



2011 Annual Report

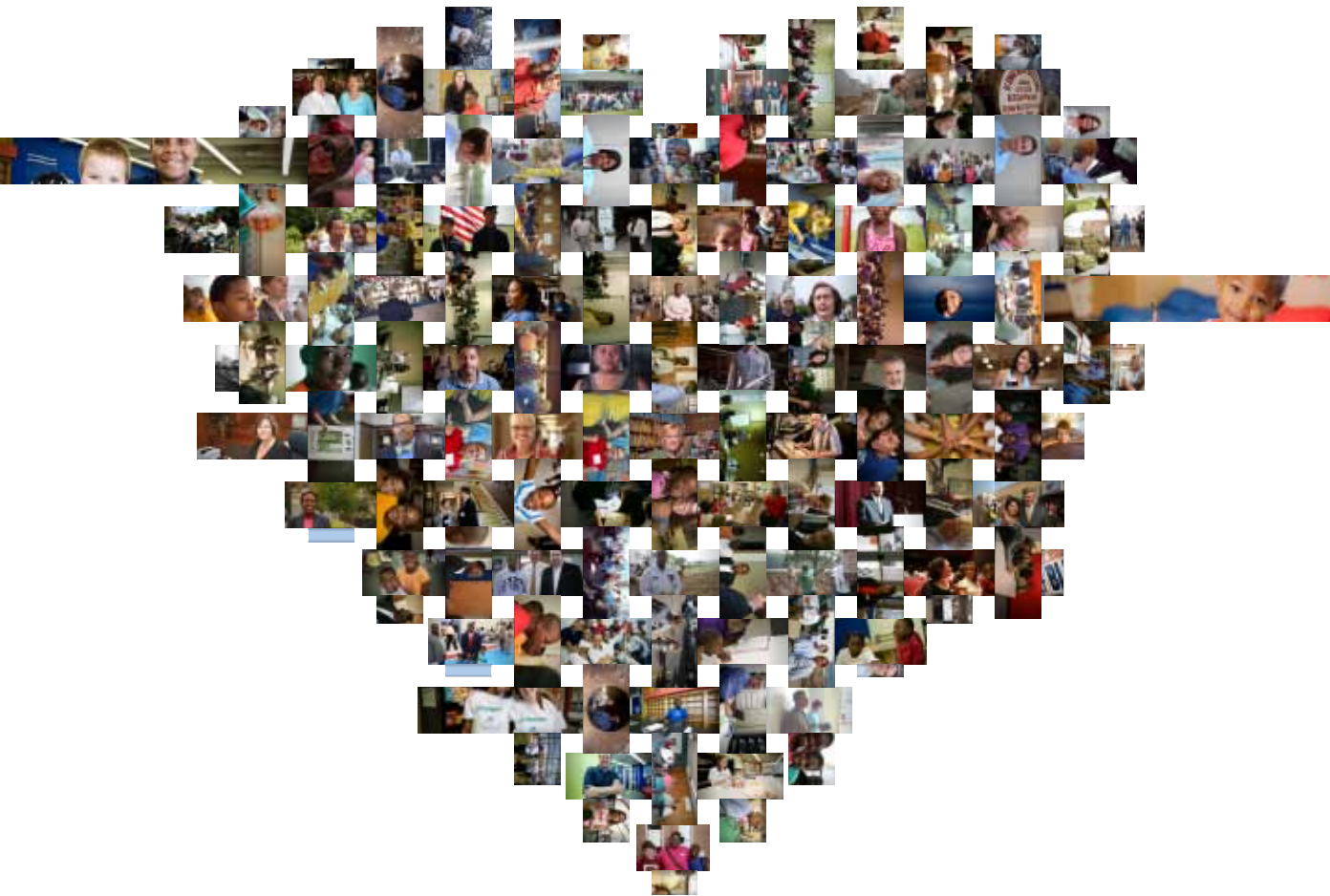
A Heart

for Community





Every community is comprised of unique individuals capable of weaving vibrant communities through their collective efforts. Once tapped, this social fabric drives innovation which builds communities and changes lives.



That's what drives our heart at Southern: our communities.

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WHO IS SOUTHERN?

Southern Bancorp Inc. ("Southern") is a bank holding company with one wholly owned subsidiary, Southern Bancorp Bank, and with a nonprofit affiliate, Southern Bancorp Community Partners. Southern is a certified community development financial institution (CDFI) with a mission to transform rural economies by creating new trends of investment in people, jobs, businesses, and property. Southern measures its impact through three transformation goals: reducing poverty, increasing employment, and increasing educational attainment in Southern's focus communities.



MESSAGE FROM WALTER SMILEY

Chairman and CEO, Southern Bancorp Inc.

During the past four years, Southern Bancorp has undergone significant growth. We nearly doubled our assets in 2009 when we became a \$1 billion bank, and continued to expand through 2011. Our Board has decided now is the time to assimilate our growth and focus on our effectiveness for the next few years. We have already made a number of changes in our management structure and are presently working on ways to increase our capital, which will allow additional financial resources that can be used to magnify our social impact.

Our nonprofit affiliates' boards have also sought ways to continue increasing our impact and decided to merge Southern Bancorp Capital Partners and Southern Good Faith Fund. The merger of the two organizations took effect on January 1, 2012, and the organization is now collectively known as Southern Bancorp Community Partners. The combined nonprofit will continue to provide our community development, asset building services, workforce development and public policy activities more efficiently and better serve individuals and communities with this integrated approach. Moreover, the merger will further unite Southern under its three transformational goals of increasing employment, increasing educational attainment, and reducing poverty.

In 2011, Southern's social impact has reached several key milestones. It was our tenth year of strategic grantmaking, now totaling over \$10 million in grants to support revitalization of our communities throughout Arkansas and Mississippi. Our focused community development efforts and funds contributed to projects such as the Arkadelphia Promise and launch of Civil War Helena tourism and helped leverage over \$160 million in new investments over the past 10 years. We are also beginning to see tangible evidence of revitalization. One of our communities, Phillips County, Arkansas saw a population increase after decades of outmigration.

2012 will surely bring more change as the banking industry continues to evolve, but be assured our focus is where it has always been and will continue to be—in our communities. Moving forward, our boards know with certainty our strategies are well developed, our mission is right, and our organization is sound. As we have for the past 25 years, we will persist in “Building Communities and Changing Lives.”

FINANCIALS

CONSOLIDATED BALANCE SHEETS

Years Ended December 31

	2011	2010
ASSETS		
Cash and due from banks	\$ 21,517,564	\$ 22,106,113
Interest-bearing deposits in other banks	97,590,696	56,276,402
Investment securities, available-for-sale	297,089,442	271,688,033
Other equity investments	6,558,409	5,940,954
Loans:		
Commercial, financial, and agricultural	115,705,441	127,058,918
Real estate	448,331,270	434,891,196
Installment	48,045,920	51,276,672
Total loans	612,082,631	613,226,786
Credit discount, net of accumulated amortization	(1,004,896)	(2,359,009)
Allowance for loan losses	(6,708,106)	(5,282,021)
Net loans	604,369,629	605,585,756
Premises and equipment, net	49,756,022	50,312,140
Goodwill	36,752,842	36,752,842
Other assets	36,671,585	34,841,467
Total assets	<u>\$1,150,306,189</u>	<u>\$1,083,503,707</u>
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 161,304,738	\$ 134,632,422
Interest-bearing demand	320,338,361	272,039,925
Savings	57,350,154	53,065,835
Time deposits	430,194,219	461,128,092
Total deposits	969,187,472	920,866,274
Federal funds purchased and securities sold under agreements to repurchase	30,595,532	21,256,368
Federal Home Loan Bank advances	13,747,948	15,059,853
Subordinated debentures	17,437,000	17,437,000
Notes payable	11,612,755	12,065,880
Other liabilities	9,213,592	6,588,794
Total liabilities	<u>1,051,794,299</u>	<u>993,274,169</u>
STOCKHOLDERS' EQUITY		
Preferred stock, \$1 par value; 200,000 shares authorized; 38,350 shares issued and outstanding at December 31, 2011 and 2010, \$1,000 per share liquidation value	38,248,310	38,248,310
Common stock, \$1 par value; 1,600,000 shares authorized; 167,938 shares issued and outstanding at December 31, 2011 and 2010	167,938	165,938
Capital surplus	23,657,267	23,657,267
Retained earnings	32,334,503	28,084,739
Accumulated other comprehensive income (loss)	4,103,872	71,284
Total Stockholders' Equity	98,511,890	90,229,538
Total Liabilities and Stockholders' Equity	<u>\$1,150,306,189</u>	<u>\$1,083,503,707</u>

CONSOLIDATED STATEMENTS OF INCOME**Years Ended December 31**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
INTEREST INCOME:			
Loans, including fees	\$ 40,492,688	\$ 41,487,946	\$ 29,787,483
Investment securities:			
Taxable	5,292,064	6,054,640	5,012,741
Tax exempt	2,329,751	2,178,510	1,352,979
Federal funds sold and other	694,274	606,548	457,284
Total interest income	<u>48,808,777</u>	<u>50,327,644</u>	<u>36,610,487</u>
INTEREST EXPENSE:			
Deposits	8,161,123	10,685,410	8,181,941
Subordinated debentures	696,239	692,231	902,689
Other	1,014,706	1,501,244	750,124
Total interest expense	<u>9,868,068</u>	<u>12,878,885</u>	<u>9,834,754</u>
Net interest income	<u>38,940,709</u>	<u>37,448,759</u>	<u>26,775,733</u>
Provision for loan losses	<u>3,896,075</u>	<u>3,885,462</u>	<u>2,491,086</u>
Net interest income after provision for loan losses	<u>35,044,634</u>	<u>33,563,297</u>	<u>24,284,647</u>
OTHER INCOME:			
Service charges on deposit accounts	4,516,206	4,852,122	4,202,851
Net investment securities gains (losses)	(62,955)	543,941	515,908
Fees, commissions, and other	4,792,648	5,881,217	1,994,895
Total	<u>9,792,648</u>	<u>11,277,280</u>	<u>6,713,654</u>
OTHER EXPENSE:			
Salaries and employee benefits	18,067,203	17,415,180	13,270,877
Net occupancy and equipment expense	4,256,802	4,201,592	3,187,996
Other	13,630,229	11,838,631	8,638,692
Total	<u>35,954,234</u>	<u>33,455,403</u>	<u>25,097,565</u>
INCOME BEFORE INCOME TAXES	<u>8,336,299</u>	<u>11,385,174</u>	<u>5,900,736</u>
Income tax provision	<u>1,659,091</u>	<u>3,072,993</u>	<u>755,744</u>
NET INCOME	<u>\$ 6,667,208</u>	<u>\$ 8,312,181</u>	<u>\$ 5,144,992</u>



**OUR
HEART**
is for **COMMUNITY:**
AN OVERVIEW OF SOUTHERN



YEAR AFTER YEAR,

Southern remains one of the most profitable and effective Community Development Financial Institutions (CDFI) in the United States. Our development model continues to be successful because we pursue sustainable community development by engaging communities in the design, direction and implementation of their strategic plans.

The year 2011 was no exception. Southern exemplified its dedication to the communities we serve through several new developments. The passion for our communities led to key economic projects including the establishment of our Hernando branch as the first “green” bank branch in Mississippi; the drafting of the Coahoma County, MS Strategic Community Plan; and the decision to expand the Delta Bridge Project into Mississippi County, AR.

Whether it’s our businesses, schools, parks or homes, the welfare of each is essential to the social fabric of our communities. Even with changes in leadership, technology, locations, and products, one piece of Southern remains the same: our customers and clients will always be the heartbeat of our communities, as well as our mission to ensure opportunities for them and their families to achieve individual and collective dreams.

To help us remain focused on tangible progress, Southern pledged to reach our three transformational goals. We aim to bridge the gap between the local and federal rates of educational attainment, poverty reduction and employment by 50 percent. To accomplish our goals, we must accurately assess our impact. Southern created its social metrics program to interpret data collected from our communities and measure the impact of our efforts.

Visit SouthernPartners.org to learn about our social metrics program and progress on our three transformational goals.

5 Pillars of Community Development

1. Economic Development
2. Education
3. Healthcare
4. Housing
5. Leadership

3 Transformational Goals

1. Increasing Educational Attainment
2. Increasing Employment
3. Reducing Poverty

THE HEART

OF OUR COMMUNITIES:
OUR CLIENTS' STORIES



Hazel Dillehay and Staff

HAZEL DILLEHAY

Hazel Dillehay, of Hot Springs, Arkansas, was an aspiring entrepreneur and longtime customer of Southern. A registered nurse with 16 years of experience, Ms. Dillehay decided to follow her dream of owning her own business. With the assistance of one of Southern's loan officers, Brad Taylor, Ms. Dillehay was able

IN 2011 Over 50% of the loans Southern made were for \$10,000 or less.



to receive a \$25,000 Federal Home Loan Bank (FHLB) economic development program grant and small business loan. In July 2011, Ms. Dillehay fulfilled her dream and purchased Hot Springs Medical Rentals, a medical supplies company. Within the first two months of management, Ms. Dillehay expanded her product offering and hired three more employees.

LILLIE STRINGFELLOW

In 2006, Lillie Stringfellow came into the bank in Phillips County, Arkansas to have her taxes done. Since Ms. Stringfellow did not have a bank account anywhere at that time, she decided to open a savings account at Southern so she could have a place to deposit her tax refund. The following year, Ms. Stringfellow returned to Southern to have her taxes prepared once again. At this time, Vida Fielder, VITA volunteer and Housing &

IN 2011 Southern filed more than 2,000 tax returns for low and moderate income individuals and families through its VITA program.



Vida Fielder

Credit Counselor for Southern, introduced her to the Individual Development Account (IDA) program. Ms. Stringfellow decided to enroll in the IDA program to save towards home improvement repairs. By 2011, she had completed the IDA program requirements and used her initial \$666.67 savings and \$2,000 match to make improvements to her home. Moreover, in addition to Ms. Stringfellow's IDA, she is still using the savings account Southern opened for her in 2006.

ASUNCION ALFARO

Asuncion Alfaro wanted to provide his daughter, Yesenia, the opportunity to go to college. However, he knew that Yesenia would need financial assistance with her tuition. With the help of Brent Garner, IDA Program Coordinator for Southern, Mr. Alfaro enrolled in the IDA program in October 2009. Because of the money he saved and the matching funds he received, Mr. Alfaro was able to send his daughter to the University of Arkansas Community College at Hope. Yesenia is now earning an Associates of Arts in Teaching degree so she may carry out her passion of teaching elementary school students.

**Yesenia and
Asuncion Alfaro**

IN 2011 Southern facilitated 101 Individual Development Account (IDA) purchases.



OUR MISSION

IN OUR

COMMUNITIES:

CASE STUDIES

CMSD Teachers and Staff



TEACHER CERTIFICATION LOAN

In fall 2011, Southern entered into a partnership with the Clarksdale Municipal School District (CMSD), offering low-interest loans to teachers applying for their National Board Certification. The loans are offered at a low fixed rate of 5 percent, regardless of credit score. The fee to apply for National Board Certification is \$2,500. CMSD had 15 teachers enroll in the program, with 11 individuals receiving loans from Southern.

The National Board for Professional Teaching Standards (NBPTS) is regarded as the highest level of certification for ascertaining proficient teachers. According to the 2008 Congressionally-mandated National Research Council report, students taught by certified teachers perform better on achievement tests than students taught by non-certified teachers. Moreover, the NBPTS states national board certification strengthens the teaching practice; advances the careers; provides further opportunity for state licensure; offers a higher salary potential; and enhances education for all certified teachers.

As of March 2012, all 15 teachers enlisted in the program successfully completed their portfolios and were approved by the state. The National Certification Board in Washington, D.C. contacted CMSD last fall to inquire about Southern's involvement, and stated no other private corporation in the country has stepped up, taken a risk and backed teachers like Southern.

OUR GREEN BRANCH IN HERNANDO, MS

Southern Bancorp officially opened the doors to its forty-sixth bank branch on July 28, 2011, located in Hernando, Mississippi. The Hernando Branch is the first green bank branch in the state of Mississippi. Southern applied for full LEED (Leadership in Energy and Environmental Design) certification last summer, and expects to receive the certification in 2012. LEED is an internationally recognized green building certification system that verifies if a building was designed and built using principles aimed at increasing performance, reducing waste and improving quality of life. LEED certified buildings save energy, have better water efficiency, reduce carbon dioxide emissions and improve indoor environmental quality.

Hernando, MS Bank Branch





12 Payday Lenders on one two-mile stretch of road in Indianola, MS



LIBERTY LINE®

Southern is dedicated to providing financial products in rural markets traditionally underserved by other financial institutions. An example of this commitment is the offering of the Liberty Line in Mississippi, a payday loan alternative product. Since Mississippi has over 1,000 payday lenders throughout the state who typically charge 572% in interest fees and charges, there is a serious need in these communities to alleviate this problem with a viable solution.

Southern launched the Liberty Line in the fourth quarter of 2011 to Southern Bancorp Bank customers in Sunflower County, MS. The product features a one-time application fee of \$25 and APR of prime + 5 percent, which is currently 8.25 percent. Presently, Southern has over 50 Liberty Line loans throughout its Mississippi branches. The average balance outstanding is \$619, signifying that customers are only accessing the credit they need.

Since its inception in 1986, Southern has invested more than \$3 billion in loans across its distressed rural markets. Southern is devoted to serving low-wealth residents of our rural markets. We will continue to build on our thriving consumer lending program and explore ways to protect vulnerable populations from predatory lending through public policy change.



Liberty Line Customers in Indianola, MS
Cleotha Dean, Jr., Jeff Johnson, and Betty Battle

INVESTING IN GENERATIONS of COMMUNITY

Banking with Southern means more than traditional deposits and loans. It's an opportunity to invest in people to help them realize their dreams. Banking with Southern allows you the opportunity no other bank in the South can—to become a stakeholder and investor in your own community.

Southern is unlike any other Community Development Financial Institution (CDFI). We deliver sustainable community development by engaging targeted communities to ensure their future. In order for Southern Bancorp to thrive, the communities in which we operate and live must thrive, and we are committed to both.

Through collaborative efforts with local people and organizations, Southern makes the economic and social conditions of the communities we serve the focus of our business. This is becoming known as “shared value,” and has been the core of Southern since our founding.

JOIN US

Sign up for our email list today and receive the following benefits:

- *Quarterly updates on the people whose lives are changed through your help*
- *Be the first to learn about community investment events, community service highlights, and mission news*

For more information on banking and investing with Southern and helping us Build Communities and Change Lives, please contact Dominik Mjartan at dmjartan@banksouthern.com.

Follow us on  Facebook &  Twitter



**Arkadelphia, AR Elementary Students
and Future Arkadelphia Promise Recipients**

SOUTHERN BANCORP INC. GOVERNING BOARD

Walter Smiley
*Chairman and Chief Executive Officer,
Southern Bancorp Inc.*

Tony Berkley
*Director Mission Driven Investing,
W.K. Kellogg Foundation*

Jerry Damerow
Retired Ernst & Young Partner

Herman Davenport
*President and Chief Executive Officer
Davenport Group*

James Harrington
President, Harrington Construction

Jerry Sims
President, Blytheville Unlimited

Rodney Slater
Partner, Patton Boggs, LLP

Dorothy Stuck
Retired Civic Leader and Businesswoman

Sherman Tate
President & CEO, HT & Associates

SOUTHERN BANCORP BANK GOVERNING BOARD

Sherman Tate
*Chairman
President & CEO, HT & Associates*

Hugh Arant, Jr.
President, Arant Farms Inc.

Kim Evans
*Vice President of Development and Client
Services, Arkansas Community Foundation*

James Harrington
President, Harrington Construction

Dr. Glendell Jones, Jr.
*Interim Executive Chancellor and Provost,
Arkansas State University*

Walter L. Morris, Jr.
President, H&M Lumber Company

John Olaimey*
President and CEO, Southern Bancorp Bank

** John Olaimey joined Southern as President and CEO of Southern Bancorp Bank in February of 2012.*

SOUTHERN BANCORP COMMUNITY PARTNERS GOVERNING BOARD†

Herman Davenport
*Co-Chair,
President and Chief Executive Officer
Davenport Group*

Brian Miller
*Co-Chair,
United States District Judge
United States District Court
Eastern District of Arkansas*

John C. Edwards
Partner, Anible & Edwards

LaVerne Feaster
Retired Educator and Administrator

Dr. Robert Fisher
President, Belmont University

Elizabeth Glasbrenner
*Vice President of Administration,
Smiley Technologies*

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

Walt Patterson
*Senior Vice President, Government Ser-
vices Division of TransFirst Holding Inc.*

Freddye Petett
*Assistant Professor of Leadership and
Philanthropy, Clinton School*

Dorothy Stuck
Retired Civic Leader and Businesswoman

*† Southern Bancorp Capital Partners and Southern Good Faith Fund officially merged
on January 1, 2012.*

SENIOR OFFICERS

John Olaimey*

President and CEO, Southern Bancorp Bank

James E. Boyd

CEO, Southern Bancorp Bank—Central

Region

Robert Cern

Chief Financial Officer,

Southern Bancorp Inc.

Joseph Ricotta

CEO, Southern Bancorp Bank—East Region

Gary Griffin

CEO, Southern Bancorp Bank—North

Region

Walter Smiley

Chairman and CEO, Southern Bancorp Inc.

Tanya Wright

Group President, Southern Bancorp Inc.

CEO, Southern Bancorp Community Partners

William Wright

CEO, Southern Bancorp Bank—West Region

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.

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



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