed to make a real and measurable impact in the regions it serves.

In 2005:

• Southern funded over $184 million in development loans in the Delta regions of Arkansas and Mississippi.
• Southern provided $1.6 million in grants to four Delta communities.
• A $50,000 grant provided to the Memphis Regional Chamber of Commerce to fund a comprehensive labor market study in 45 delta counties.
• Southern Good Faith Fund helped start, expand, or retain 128 small businesses, leading to the creation or retention of 182 jobs.

$400,000 grant helped provide for the construction of a Sweet Potato storage facility allowing the development of a new agricultural industry in Phillips County, Arkansas.

$30,000 grant provided to fund a biodiesel feasibility study in an effort to create a bio fuels industry in the Delta.

Floyd Marrow checks his sweet potato crop in western Phillips County, Arkansas.
No element is more critical to the future of a community than the quality of its public schools.

The Career Pathways Program, developed by Southern Good Faith Fund and Southeast Arkansas College to help low income individuals access college-level training and education was replicated at 10 community colleges around the state. The Arkansas Transitional Employment Board committed $16 million in Temporary Assistance for Needy Families (TANF) funding for the initiative.

$250,000 grant provided to develop a comprehensive plan for the expansion of the KIPP School and to acquire land in downtown Helena-West Helena.

Artist rendering of a potential KIPP School Complex serving students from kindergarten through twelfth grade.

The Career Pathways Program, developed by Southern Good Faith Fund and Southeast Arkansas College to help low income individuals access college-level training and education was replicated at 10 community colleges around the state. The Arkansas Transitional Employment Board committed $16 million in Temporary Assistance for Needy Families (TANF) funding for the initiative.

Kanaka Crawford is a 2004 graduate of Southern Good Faith Fund’s Certified Nurses Assistant program. She is currently working as a nurses assistant and is a Pre-Nursing student at Phillips Community College of the University of Arkansas.

Infrastructure and Housing

The single most important asset for the average American family is the family home.

Group Living is a non profit organization based in Arkadelphia, Arkansas that provides a family living environment and work opportunities for over 65 developmentally disabled people from across Arkansas.

In 2005, Southern provided almost $400,000 in long-term financing that allowed the construction of 9 condominiums allowing Group Living members to own their own homes.

Two residents of Lucas Gardens Condominiums enjoy the front porch of their home.

The Bush Quarters Complex in Helena-West Helena, Arkansas is a 60 unit complex of cinder block housing that has existed since the mid 1940's. Many of the housing units did not have running water or electricity. Children played on land with raw sewage seeping up from the ground.

Children living in the Bush Quarters Complex in Helena-West Helena, Arkansas.

Southern acquired this housing complex in 2005, bulldozed the cinder block buildings, relocated each family to better housing, paid the cost of relocation and paid the first month's rent. Our hope is to work with the families so they can eventually move out of public housing into the Southern Place Apartments which will be built in 2006.

Children at the Cutler Terrace Apartments.
In 2005, the Delta Arkansas Health Education Center opened for business.

With over 30,000 square feet, this facility provides a wellness center with exercise equipment and exercise classes, a community health library and health education classrooms. Indoor and outdoor walking tracks are available and as with all AHEC’s the University of Arkansas Medical College will rotate resident physicians and other health care professionals through the facility.

Southern through a partnership with the Helena Health Foundation and the United States Department of Agriculture financed this $4.2 million facility.

The facility offers fitness classes, physician training and nutrition and wellness education.

Arthur McClinton, Jr. and Rachel Hughes participate in fitness classes at the Wellness Center.
Governing Board

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President and Chief Executive Officer
Southern Bancorp

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Planters Service & Sales

Herman Davenport
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Davenport Group

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Partner
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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
Attorney
Martin, Tate, Morrow & Marston, P.C.

Walter Patterson
Senior Vice President
Affiliated Computer Services

Rodney Slater
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President, Smiley Investment Company

David Solomon
Attorney
David Solomon, P. A.

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Sherman Tate
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Alltel

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Brent Black
Vice President and Chief Financial Officer
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James E. Boyd
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First Bank of Delta N.A.

Angela Duran
President
Southern Good Faith Fund

George Purcell
President and Chief Executive Officer
Delta Southern Bank

Ben Steinberg
President
Southern Financial Partners

William Wright
President and Chief Executive Officer
Elk Horn Bank

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 that 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
- Arthur White
- Calmeadow Foundation, Canada
- Charles Stewart Mott Foundation
- Dominican Sisters of Springfield, IL
- Fannie Mae
- Fred Darragh Estate/Pulaski Bank Trustee
- Hampshire College
- Henry Morgan Estate
- International Paper Company
- James Harrington
- Jean T. Gordon
- John D. & Catherine T. MacArthur Foundation
- Levi Strauss Foundation
- Metropolitan Life Foundation
- National Community Investment Fund
- Regions Bank
- Reliant Energy
- Robert B. Lifton Trust
- Southern Financial Partners
- Stephens Group, Inc.
- Union Planters Bank
- United Church Board of Homeland Ministries
- United States Treasury Department CDFI Fund
- Walton Family Foundation
- Weyerhaeuser Company
- Winrock International
- Winthrop Rockefeller Foundation
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 community development efforts over the years.

Alltel Corporation
Annie E. Casey Foundation
Arkansas Community Foundation
Arkansas Department of Higher Education
Arkansas Department of Health and Human Services
Arkansas Development Finance Authority
Arkansas Area Health Education Centers
Catholic Campaign for Human Development
Catholic Health Initiatives
Center for Law and Social Policy
CFED
Charles and Mary Grant Foundation
Charles A. Frueauff Foundation
Charles Stewart Mott Foundation
CHRISTUS Health
City of Clarendon, Arkansas
Clark County Community Foundation
The David and Lucille Packard Foundation
Delta Area Health Education Center
Delta Regional Authority
Entergy Charitable Foundation
Enterprise Corporation of the Delta
The F. B. Heron Foundation
Federal Home Loan Bank of Dallas
The Flora Family Foundation
The Ford Foundation
Foundation for the Mid South
The Hitachi Foundation
Isle of Capri Corporation
The John D. and Catherine T. MacArthur Foundation
Knox Nelson Literacy Fund
Mary Reynolds Babcock Foundation
Ms. Foundation for Women
National Community Capital Association
National Community Investment Fund
National Governors Association
National Rural Funders Collaborative
National Network of Sector Partners
Public Welfare Foundation
Robert Wood Johnson Foundation
The Sisters of St. Joseph of Carondelet
Smiley Investment Company
Southeast Arkansas Workforce Investment Board
Synergy Forum

United States Department of Agriculture
United States Department of Health and Human Services
United States Department of Housing and Urban Development
United States Department of Labor
United States Department of Agriculture Rural Development
United States Small Business Administration
United States Treasury Department
Community Development Financial Institution Fund
United Way of Southeast Arkansas
W.K. Kellogg Foundation
Walton Family Foundation
William Randolph Hearst Foundations
Winthrop Rockefeller 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
Arthur S. Lloyd
Ben & Jerry's Foundation, Inc.
Ben & Jerry's Homemade, Inc
Calvert Social Investment Foundation
Calvert Social Investment Fund
Catherine Gibson
Central Conference of American Rabbis
Charles Schwab & Co., Inc.
Charles Schwab & Co., Inc., Institutional Services Group
CHRISTUS Health
Congregation of Humility of Mary
Congregation of the Sisters of Charity of the Incarnate Word
Conscience & Military Tax Campaign
CRA Fund Advisors
Dominican Social Bond Fund
Dominican Sisters of Springfield, IL
E & H Stowell Trust
Episcopal Diocese of North Michigan
F.B. Heron Foundation
Fleet National Bank as Custodian For Loring, Wolcott and Coolidge
Frances Dean Allan
Friedman Family Foundation
Funding Exchange Endowment
Gail J. Kirkland
Home Missioners of America
Jane Shapiro
Joshua Wallman
Laurie T. Dewey
Loretto Literary & Benevolent Institution
MMA Community Development Investments, Inc.
Nazareth Literary & Benevolent Institution
Needmor Fund
Physicians for Social Responsibility
Rabbinical Pension Plan Trust
Rebecca Liebman
School Sisters of Notre Dame
School Sisters of Notre Dame of Dallas
Seton Enablement Fund
Sinsinawa Dominicans, Inc.

Sisters of Mercy of St. Louis Regional Community
Sister of St. Francis of Millvale
Sisters of St. Francis of Peace
Sisters of St. Francis of Philadelphia Our Lady Angels Convent
Sisters of St. Francis of Tiffin, Ohio
Sisters of St. Joseph in California
Sisters of the Order of St. Benedict St. Mary Monastery
Sisters of the Sorrowful Mother
Society of the Divine Word
St. Scholastica Monastery
S.W. Dittenhofer III
Tanis Walters
Tides Foundation—Exploring EIF
Union of American Hebrew Congregations
Unitarian Universalist Association
U.S. Trust Social Balanced Fund
Victor Dubrowski
Walden Social Balance Trust Fund
War Resisters League Inc.
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First Bank of the Delta N.A.
P.O. Box 160
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www.southerncdc.org

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Helena-West Helena, AR 72342
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www.southernfp.org

Southern Good Faith Fund
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Pine Bluff, AR 71603
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www.southerngff.org

Southern Property Corporation
605 Main Street, Suite 202
Arkadelphia, AR 71923
870.246.4731
www.southerncdc.org