



**Southern  
Bancorp**

**2017 Annual Report**



*Charlestien Harris, one of Southern's HUD certified counselors, teaches credit building in Rosedale, Miss.*

*Cover: Learn more about Carmen's journey to homeownership on page 18.*

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# Impact

verb: *im-pakt* | noun: *im-pakt*

1. v., **to influence**

*Example: Responsible financial products, when combined with financial skills training, can greatly **impact** an individual's likelihood of future financial success.*

2. v., **to interrupt**

*Example: Ensuring local access to capital **impacts** rural and underserved communities by providing a means through which businesses can grow and families can build net worth, thereby slowing and possibly halting a community's economic decline.*

3. n., **the force exerted by a new idea or concept**

*Example: The **impact** of Southern Bancorp's recent capital campaign has been to prove that investors will support businesses, including banks, which have a broader purpose of supporting positive economic and social change, in addition to simply making a profit.*



# A Message from the CEO

As I reflect on 2017, I am proud of the impact our work has had on people's lives, the communities we serve, and on shareholder value. This impact is more than something we do, it's who we are.

As a benefit corporation, we have a legally defined goal of having a material, positive impact on our employees, communities, and society as a whole, in addition to making a profit. I call this Profits from Purpose, and it's a concept that was strengthened company-wide in a year marked by growth.

We began by reexamining our "why," the core belief that drives our work. By confirming why we were founded—to invest in rural towns, underserved communities, and people's dreams—we concluded that the core belief driving our work is that **wealth building isn't just for the wealthy**, that everyone in a community deserves the opportunity to improve not only their life, but the lives of future generations. This idea defines our "why"—**we are wealth builders for everyone**, and it's an idea that is critical in today's world of ever increasing wealth inequality.

With the intent of continuing to build corporate culture, we brought everyone together in late 2017 for our first ever company-wide meeting, 2017 Rendezvous: Mission Possible. Over two days, we enjoyed fun-filled fellowship, along with a deep-dive into our history and purpose, to give all of our board members and staff a deeper understanding of our "why".

Our external growth in 2017 was equally impressive.

In 2017, we expanded our financial education and development services to each of our 46 locations across Arkansas and Mississippi in a way that is easily accessible by everyone in our communities, customer or not. We dubbed this project the Southern Bancorp Opportunity Centers. Now, each of our locations has access to the full range of products and services offered at both Southern Bancorp Bank and Southern Bancorp Community Partners. From helping someone begin repairing and building credit to determining the right mix of resources needed to launch or grow a business, the Opportunity Centers offer support and encouragement to everyone, regardless of their starting point.

Our external growth was coupled with record growth of our loans and deposits.

Southern Bancorp Bank's loan portfolio increased almost \$100 million (12.7%) YOY between 2016 and 2017, reaching a record high of \$881 million that included over \$440 million in loan originations. In that same period of growth, our total nonperforming loans, as a percentage of our total portfolio, decreased from 2.21% to 1.69%. Across our investment and loan portfolio, we generated a strong net interest margin of 3.85% (not tax adjusted).

We are proud to report another "outstanding" CRA rating, and we continue to focus a strong majority (77% of the total number of loans) of our lending in under-resourced, CDFI-eligible census tracts.

We also grew our footprint in 2017 by expanding services into the community of Gurdon, Ark., and acquiring Farmers Bank in Hamburg, Ark., giving both communities access to our unique blend of services.

As we look beyond 2017, we are poised to continue our growth, fueled by the nearly \$20 million in new investments raised during the first round of our capital campaign.

Our new shareholders include global institutional investors, regional community banks, and national and international business professionals who want more than just a financial return. They also want a social impact, which is what makes their investment in Southern such a good fit.

Every board member of Southern Bancorp, Inc. and Southern Bancorp Bank, as well as the executive officers of both companies, also invested, which demonstrates our belief in a bright future for the company.

Of course, our greatest assets are our employees, and we want to build their wealth too. That's why we created an opportunity for them to have ownership in the company.

Beginning in 2018, each eligible employee who participates in our 401(k) program receives a portion of their matching contributions in company stock. We have approximately 90 percent participation in our 401(k) program, which means we have over 300 employee-owners committed to our Profits from Purpose goal.

2017 was an exciting year in Southern's growth and evolution, and I hope you enjoy reading more about our work in this report, as well as our plans for the future.

Warmest regard,

A handwritten signature in blue ink that reads "Darrin L. Williams". The signature is fluid and cursive, with the first name being the most prominent.

Darrin L. Williams, CEO  
Southern Bancorp, Inc.

# Our Story

*A different kind of bank. A different kind of story.*

Our story begins more than thirty years ago, when the governor of a small southern state (and future president of the United States) crossed paths with a group of financial out-of-the-box thinkers who were breaking down long-standing financial and racial barriers on the south side of Chicago.

Chicago's ShoreBank was created in the early 1970s to do what few financial institutions would even consider at the time. They were going to serve the city's predominantly African-American South Shore community in an era where red-lining—the refusal of banks to make loans in minority communities—was common practice. Their revolutionary approach would leverage the power of a financial institution to help these communities grow by providing community support and access to capital where both were desperately needed.

By the mid-80s, ShoreBank was established and growing as an example of what challenging the status quo could do for an underserved community. Their success caught the eye of Arkansas Governor Bill Clinton, who was at the time looking for a new idea of his own to help address the state's deeply rooted generational poverty.

Gov. Clinton invited ShoreBank leaders Ron Grzywinski, Mary Houghton, and others to Arkansas to discuss the possibility of launching a similar financial institution with the intention of focusing on the Delta—the country's most persistently impoverished area.

The idea was planted and took root in an effort that transcended political parties and combined local and national nonprofit leaders with titans of the business community in Arkansas.

Gov. Clinton joined those leaders in raising the \$12 million needed to capitalize the fledgling institution, ultimately named the Southern Development Bancorporation.

In 1986, with a headquarters in Arkadelphia, Ark., the new institution began experimenting with a variety of community and economic development efforts aimed at confronting the poverty challenges facing Arkansans.

Just a few years later, upon being elected president, Bill Clinton spearheaded an effort with Congress to establish a special U.S. Treasury certification for banks with the Southern and ShoreBank model.

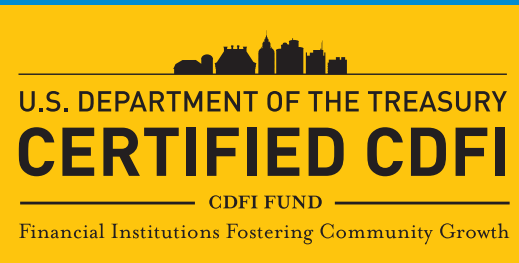
In 1994, within what became known as the Riegle Community Development and Regulatory Improvement Act, a new industry was born. Named Community Development Financial Institutions, or CDFIs for short, this new type of financial institution would exist primarily to serve financially underserved communities across the nation.

Today, there are around 1,100 CDFIs operating across America—a number which includes more than 100 banks as well as loan funds, credit unions, bank holding companies, and venture funds—and all can trace a part of their ancestry to the work done in Chicago and Arkansas so many years ago.

The Southern Bancorp of today consists of Southern Bancorp, Inc., a bank holding company; Southern Bancorp Bank, a \$1.2 billion asset depository institution; and Southern Bancorp Community Partners, a nonprofit loan fund, financial development organization, and public policy advocate.

With 46 locations and growing across Arkansas and Mississippi, the Southern Bancorp of today continues to fulfill our founders' legacy of building communities and changing lives.

global alliance  
for banking  
on values



**We are  
wealth builders  
for *EVERYONE.***

**We  
*EMPOWER* our  
customers and  
communities.**

**We offer  
products and  
services that  
*TRANSFORM*  
lives.**

## The WHY of Southern

Most businesses and organizations can tell you what they do, but few can actually tell you **WHY** they do it. As a mission-driven financial institution, we see our **WHY** as the most important element of our work.

First and foremost, we believe that **wealth building isn't just for the wealthy**. We believe it's for everyone. In fact, that's why we were founded: to **INVEST** in rural towns, under-capitalized communities, and people's dreams. We are wealth builders for everyone.

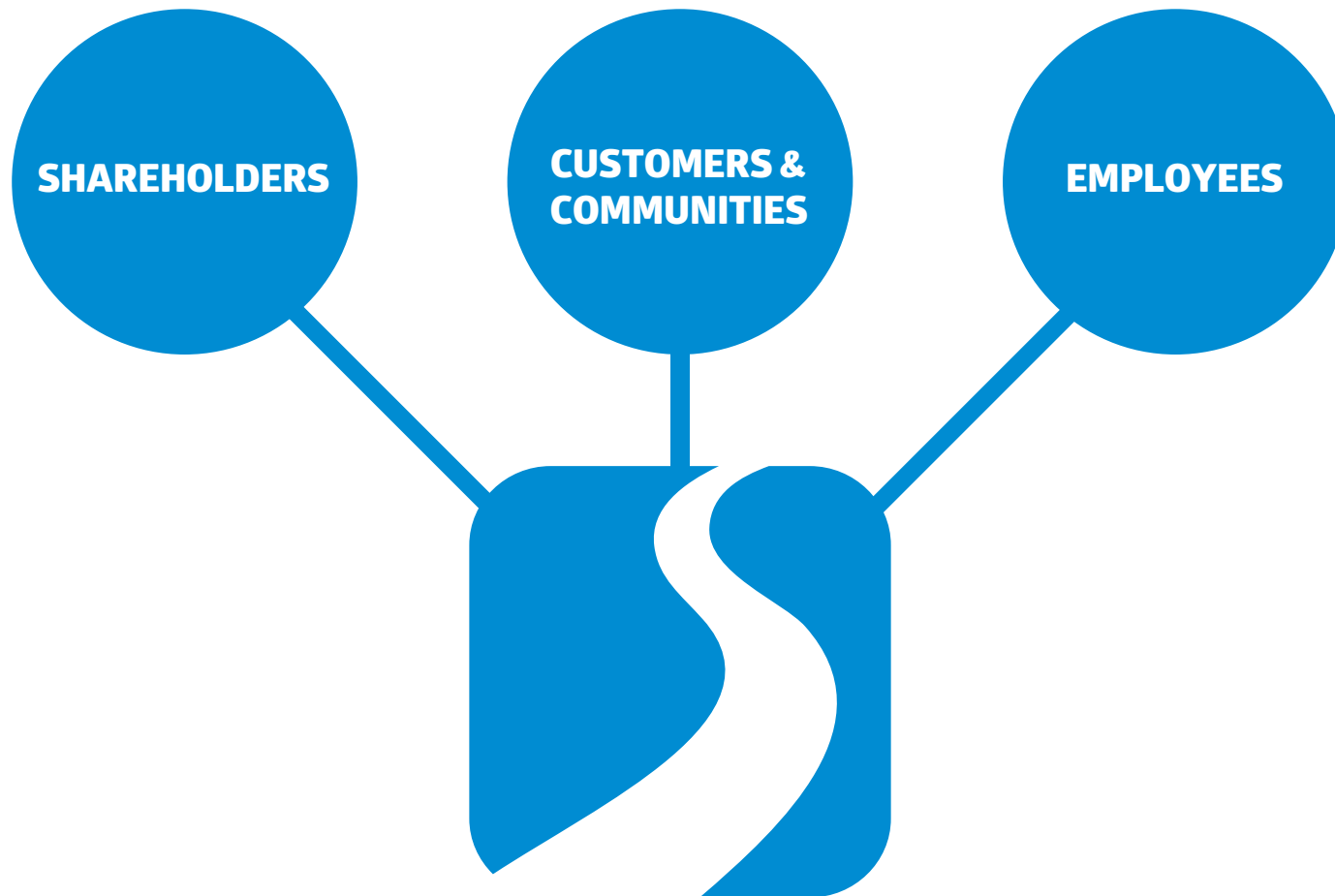
So how do we do it? We combine the strength of a billion dollar bank with the flexibility of a nonprofit financial education and development company to **EMPOWER** our customers and communities.

And we make this happen by offering responsible and responsive financial products and services that improve financial health and **TRANSFORM** lives.



# Measuring Our Impact in 2017

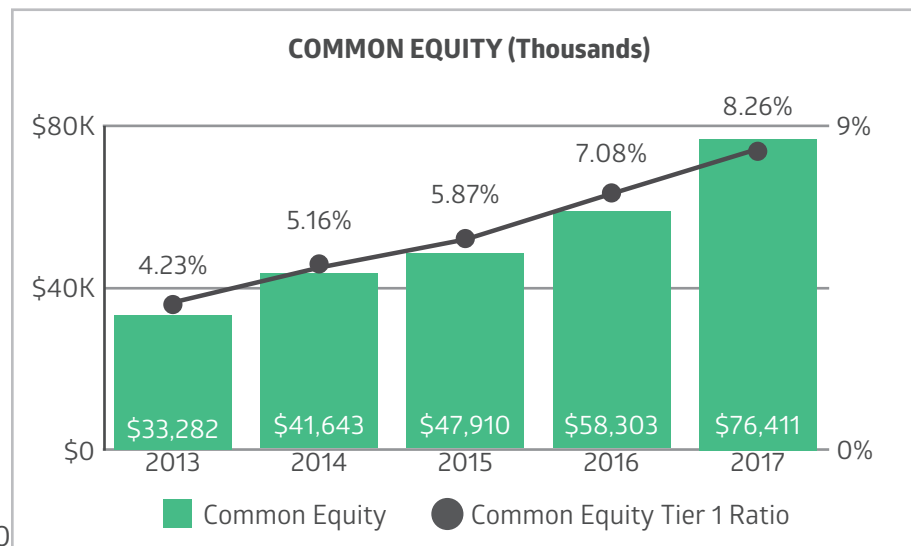
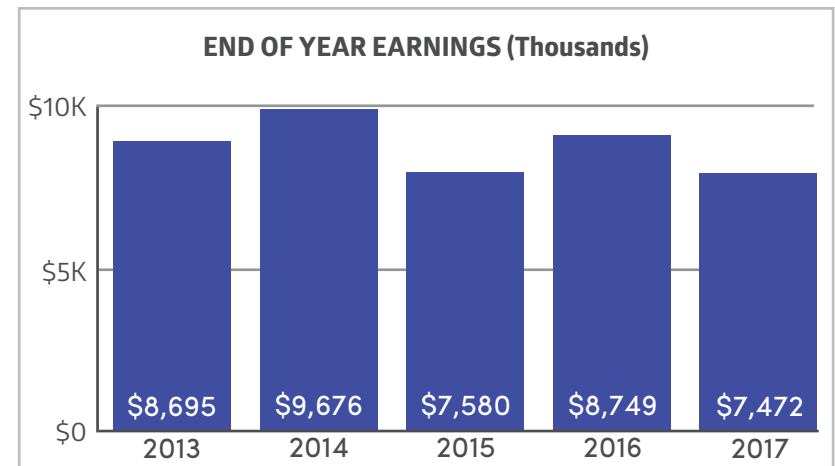
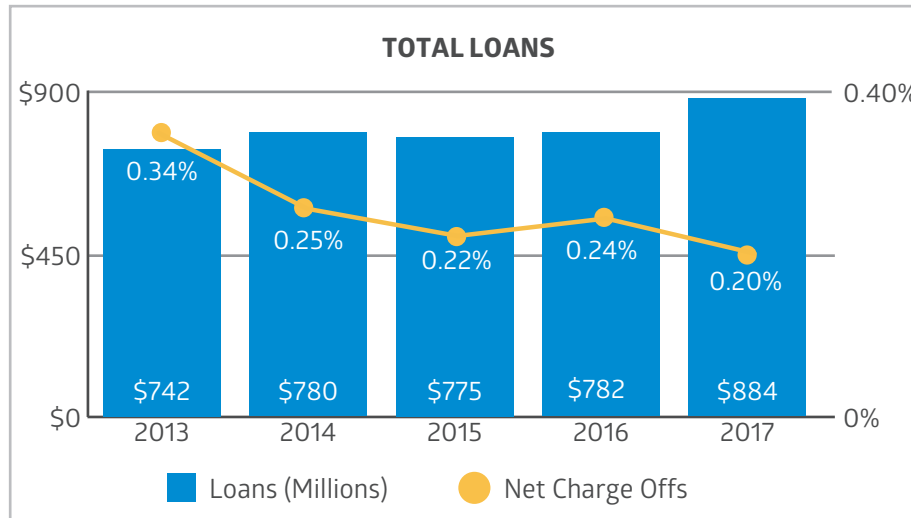
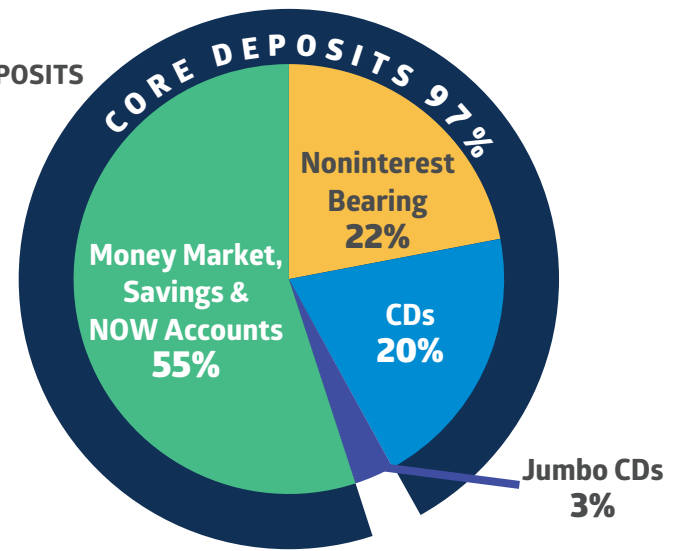
Balance is a key component to our foundation. We strive to balance mission and margin, profits and purpose, and the needs of our core stakeholders. By doing so, we ensure that one constituency doesn't wield more power than another. By maintaining balance, we ensure that the focus is on growth and success for all.



# Company Highlights

In addition to our mission goals, Southern Bancorp's shareholders want both a return on and of capital. That's why we equally strive to increase our profitability and performance as a company alongside our impact, as both lead to long-term sustainability. 2017 was a year that saw increases in both.

## 2017 DEPOSITS



## PEER COMPARISON 2017 Q4

	Southern Bancorp Bank	All CDFIs	\$1-3 Billion Banks
ROAA	0.92	0.85	0.98
ROAE	8.09	7.96	9.29
Nonperforming Assets	1.64	1.00	0.59
Efficiency Ratio	69.73	72.59	62.06
Net Charge Offs	0.20	0.16	0.11
Texas Ratio	15.82	11.69	6.98





*Rose Schweikhart—entrepreneur, Southern Bancorp customer, and founder of Superior Bathhouse Brewery, Hot Springs, Ark.—with Southern Bancorp lender Brian Coston. Learn more about Rose's realized dream of opening a brewery that uses the city's famous 144 degree spring water by visiting [BankSouthern.com/stories](http://BankSouthern.com/stories).*



# Customer & Community Highlights

As a Community Development Financial Institution, enhancing the lives of everyone living within our communities is more than just feel-good marketing. It's the reason we exist. In pursuit of our mission, we not only devote significant amounts of volunteer time to serving the community, but we also work to provide services that most banks don't, from in-depth financial counseling to free tax preparation to public policy advocacy that benefits large populations. And we provide these services to everyone.

**2,980**

Tax returns filed  
for free

**\$5.5  
MILLION**

In tax refunds and credits  
filed by volunteers

**47**

Volunteer income  
tax preparers

**7,691**

Employee volunteer  
hours

**\$41,458**

Employee  
donations to local  
nonprofits

**213**

Employee supported  
organizations



## ***A Center for Opportunity***

In 2017, we launched a new outreach effort to help community members improve their financial understanding and well-being. The Southern Bancorp Opportunity Center is a free initiative aimed at connecting members of the community—Southern Bancorp customers or not—to our extensive collection of financial growth and development resources.

Everyone in our communities is welcome to visit any Southern Bancorp branch and have their credit reviewed, discuss their financial goals and what they need to do to pursue them, gain access to our online Learning Center, and more.

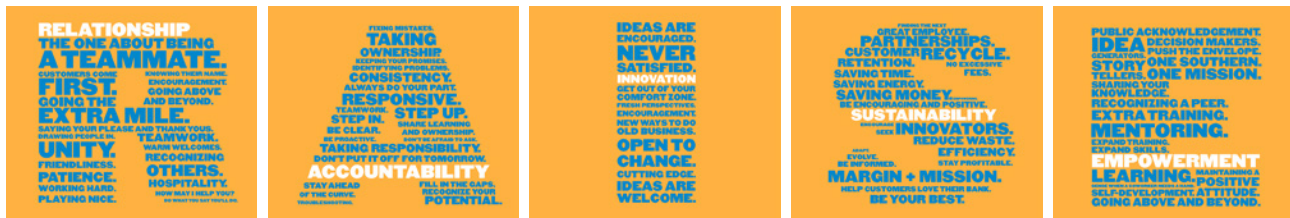
*Dana Worstell, Southern's Opportunity Center Manager, talks about Opportunity Center progress at the 2017 Rendezvous.*



# Cultural Performance

Working for a values-based company calls for a values-aligned culture, and at Southern, we put our values at the forefront of our work. We're committed to going above and beyond, we're dedicated to supporting each other, and most of all, we're passionate about helping improve the lives of those living within our communities. The five core values guide both our professional lives and all our employment decisions.

Relationship    Accountability    Innovation    Sustainability    Empowerment



Living the R.A.I.S.E. values helps us strive to do more, be more, and serve more every day at Southern Bancorp. Employees are recognized by their peers for living each of these core values with \$25 cash prizes that can be doubled by choosing to save them until the end of the year. Those recognized for each core value have the chance to be selected for the grand prize: an expense-paid vacation of their choice.

**1,368**  
Core values awards  
given in 2017 by  
coworkers

**3**  
Grand Prize  
Winners





You are not an accountant.  
You're a **wealth builder**  
for everyone.



*In late 2017, nearly 400 of Southern's board members and employees gathered together in Hot Springs, Ark. to not only learn more about the company, but to learn more about each other at the first ever Southern Rendezvous.*



*Led by Southern Bancorp CEO Darrin Williams, Southern employees heard from a dynamic series of speakers, engaged in team building activities, and most importantly, grew closer together around our shared mission: a Mission Possible.*



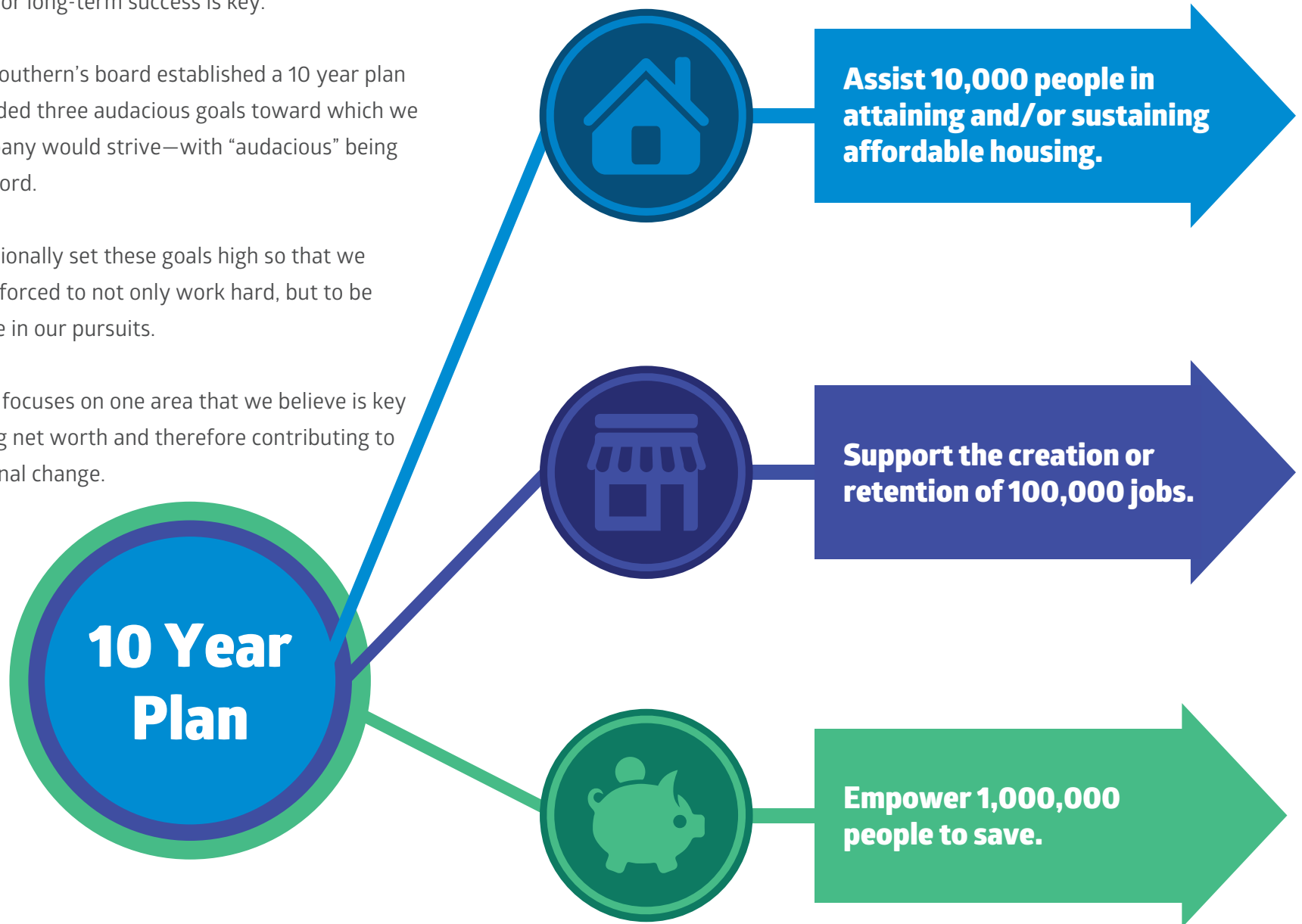
# Impact on the Future

Striving for a strong annual impact is important, but planning for long-term success is key.

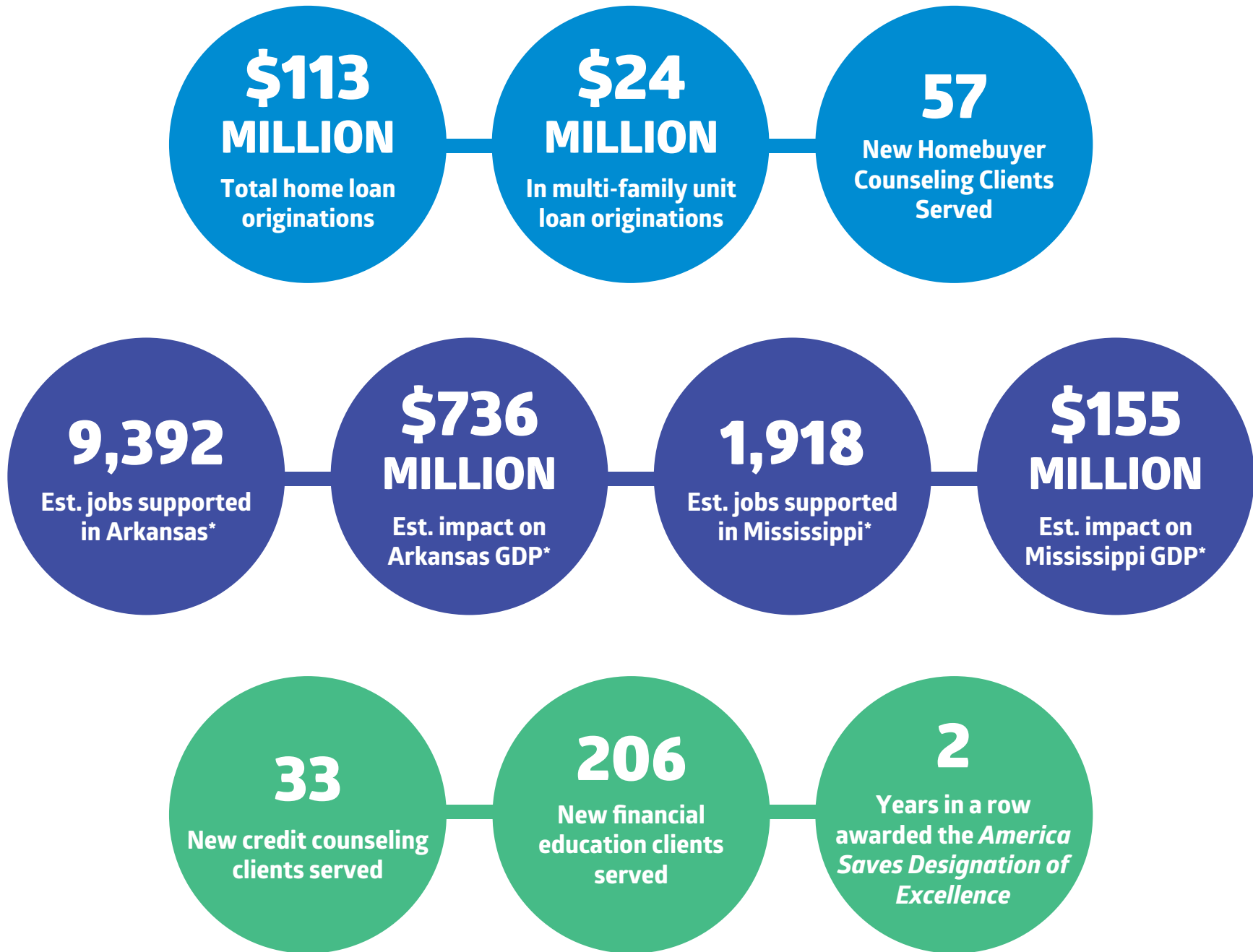
In 2016, Southern’s board established a 10 year plan that included three audacious goals toward which we as a company would strive—with “audacious” being the key word.

We intentionally set these goals high so that we would be forced to not only work hard, but to be innovative in our pursuits.

Each goal focuses on one area that we believe is key to building net worth and therefore contributing to generational change.



# Progress in 2017







Carmen Morfin-Villa came to the United States with a desire to build a better life for her and her family. Yet, as hard as she worked, she found herself unable to grow financially because, as she soon found out, it's hard to build credit if you've never had it.

That all changed one day when one of Southern's Spanish-speaking employees overheard her talking to a friend in the bank's lobby. She sought Carmen out, asked her whether she was a customer, and began a conversation about her financial health. Upon learning about her difficulties, she helped Carmen enroll in Southern's Credit Builder CD program, which is a safe way to help people establish their credit.

Carmen used the program to not only establish and build her credit, but to later buy a home for her family. She is now on the path to building wealth, not only for her family today, but for her children into the future. Learn more about Carmen's story at [BankSouthern.com/stories](https://www.BankSouthern.com/stories).

# ***HOUSING***







With a successful business plan, quality products, and a national customer base, American Made Silks could've made their home anywhere. Yet for the past 25 years, they have stayed true to their roots by producing some of the nation's highest quality silk trees, plants, and floral arrangements in Gurdon, Ark. (Pop. 2,150). And the reason for it, according to company owner Mike Mckenzie, is simple. It's both a matter of cost and community. Not only is Gurdon an inexpensive place to live, work, and operate a business, but it's also a place in which you get to know your employees. And that helps build a strong workforce.

The same can be said for Southern Bancorp's work in rural communities. We believe that to help businesses grow and create jobs, we also need to live, work, and operate our own business there as well. We go where the need exists. That's how banking relationships are built in rural America, and that's how rural businesses succeed. Learn more about American Made Silks at [BankSouthern.com/stories](http://BankSouthern.com/stories).

# ***JOBS***





*Left: JeCorry Miller, owner of the Delta Blues Alley Café, stands outside his venue, next to his now iconic Delta Blues Alley Café car.*

Clarksdale, Miss. native JeCorry Miller is no stranger to hard work. For years, he traveled the roads of the Mississippi Delta working as a respiratory therapist at local hospitals. And while he enjoyed the work, his dream was to be his own boss in his hometown.

On one trip home from work, JeCorry heard a radio ad for Southern Bancorp's Individual Development Account (IDA) program, a matched savings account for people wanting to buy a first home, continue their education, or launch a business. He made a call and began the process of establishing a regular savings habit and taking financial education courses to underscore his savings. Once complete, a matched amount was provided to JeCorry, to help him realize his dream of opening the Delta Blues Alley Café. Learn more about JeCorry's journey at [BankSouthern.com/stories](https://BankSouthern.com/stories).

# SAVINGS

# Consolidated Balance Sheets

at December 31<sup>st</sup> (\$ in Thousands)

## ASSETS

	<b>2017</b>	<b>2016</b>
Cash and due from banks	\$ 29,983	\$ 29,862
Interest-bearing deposits in other banks	4,185	13,818
Cash and cash equivalents	34,168	43,680
Investment securities, AFS and HTM	190,890	199,049
Other equity investments	11,955	11,973
Net loans	873,671	776,037
Premises and equipment, net	40,541	41,037
Goodwill	36,753	36,753
Other assets	49,144	42,071
<b>TOTAL ASSETS</b>	<b>\$ 1,237,122</b>	<b>\$ 1,150,600</b>

## LIABILITIES

Total deposits	\$ 1,017,026	\$ 953,066
Securities sold under agreements to repurchase	35,896	26,355
Federal Home Loan Bank advances	24,460	27,538
Subordinated debentures	17,437	17,437
Notes payable	20,399	19,455
Other liabilities	7,480	7,911
<b>TOTAL LIABILITIES</b>	<b>\$ 1,122,698</b>	<b>\$ 1,051,762</b>

## SHAREHOLDERS' EQUITY

Preferred stock, \$1 par value; 0% cumulative 200,000 shares authorized; 550 and 4,550 issued; aggregate liquidation preference \$550 and \$4,550	\$ 550	\$ 4,550
Common stock, \$1 par value; 30,000,000 shares authorized; 11,121,045 and 9,371,670 shares issued and outstanding.	111	94
Additional paid-in capital	36,905	25,034
Retained earnings	76,882	69,927
Accumulated other comprehensive loss	(24)	(767)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 114,424</b>	<b>\$ 98,838</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,237,122</b>	<b>\$ 1,150,600</b>



# Consolidated Statements of Income

Year Ended December 31<sup>st</sup> (\$ in Thousands)

	<b>2017</b>	<b>2016</b>
<b>INTEREST INCOME</b>		
Loans, including fees	\$ 43,885	\$ 40,398
<b>INVESTMENT SECURITIES:</b>		
Taxable	2,237	2,398
Tax exempt	2,539	2,425
Federal funds sold and other	463	309
<b>TOTAL INTEREST INCOME</b>	<b>\$ 49,124</b>	<b>\$ 45,530</b>
 <b>INTEREST EXPENSE</b>		
Deposits	\$ 2,282	\$ 2,082
Subordinated debentures	469	343
Other interest expense	1,348	558
<b>TOTAL INTEREST EXPENSE</b>	<b>\$ 4,099</b>	<b>\$ 2,983</b>
Net interest income	45,025	42,547
Provision for loan losses	3,350	1,680
 <b>NON-INTEREST INCOME</b>		
Service charges	\$ 5,796	\$ 5,869
Net investment securities gains	16	52
Fees, commissions, and other	5,318	7,333
<b>TOTAL NON-INTEREST INCOME</b>	<b>\$ 11,130</b>	<b>\$ 13,254</b>
 <b>NON-INTEREST EXPENSE</b>		
Salaries and employee benefits	\$ 26,258	\$ 23,386
Net occupancy and equipment expense	4,524	4,462
Other non-interest expense	14,925	15,053
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>\$ 45,707</b>	<b>\$ 42,901</b>
 <b>INCOME BEFORE INCOME TAXES</b>	 \$ 7,098	 \$ 11,220
Income tax provision	(375)	2,471
<b>NET INCOME</b>	<b>\$ 7,473</b>	<b>\$ 8,749</b>

# Governing Boards

*“Southern’s success is not only defined by the impact it has on economically distressed and financially underserved families today, but possibly even more importantly by its impact on future generations.”*



Glendell Jones, Jr.  
Chair of Southern Bancorp, Inc.

Special thanks to: Arkansas Mailing,  
Arkansas Printing, Cranford Co.,  
Heath Herring Photography

## SOUTHERN BANCORP, INC.

- Chair** · **Glendell Jones, Jr.** · Henderson State University · President
- Jerry Damerow** · Ernst & Young · Partner (Retired)
- Herman Davenport** · The Davenport Group · President & CEO
- John C. Edwards** · Helena Harbor · General Counsel & Economic Development Director
- Donna Gambrell** · Appalachian Community Capital · President & CEO
- Dan Koehler** · Koehler Software, Inc. · President
- Mike Myers** · Winrock International · Vice President & CFO
- James Prouty** · Sustainability-Finance-Real Economies (SFRE) · CEO (Retired)
- Sherman Tate** · HT & Associates · President & CEO
- Diane Tatum** · Entergy Arkansas · Regional Customer Service Manager (Retired)



Sherman Tate  
Chair of Southern Bancorp Bank

*“As a unique financial institution, Southern’s impact has been equally unique. By going where few other banks go and providing services that few other banks offer, Southern has played a role in life changing work to which few other institutions can claim.”*



*“Southern’s impact is defined by its demonstration of how responsive, innovative financial products and services can build communities and change lives in rural, chronically impoverished communities.”*



Herman Davenport  
Chair of Southern Bancorp Community Partners

#### **SOUTHERN BANCORP BANK**

**Chair · Sherman Tate** · HT & Associates · President & CEO  
**Hugh Arant, Jr.** · Arant Farms · President  
**Jerry Damerow** · Ernst & Young · Partner (Retired)  
**Kim Evans** · College of Medicine, University of Arkansas for Medical Sciences · Senior Director of Development  
**Michael Montgomery** · Radius Group, LLC · Chairman & CEO  
**Walter L. Morris, Jr.** · H&M Lumber Company · President  
**John T. Olaimey** · Southern Bancorp Bank · President & CEO  
**Susie Smith** · Financial Services Executive (Retired)  
**Darryl Swinton** · Better Community Development, Inc. · Director of Housing & Economic Development  
**Darrin L. Williams** · Southern Bancorp, Inc. · CEO

#### **SOUTHERN BANCORP COMMUNITY PARTNERS**

**Chair · Herman Davenport** · The Davenport Group · President & CEO  
**Co-Chair · Freddy Petett** · Clinton School of Public Service, Professor (Retired) · W.K. Kellogg Foundation, Program Coordinator (Retired)  
**Raymond Christman** · RPRC Consulting · President & CEO  
**John C. Edwards** · Helena Harbor · General Counsel & Economic Development Director  
**Bob Fisher** · Belmont University · President  
**Donna Gambrell** · Appalachian Community Capital · President & CEO  
**Sarah Gentry** · Hudson Cisne & Co. LLP · CPA, Principal  
**Amanda Johnson** · Clarksdale Collegiate Public Charter School · Executive Director  
**Aurelia Jones-Taylor** · Aaron E. Henry Community Health Services, Inc. · CEO  
**Jacquelyn W. McCray** · University of Arkansas at Pine Bluff · Dean (Retired)  
**George Miles** · Hope Enterprise Corporation · VP of Commercial Business Development  
**Walt Patterson** · Patco Services, Inc. · Principal  
**Mary Gay Shipley** · That Bookstore in Blytheville · Founder (Retired)



***“If we’re going to make an impact,  
each and every one of us have to be the impact.”***

- Darrin L. Williams  
CEO, Southern Bancorp Inc.