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### **Vernetha Jackson**

*In 2014, this 63-year-old grandmother and public school employee realized her dream of homeownership with Southern's support. Meet Vernetha and hear her story at [banksouthern.com/stories](http://banksouthern.com/stories).*



# A MESSAGE FROM THE CEO

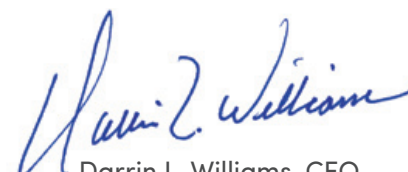
At Southern, we describe ourselves as a “unique financial institution,” which inevitably leads to the question of what makes us unique. While we could talk about our role as a Community Development Financial Institution (CDFI) serving underserved people, businesses, and distressed communities; or the fact that Southern is a family of financial institutions including a community bank, a bank holding company, and a 501(c)(3) financial development organization working together to raise individuals and communities up through a variety of responsible financial products and services; the best answer is much simpler. **We are a values-based bank.**

## So what is values-based banking?

It’s an idea that permeates our organization from the inside out. Our core values of **Relationship, Accountability, Innovation, Sustainability, and Empowerment** are set up to guide our interactions within Southern and drive our connections with customers and the community. By living each day through the lens of these values, we are better equipped to provide the level and type of financial services needed in rural America.

We believe that the people living in these communities are more than just data points on a spreadsheet. They are **aspiring entrepreneurs, hardworking future homeowners, and families pursuing their dreams of a better life**. More than just profit margins—fulfilling hopes, dreams, and aspirations is what drives our decisions. That’s values-based banking, and that’s what makes us unique.

This annual report provides a look back at an impactful 2014, and it also provides a look ahead to where Southern is going. We have yet again reached record profitability, and more importantly, we have created audacious goals for ourselves over the next decade, centered on affordable housing, job creation, and savings. I’m excited to share them—and our values—with you.



Darrin L. Williams, CEO  
Southern Bancorp, Inc.



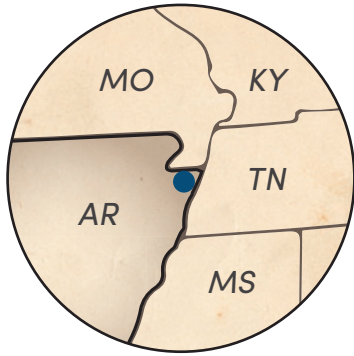
# ***OPPORTUNITY IN RURAL AMERICA***

Responsible and responsive credit and capital provided by financial institutions are the fuel that lights the fire of economic growth in this country, and without it, the fire goes out. Unfortunately for many rural communities, that fire is fading due to many community banks either closing or consolidating with larger financial institutions. When that happens, it not only means that the door is opened to predatory lenders, but also that the friendly faces in the bank disappear, along with the relationships that enable capital access.

In many areas, lending decisions have moved into centralized, urban offices often hundreds of miles from a community. In these offices, away from the main streets and dirt roads, applicants become little more than numbers on a spreadsheet, and without the personal relationships, knowledge, and stories, loans are more likely to be denied and capital access more likely to dry up. This is the threat facing rural America.

As other banks leave rural communities, we continually seek opportunities to expand in their place and bring our unique brand of financial products and services to those who seek to improve their lives. We have proven that these communities are eager to light their economic engines, they just need the financial spark. The following case studies show the net loan growth for three recent acquisitions both pre- and post- acquisition in an effort to illustrate our ability to turn challenges into opportunities.

# A HISTORY OF SUCCESSFUL GROWTH

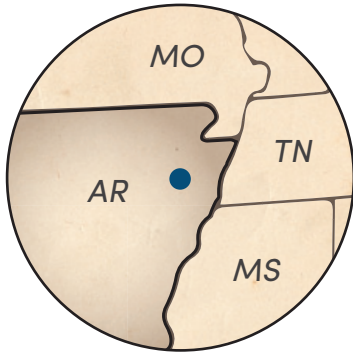


The northeast Arkansas community of Blytheville is both a representation and contradiction to many Delta communities. While it has benefited from the presence of major industrial employers involved in the local steel industry, this community has also been wrought by low wages, high crime rates and a steady depopulation. However, the community has shown a tenacity that is unrivaled in many of its neighboring communities. This is what drew Southern to Blytheville in 2009 through its purchase of First National Bank.

Underscoring our belief that rural communities are capable of positive economic growth and financial return, Southern has tripled capital investment levels in Blytheville from what they were pre-acquisition, proving that an efficient, values-based approach can have a positive impact on the community.

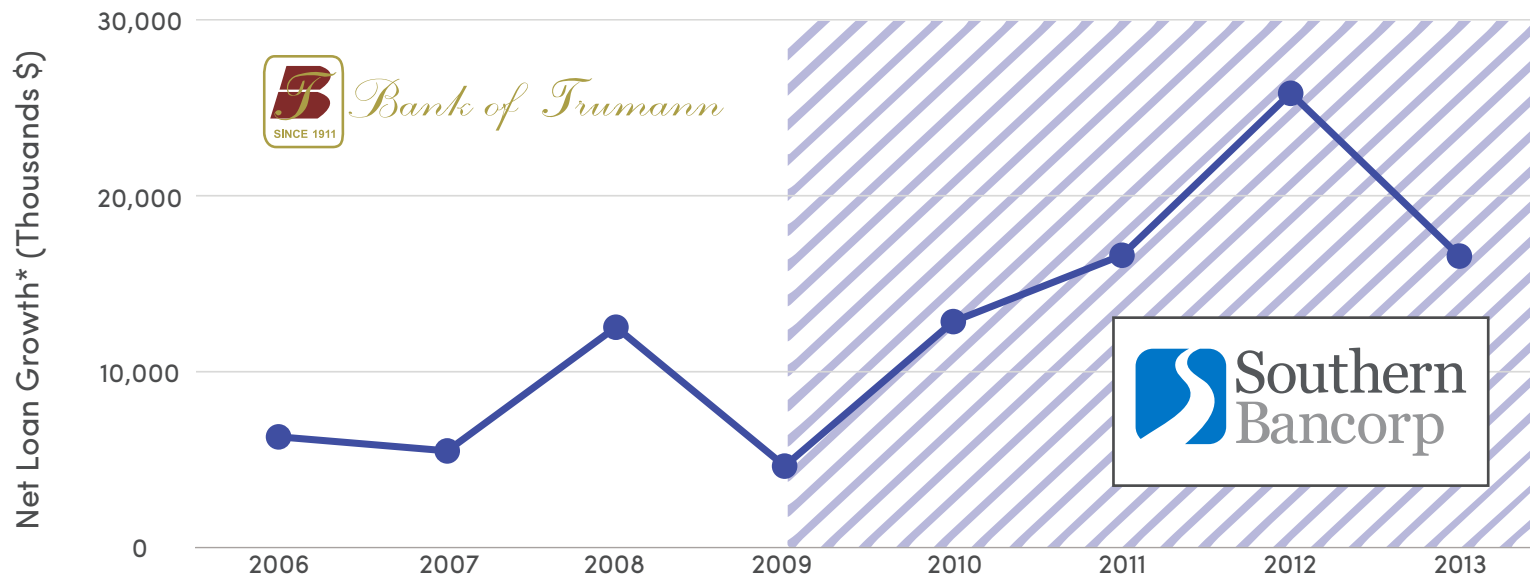


\*Net loan growth measured as new loans originated minus existing loan renewals (not a measure of total loans).

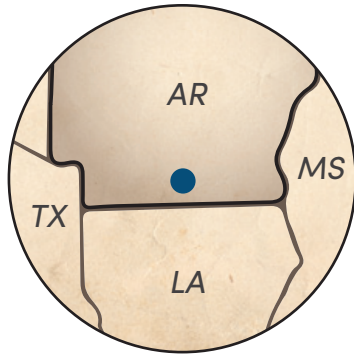


Situated just fifty miles from Blytheville, the small community of Trumann has remained relatively unscathed by many of the troubles its larger neighbor to the north has experienced. With population, unemployment, and crime rates that mirror national averages, Trumann could be called a shining beacon of economic prosperity were it not for a distinct lack of small business growth—the long term lifeblood of any community.

Southern’s acquisition of the Bank of Trumann in 2009 was a call to not only maintain the bank’s history of financial strength, but improve upon it with increased capital investment to support small business growth. After a slight drop in net loans upon acquisition, Southern not only returned the bank to a positive rate of net loan disbursement, but brought it to a level that outpaced pre-acquisition levels.

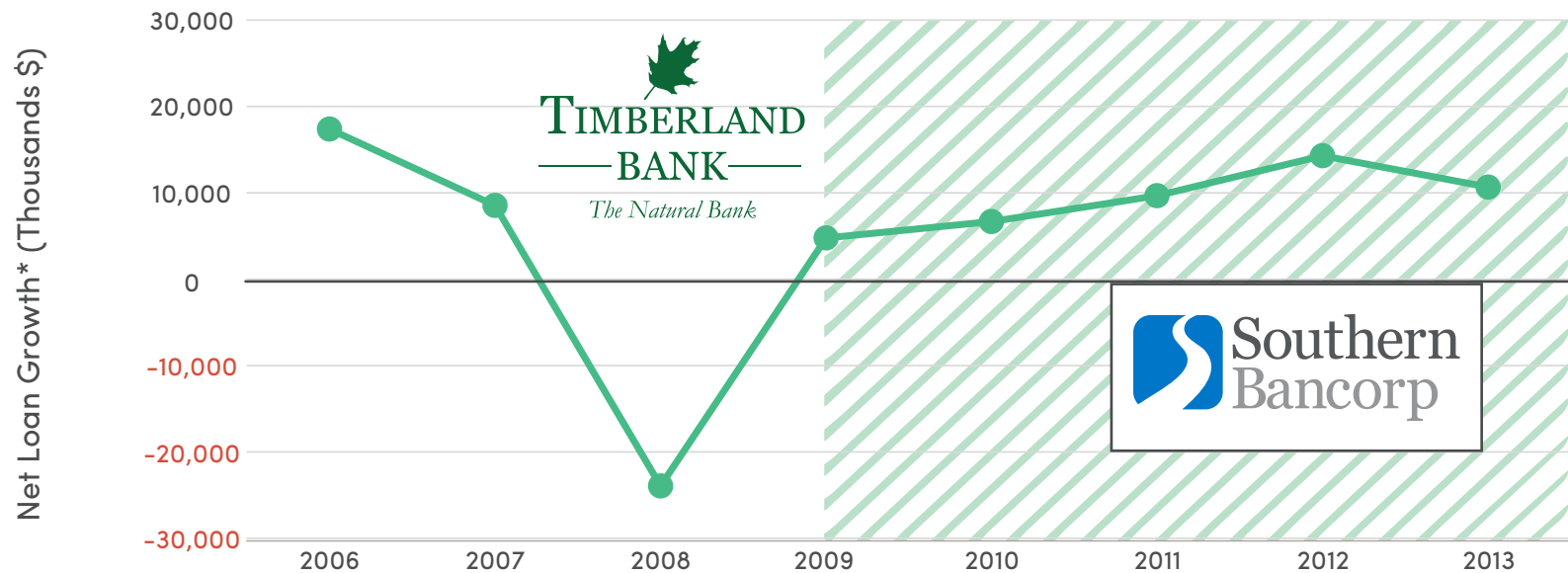


\*Net loan growth measured as new loans originated minus existing loan renewals (not a measure of total loans).



Situated in South Arkansas, Timberland Bank of El Dorado was another prime target for Southern's unique brand of community banking. Similar to Blytheville, the El Dorado community has a rich industrial connection, in this case with the oil industry, which has helped keep its unemployment rate steady. However, a high percentage of individuals living below the poverty line, particularly those under 18, shows that challenges remain and that there is progress to be made.

Timberland Bank had experienced its own challenges in lending, placing it in a position in which selling to another institution was the best choice for shareholders and stakeholders alike. And while this starting position for Southern was itself a challenge, the new El Dorado branches of Southern were back to positive levels within a year of acquisition.



\*Net loan growth measured as new loans originated minus existing loan renewals (not a measure of total loans).



# GROWTH IN 2014

In 2014, Southern continued its growth into rural communities through acquisitions in Eudora, Arkansas and Mound Bayou, Mississippi—each with high poverty rates and few other banking options. Southern is committed to seeing the same, if not greater, level of success in these new communities as experienced elsewhere. Our optimism is underscored by our proven ability to create economic opportunity.

OKLAHOMA

ARKANSAS

TENNESSEE

Blytheville

Trumann

**Mound Bayou, Mississippi**

Population: 1,533

Poverty Rate: 46%

TEXAS

El Dorado

MISSISSIPPI

ALABAMA

**Eudora, Arkansas**

Population: 2,269

Poverty Rate: 36.5%

LOUISIANA

● Existing Locations

*“Let us all take more responsibility, not only for ourselves and our families but for our communities and our country.”*

**William J. Clinton**

Former President of the United States



**Dawson Employment Service**

*Putting people to work is the name of the game at Dawson Employment Service in Blytheville, Ark. Learn more about Dawson and how Southern has supported their successful small business at [banksouthern.com/stories](http://banksouthern.com/stories).*

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EMPLOYMENT SERVICE  
Incorporated

617 East Sawyer Street  
Blytheville, AR 72315

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# ***A VISION FOR THE FUTURE***



For the past two years, Southern has been on a journey to rediscover its founding principles and refocus its efforts on the core mission for which it was founded nearly three decades ago. The original vision set forth for us was simple: bring economic opportunity to underserved communities through responsible and responsive financial products and services. And while we have adopted various methods of community engagement and development over the years to great success, our roots have called us to refocus our efforts while increasing the scale of our work.

Today, we embrace our past as we look toward our future. In pursuit of our mission, we have adopted three audacious goals toward which we will work over the next decade.



1823  
Davis

*Stefanie, Brett, and Annalee Davis with their dog White Sox.*



# **EMPOWERING HOMEOWNERS**

Buying a first home is one of life's major milestones. For many, homeownership is one of the best ways to accumulate assets, build wealth, and secure a stronger financial future. Of course, the home buying process itself can be intimidating, so when Stefanie and Brett Davis began thinking about purchasing a home for their young family, they wanted to learn more. And as a teacher, Stefanie couldn't pass up the chance for her students to learn something new as well. Southern Bancorp staff came to her school and taught both students and teacher about the home buying process—an educational service Southern provides to customers and residents across its markets.

In 2014, Stefanie and Brett put that knowledge to use, and with Southern's assistance, purchased their first home. In 2014, Southern supported **664** people in their pursuit of homeownership and improved net worth.



*Clement Jee, general manager. Eddie and Peggy Gong, owners.*



# CREATING JOBS BY SUPPORTING ENTREPRENEURS

Southern believes that entrepreneurs are an important ingredient to creating economic opportunity, which is why we strive to find ways of bridging the gap between rural entrepreneurs and financial capital. For entrepreneurs Peggy and Eddie Gong of Cleveland, Mississippi, this gap was starting to appear too large to conquer before Southern's lenders came into the picture.

Business experience is something the Gongs have in great supply. Having operated a successful print shop in Cleveland for several years, they know what it means to build a business from the ground up. Yet even this wealth of experience was not enough to convince other banks to help them with the SBA loan they needed to realize their dream—a family-friendly bowling alley to cater to the community's large youth population.

The Gongs met with Southern's lenders who listened to their story, read their business plan, and saw the potential for what they wanted to bring this college town with few entertainment outlets. With financing in place, Harmony Bowling is under construction and set to open its doors to hundreds of eager young bowlers in the summer of 2015. In 2014, Southern supported **1,159** entrepreneurs and **7,712** jobs.



*Angela Chestnut, first time homeowner.*





# **BUILDING ECONOMIC SECURITY**

Understanding and developing habits that positively impact your credit, as well as avoiding financial pitfalls that can create barriers to achieving your financial goals, work together to build economic security and independence. Southern's goal-oriented approach to financial well-being stresses the importance of getting one's financial house in order through a variety of products and services that when used together, can lead to life changing results.

As a young mother, Angela Chestnut didn't spend much time thinking about her financial health. Working two jobs and raising her children provided little time for sleep, much less worrying about her credit score. However, as she grew older, she began to think about her family and what she needed to do to provide a safer present and future for them.

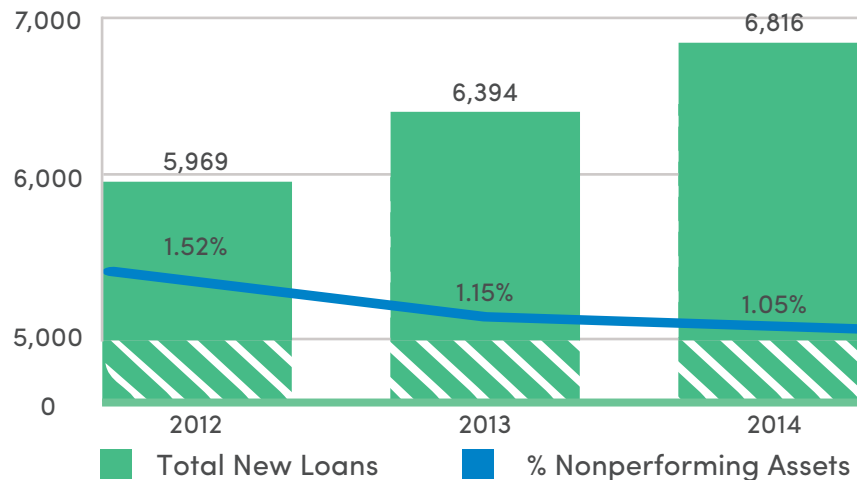
While living in public housing, Angela made a decision to get her finances in order to provide a permanent home for her family. She visited with Southern Bancorp's credit counselors to build her credit, opened a matched savings account to help her both understand and build her savings toward homeownership, took advantage of Southern's Volunteer Income Tax Assistance program to have her taxes filed for free, and finally, took homebuyer education courses to prepare for her next step. Today, Angela is a proud homeowner who credits Southern with helping get her financial life on track. In 2014, Southern helped **7,455** people like Angela put their financial life on track through education and savings programs.

# 2014 SNAPSHOT

Southern believes that mission and margin are perfect partners in reaching our goals. This snapshot provides a high-level glimpse of this work and our impact on our communities.

**\$396  
Million**

**In New Loans in 2014**



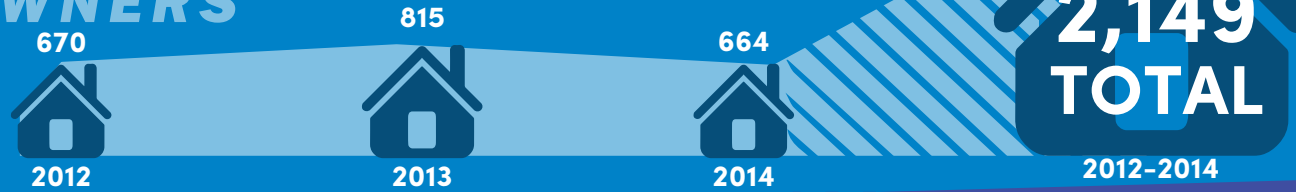
	2014			2013			2012		
	Southern Bancorp	All CDFIs	CDFIs \$1-3 Billion	Southern Bancorp	All CDFIs	CDFIs \$1-3 Billion	Southern Bancorp	All CDFIs	CDFIs \$1-3 Billion
ROAA	1.00	0.69	0.99	0.83	0.57	0.94	0.98	0.28	0.95
ROAE	9.08	5.68	9.61	6.82	4.54	9.62	8.95	1.33	9.07
Nonperforming Assets	1.03	2.40	1.05	0.83	2.87	1.68	1.91	4.52	2.76
Efficiency Ratio	64.2	78.54	66.44	66.97	80.18	67.24	66.24	83.85	66.50
Net Charge Offs	0.25	0.31	0.15	0.34	0.48	0.26	0.41	0.79	0.58
Texas Ratio	11.28	26.04	10.86	16.40	33.18	15.32	16.37	49.71	20.44

Return on Average Assets (ROAA): The year-to-date net income after securities gains and losses, extraordinary gains and losses, and applicable taxes (annualized), as a percent of average assets.  
 Return on Average Equity (ROAE): The year-to-date net income after securities gains and losses, extraordinary gains and losses, and applicable taxes (annualized), as a percent of average equity.  
 Nonperforming Assets: The sum of loans and leases which are on nonaccrual status, past due 90 days or more, and non-investment other real estate owned as a percent of total assets.  
 Efficiency Ratio: Noninterest expenses as a percent of the sum of net interest income (TE) plus total noninterest income.  
 Net Charge-Offs: Gross loan and lease financing receivable charge-offs, less gross recoveries, (annualized) as a percent of average total loans and lease financing receivables.  
 Texas Ratio: The sum of loans and leases which are on nonaccrual, restructured but 30-89 days past due, restructured but over 90 days past due, restructured and in compliance with modified terms and non-investment other real estate owned divided by the sum of total equity capital plus the allowance for possible loan and lease losses.

Helped **664** potential and current homeowners by providing:

409 home loans, 143 of which were first time homebuyers, and 76 new counseling clients.

## EMPOWERING HOMEOWNERS



Supported **8,871** jobs through:

969 commercial loans, 59% of which were under \$50,000.

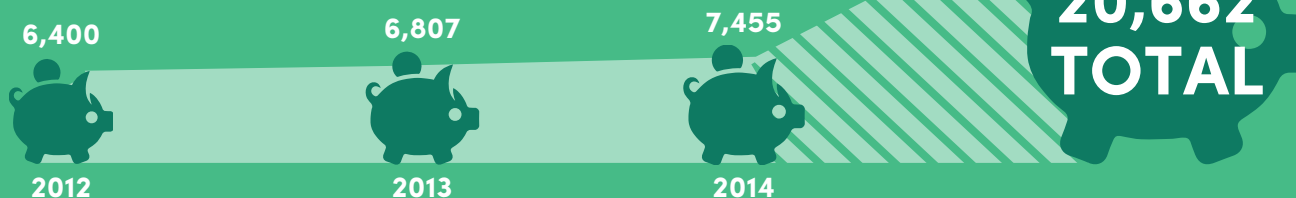
## SUPPORTING ENTREPRENEURS



Empowered **7,455** people to save and build assets through:

3,798 first time savings accounts, 109 new matched savings accounts, completing 2,754 tax returns free of charge resulting in over \$6 million in refunds of which over half was in the form of the Earned Income Tax Credit, and counseling 114 new people in credit reduction and savings.

## BUILDING ECONOMIC SECURITY



MI

SSI

WOM

# CONSOLIDATED BALANCE SHEETS

## AT DECEMBER 31ST

	<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Cash and due from banks		\$ 27,486,961	\$ 29,645,372
Interest-bearing deposits in other banks		30,176,275	29,023,087
Cash and cash equivalents		<u>57,663,236</u>	<u>58,668,459</u>
Investment securities, available-for-sale		207,847,715	218,450,094
Other equity investments		19,324,222	19,955,177
Net loans		771,036,526	733,499,242
Premises and equipment, net		44,293,675	45,378,578
Goodwill		36,752,842	36,752,842
Other assets		38,311,470	41,301,366
<b>TOTAL ASSETS</b>		<b><u>\$ 1,175,229,686</u></b>	<b><u>\$ 1,154,005,758</u></b>
	<b>LIABILITIES</b>		
Total deposits		\$ 970,628,336	\$ 958,772,408
Securities sold under agreements to repurchase		22,593,966	22,316,945
Federal Home Loan Bank of Dallas advances		19,010,557	30,367,483
Subordinated debentures		17,437,000	17,437,000
Notes payable		18,479,893	19,059,562
Other liabilities		11,140,533	4,197,840
<b>TOTAL LIABILITIES</b>		<b><u>\$ 1,059,290,285</u></b>	<b><u>\$ 1,052,151,238</u></b>
	<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$1 par value, 200,000 shares authorized; 38,350 shares issued and outstanding at December 31, 2014 and 2013, \$1,000 per share liquidation value		\$ 38,248,310	\$ 38,248,310
Common stock, \$1 par value, 1,600,000 shares authorized; 168,482 shares issued and outstanding at December 31, 2014 and 167,938 shares at December 31, 2013		168,482	167,938
Capital surplus		23,906,457	23,657,267
Retained earnings		54,321,581	46,208,786
Accumulated other comprehensive loss		(705,429)	(6,427,781)
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b><u>\$ 115,939,401</u></b>	<b><u>\$ 101,854,520</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b><u>\$ 1,175,229,686</u></b>	<b><u>\$ 1,154,005,758</u></b>

# CONSOLIDATED STATEMENTS OF INCOME

## YEARS ENDED DECEMBER 31

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>INTEREST INCOME</b>			
Loans, including fees	\$ 40,678,757	\$ 39,336,745	\$ 38,596,422
INVESTMENT SECURITIES:			
Taxable	3,084,787	2,934,701	3,915,035
Tax exempt	2,178,412	2,736,438	2,350,215
Federal funds sold and other	243,874	278,184	524,974
<b>TOTAL INTEREST INCOME</b>	<b>46,185,830</b>	<b>45,286,068</b>	<b>45,386,646</b>
<b>INTEREST EXPENSE</b>			
Deposits	2,452,935	2,985,017	5,093,107
Subordinated debentures	667,239	692,238	692,239
Other	928,550	998,852	752,536
<b>TOTAL INTEREST EXPENSE</b>	<b>4,048,724</b>	<b>4,676,107</b>	<b>6,537,882</b>
Net interest income	42,137,106	40,609,961	38,848,764
Provision for loan losses	1,951,018	3,185,038	3,772,988
<b>NON-INTEREST INCOME</b>			
Service charges on deposit accounts	5,404,483	4,400,990	4,550,788
Net investment securities gains	83,864	53,148	2,637,272
Fees, commissions, and other	4,748,564	5,532,964	6,104,623
<b>TOTAL NON-INTEREST INCOME</b>	<b>10,236,911</b>	<b>9,987,102</b>	<b>13,292,683</b>
<b>NON-INTEREST EXPENSE</b>			
Salaries and employee benefits	20,155,700	20,618,990	19,378,191
Net occupancy and equipment expense	4,580,532	4,601,772	4,678,880
Other	12,272,884	12,148,090	11,245,856
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>37,009,116</b>	<b>37,368,852</b>	<b>35,302,927</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>13,413,883</b>	<b>10,043,173</b>	<b>13,065,532</b>
Income tax provision	3,737,586	1,348,261	2,918,545
<b>NET INCOME</b>	<b>\$ 9,676,297</b>	<b>\$ 8,694,912</b>	<b>\$ 10,146,987</b>

Net income in 2013 decreased to \$8.7 million from \$10.2 million in 2012. However, normalizing the net income by removing one-time gains and expenses like the one-time securities pre-tax gain of \$2.6 million realized in 2012 provides a more accurate picture of Southern's financial performance. Removing such one-time items, Southern's normalized net income increased by 26% from 2012 to 2013, and it increased by 20% from 2013 to 2014.

# GOVERNING BOARDS

## Southern Bancorp, Inc.

**Glendell Jones, Jr., Chair**

President, Henderson State University

**Jerry Damerow**

Retired Ernst & Young Partner

**Herman Davenport**

President & CEO, Davenport Group

**John C. Edwards**

Partner, Anible & Edwards

**Donna Gambrell**

Visiting Scholar, Federal Reserve Bank of Atlanta  
Former CDFI Fund Director

**Mike Myers**

Vice President & CFO, Winrock International

**Rodney Slater**

Partner, Squire Patton Boggs, LLP

**Dorothy Stuck**

Retired Civic Leader & Business Owner

**Sherman Tate**

President & CEO, HT & Associates

**Diane Tatum**

Retired Regional Customer Service Manager,  
Entergy Arkansas

## Southern Bancorp Bank

**Sherman Tate, Chair**

President & CEO, HT & Associates

**Hugh Arant, Jr.**

President, Arant Farms

**Jerry Damerow**

Retired Ernst & Young Partner

**Kim Evans**

Vice President of Development & Client Services,  
Arkansas Community Foundation

**Michael Montgomery**

Chairman & CEO, Radius Group, LLC

**Walter L. Morris, Jr.**

President, H&M Lumber Company

**John T. Olaimey**

President & CEO, Southern Bancorp Bank

**Darryl Swinton**

Director of Housing & Economic Development,  
Better Community Development, Inc.

**Darrin L. Williams**

CEO, Southern Bancorp, Inc.

## Southern Bancorp Community Partners

**Herman Davenport, Chair**

President & CEO, Davenport Group

**Freddye Webb-Petett, Co-Chair**

Retired Professor, Clinton School of Public Service

**John C. Edwards**

Partner, Anible & Edwards

**Dr. Bob Fisher**

President, Belmont University

**Sarah Gentry, CPA**

Manager, Hudson Cisne & Co. LLP

**Aurelia Jones-Taylor**

CEO, Aaron E. Henry Community Health Services, Inc.

**Jacquelyn Williams McCray**

Interim Vice Chancellor for Academic Affairs  
University of Arkansas at Pine Bluff

**Brian Miller**

United States District Judge,  
United States District Court,  
Eastern District of Arkansas

**Dominik Mjartan**

CEO, Southern Bancorp Community Partners  
Executive Vice President, Southern Bancorp, Inc.

**Walt Patterson**

Senior Vice President, Government Services,  
Division of TransFirst Holding Inc.

**Mary Gay Shipley**

Retired Founder, That Bookstore in Blytheville

**Dorothy Stuck**

Retired Civic Leader & Business Owner

**Darrin L. Williams**

CEO, Southern Bancorp, Inc.

# **SHAREHOLDERS**

**Aman and Company**

**Arkansas Capital Corporation**

**Arkansas Community Foundation**

**Arkansas Electric Cooperative Corp.**

**ArkBest Corporation**

**Calmeadow Foundation**

**Calvert Social Investment Foundation**

**Centerpoint Energy**

**Charles A. Frueauff Foundation**

**Charles Stewart Mott Foundation**

**Dominican Sisters of Springfield Illinois**

**Gwen G. Morgan Trust**

**Hampshire College**

**Jean T. Gordon**

**Levi Strauss Foundation**

**Local Church Ministries**

**MetLife Foundation**

**National Community Investment Fund**

**Regions Bank**

**Robert B. Lifton Trust**

**SF Holding Corporation**

**Southern Bancorp Community Partners**

**Verizon**

**W.K. Kellogg Foundation**

**Walton Family Foundation**

**Winrock International**

**Winthrop Rockefeller Foundation**

**Special Thanks to: Arkansas Printing, Cranford Co., Heath Herring Photography, KES Photography**



 **Southern Bancorp**  
Building communities. Changing lives.

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