Tonight I will...

Math Lesson 53
Read 20 min

We are reading...
The Great Turkey Race

We are listening to...
Classical Music

RIT goals
165 Math
160 Reading
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
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Financial Strength 8
Social Innovation 10
Educational Opportunity 13
Economic Opportunity 14
Building On Culture to Create Opportunity 17
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Senior Officers 18
Stockholders 19
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**

### Assets:

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>$32,045,569</td>
<td>$18,399,772</td>
</tr>
<tr>
<td>Federal funds sold</td>
<td>44,747,417</td>
<td>7,100,000</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>76,792,986</td>
<td>25,499,772</td>
</tr>
<tr>
<td>Interest-bearing deposits in other banks</td>
<td>16,092,394</td>
<td>26,491,025</td>
</tr>
<tr>
<td>Investment securities</td>
<td>265,046,967</td>
<td>135,315,666</td>
</tr>
<tr>
<td>Loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial, financial, and agricultural</td>
<td>144,508,000</td>
<td>83,309,046</td>
</tr>
<tr>
<td>Real estate</td>
<td>418,124,747</td>
<td>226,137,860</td>
</tr>
<tr>
<td>Installment</td>
<td>48,675,000</td>
<td>24,785,821</td>
</tr>
<tr>
<td>Total loans</td>
<td>611,307,747</td>
<td>334,232,727</td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>(8,806,624)</td>
<td>(4,440,821)</td>
</tr>
<tr>
<td>Net loans</td>
<td>602,501,123</td>
<td>329,791,906</td>
</tr>
<tr>
<td>Premises and equipment, net</td>
<td>39,674,487</td>
<td>24,603,531</td>
</tr>
<tr>
<td>Goodwill</td>
<td>36,956,618</td>
<td>14,065,974</td>
</tr>
<tr>
<td>Other assets</td>
<td>39,406,407</td>
<td>22,680,149</td>
</tr>
<tr>
<td>Total assets</td>
<td>$1,076,470,982</td>
<td>$578,448,023</td>
</tr>
</tbody>
</table>

### Liabilities:

<table>
<thead>
<tr>
<th>Description</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-interest bearing demand</td>
<td>$127,156,427</td>
<td>$72,309,905</td>
</tr>
<tr>
<td>Interest-bearing demand</td>
<td>279,942,452</td>
<td>130,200,678</td>
</tr>
<tr>
<td>Savings</td>
<td>50,043,722</td>
<td>26,819,809</td>
</tr>
<tr>
<td>Time deposits less than $100,000</td>
<td>228,063,374</td>
<td>136,174,900</td>
</tr>
<tr>
<td>Time deposits greater than or equal to $100,000</td>
<td>225,453,466</td>
<td>93,666,506</td>
</tr>
<tr>
<td>Total deposits</td>
<td>910,659,441</td>
<td>459,171,798</td>
</tr>
<tr>
<td>Federal funds purchased and securities sold under agreements to repurchase</td>
<td>15,214,620</td>
<td>14,809,054</td>
</tr>
<tr>
<td>Federal Home Loan Bank advances</td>
<td>37,344,116</td>
<td>34,023,132</td>
</tr>
<tr>
<td>Subordinated debentures</td>
<td>17,437,000</td>
<td>17,437,000</td>
</tr>
<tr>
<td>Notes payable</td>
<td>21,483,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>5,366,279</td>
<td>4,202,007</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>1,007,504,456</td>
<td>530,642,991</td>
</tr>
</tbody>
</table>

### 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-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                    | $1,076,470,982 | $578,448,023 |
**CONSOLIDATED STATEMENTS OF INCOME**

**Years Ended December 31**

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

**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.
GROWTH

Increase of Net Income

172%

Increase of Total Assets

86%
Running the Numbers

- $1.1 Billion in total assets
- 1.45% non-performing loans to total loans
- 9.10% return on equity
- $252 Million in loans funded in high poverty areas

- $2.3 Billion in development loans since 1988
- 95% of Loans in distressed areas
- 67% of Borrowers are minorities and female
- 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

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

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.
Southern Bancorp Value Proposition:
Reduce Poverty by 50%

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

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.

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
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
Arkansas Best Corporation
Arkansas Capital Corporation
Arkansas Community Foundation
Arkansas Electric Cooperatives
Calmeadow Foundation, Canada
Calvert Foundation
Charles A. Frueauff Foundation
Fannie Mae
Fred Darragh Estate/Pulaski Bank Trustee
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
W.K. Kellogg Foundation
Winrock International
Winthrop Rockefeller 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.