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CAPITAL

noun | cap · i · tal | \ 'ka-pe-tel, 'kap-tel\

Definition

1. accumulated possessions calculated to bring in income
2. net worth: excess of assets over liabilities
3. advantage, gain: a store of useful assets or advantages
- 4. *the key to economic development and mobility***

According to Merriam-Webster, the word “**capital**” has a variety of financial meanings. It’s a word used by many in the financial industry and beyond, yet rarely does one stop to contemplate its life changing importance.

For Southern Bancorp, **capital** is not just accumulated wealth, it’s a child’s first savings account built one nickel at a time. It’s not just one’s net worth, but it is a single mother’s dream of giving her child something she never had. And it’s not just an advantage, it’s the confidence that goes into opening up a dream business in the Mississippi Delta against all odds. But perhaps most important, **capital** is the key to ensuring both economic development and mobility within a community, and that’s the special ingredient needed to ensure a brighter future for rural and underserved Americans.



A MESSAGE FROM THE CEO

2016 was a milestone year in Southern Bancorp's history. From launching our three audacious goals, which will guide our work for the next ten years, to repurchasing \$33.8 million dollars in Community Development Capital Initiative (CDCI) debt, originally acquired in 2009 as part of the Troubled Asset Relief Program, to expanding our footprint both physically and digitally, our work over the past year has laid the groundwork for an unprecedented era in the life of our organization.

Our ten year goals are rooted in evidence that a family's net worth or "household balance sheet" directly correlates with their financial stability and mobility, and they are focused on three areas that significantly contribute to one's ability to build that net worth: housing, jobs, and savings. These goals will push us to develop new and innovative ways of helping families and communities reach their full financial potential.

Of course, the success of our endeavor will rely heavily on our ability to grow and innovate within and beyond our current markets.

To strengthen our overall financial position and allow for growth, we repurchased our CDCI debt on very favorable terms. The repurchase provides increased flexibility for the organization, which is especially important as we embark on a **capital** campaign in 2017 to help us increase our impact and meet the growing need for **capital** in rural America and in underserved communities.

Access to **capital** is steadily declining in rural and underserved communities as larger financial institutions gravitate to more affluent, urban centers; yet Southern

Bancorp is committed to ensuring that everyone has the same opportunities for success, regardless of zip code – a commitment that was underscored over the past year.

In 2016, we opened our first branch in the small community of Gurdon, Ark. (pop. 2,137), and we also recently announced the acquisition of Farmers Bank in Hamburg, Ark. (pop. 2,857). This growth will ensure that the residents of these small communities will not only have continued access to **capital**, but also access to Southern’s unique brand of financial products and empowerment services.

And while a key to our mission is ensuring local brick and mortar access to **capital** remains available for those in rural and financially underserved markets, we also realize the importance of technological advancement and innovation.

The past year has seen the redesign and launch of both BankSouthern.com, the home of our \$1.2 billion asset community development bank, and SouthernPartners.org, our 501(c)(3) loan fund and financial development partner.

Both websites combine cutting-edge design with simple information on building wealth and strong financial foundations, particularly within our new online Learning

Center. This free resource for individuals, families, students, and teachers allows users to download financial education tools for classes or personal use, and it will allow us to scale our services within our markets and beyond.

I hope you enjoy reading about our work in 2016, and the plans we have for 2017 and beyond. As a mission-driven financial institution, we believe in balancing both mission and margin, and I believe this recap of our year will illustrate that we are accomplishing that and more.

Enjoy,



A handwritten signature in blue ink that reads "Darrin L. Williams". The signature is fluid and cursive.

Darrin L. Williams, CEO
Southern Bancorp, Inc.



A TEN YEAR PLAN FOR CREATING ECONOMIC OPPORTUNITY

Southern's approach to creating economic opportunity in some of our nation's most economically challenged communities is rooted in research showing that net worth drives economic mobility. By combining financial development tools and services with responsible access to **capital**, individuals and families can begin building personal wealth that leads to economic mobility – and consequently, generational change.

TEN YEAR PLAN



HOUSING

Assist 10,000 people in attaining and/or sustaining affordable housing.

Housing is an essential need. It provides shelter, safety and in the case of homeownership, it can build wealth. Southern Bancorp will utilize all of its resources, from home loans to housing counseling, to ensure that 10,000 people in its target markets attain or sustain affordable housing.



JOBS

Support the creation or retention of 100,000 jobs.

Jobs and entrepreneurship are key components to building wealth and creating broad-based community prosperity. Southern Bancorp will utilize all of its resources, from lending to training, in support of the creation or retention of 100,000 jobs within our target markets.



SAVINGS

Empower 1,000,000 people to save.

Savings, along with good credit and financial education, is a key ingredient for building personal wealth and increasing economic mobility. Southern Bancorp will utilize all of its resources, from programs to products, in developing savings programs as well as advocating for public policies that promote savings.



HOUSING

Owning one's own home is a dream shared by countless Americans, and it can be driven by a variety of factors ranging from the desire to build one's net worth to having a place to raise a family. And while those reasons certainly rang true for Blytheville, Ark. native, LaKristen Spiller, one factor also drove her desire to become a homeowner—that her son would grow up with his own space.

As a child, LaKristen was surrounded by family, so much so that for most of her youth, she shared a room. And while not one to complain, she quietly promised herself that one day she would have her own space and that her children would as well. After leaving town to attend college and graduate school, LaKristen returned home to a good job and a bright future, yet her dream of owning something of her own was put on hold when she became a single mother, once again living with her mom and sharing a space. Her situation, coupled with her strong sense of financial responsibility, led her to Southern Bancorp, where financial counselors developed a plan to help her save toward a down payment, and ultimately the financing to purchase her own home. Today, she's renovating what will not only become a home for her and her son, but an asset that will help them build wealth for the future.

Learn more about LaKristen's story at [BankSouthern.com/stories](https://www.bank.southern.com/stories)

LaKristen Spiller and son, Karson





JOBs



"Big Jean" Wilkins, owner of River Road Remix

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“Big Jean” Wilkins grew up in the rural Delta town of Ruleville, Miss., watching and helping her mother at the family’s River Road Restaurant. And while many of her memories revolve around the summer customer rush coinciding with baseball season, some of her fondest involve the countless customers who simply stopped by to see her mother and visit while they ate. Those memories were the ones that brought her back home after decades of traveling the country – that and the desire to give back to the community that helped raise her. By combining the resources of Southern Bancorp Bank with the lending flexibility of Southern Bancorp Community Partners, the River Road Remix is now providing much needed jobs to the community, and once again welcoming crowds looking for great meals and great conversation.

Learn more about Big Jean and the River Road Remix at BankSouthern.com/stories





SAVINGS



Spare change isn't always shiny, but it can create glowing results. That's why most weeks of the school year, you'll find Southern Bancorp hosting a "Bank Day" at schools throughout our communities in an effort to educate students on the importance of savings. The work is based in research that suggests developing good financial habits early can be an important determinant in lifetime wealth accumulation, and a significant factor in increasing one's economic mobility and breaking the cycle of generational poverty.



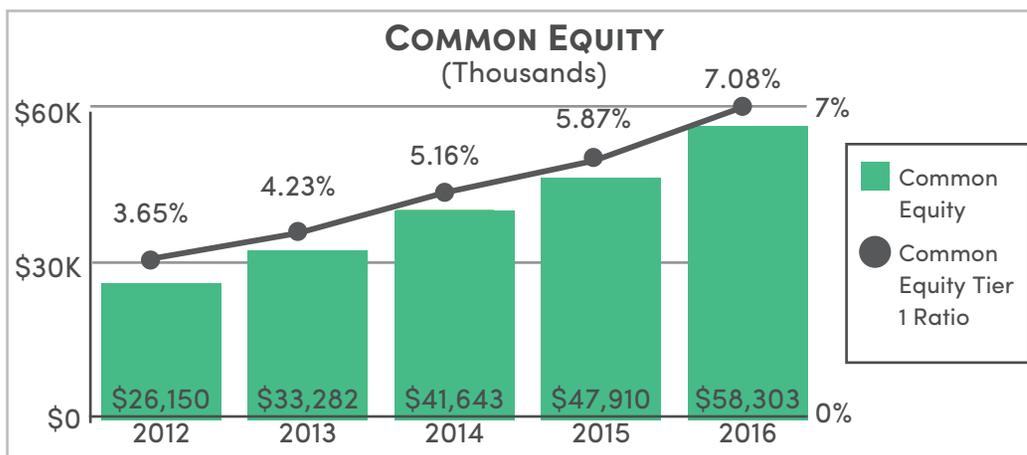
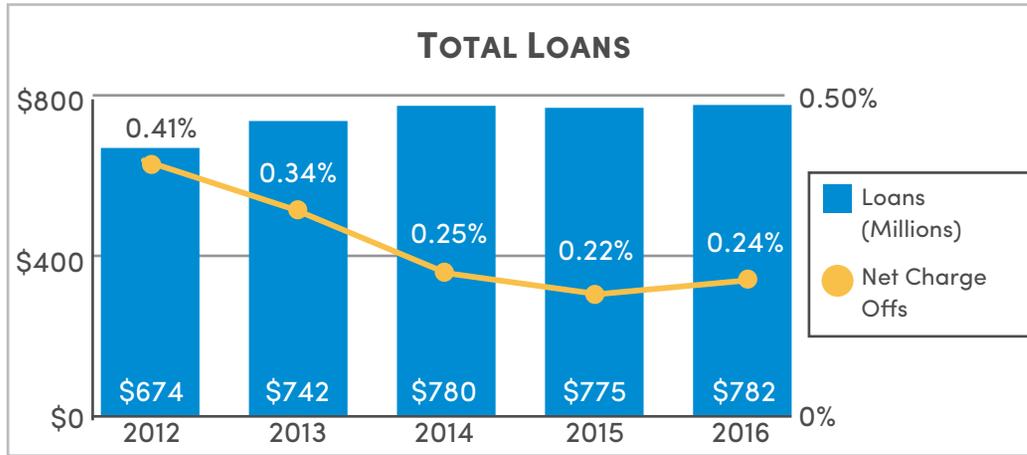
Emboldened by high participation levels and a contagious excitement that comes from seeing kids bring their own money to deposit, Southern's public policy team is now working with policymakers to identify mechanisms for scaling similar child savings programs to reach far beyond our own market borders. By working with both parents and policymakers, Southern Bancorp is seeking to turn spare change into economic change.



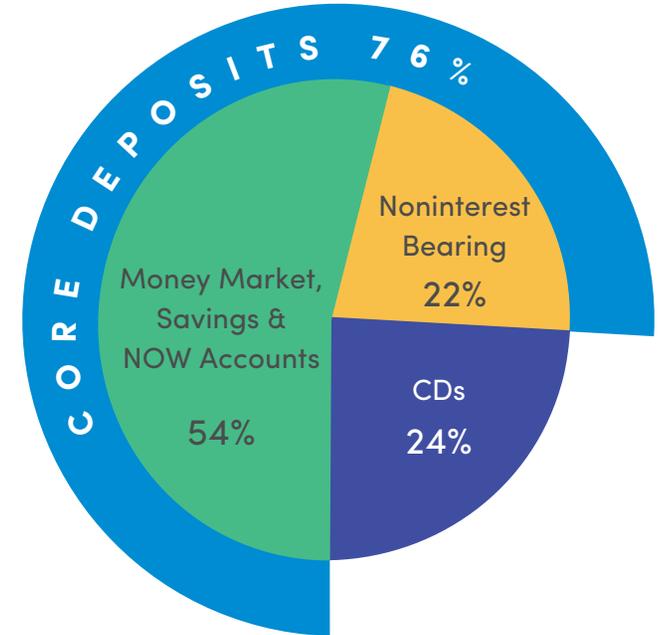
Learn more about Southern's Child Savings Program at [BankSouthern.com/stories](https://www.banksouthern.com/stories)

2016 SNAPSHOT

MARGINAL



2016 DEPOSITS



PEER COMPARISON

2016 Q4 YTD

	Southern Bancorp Bank	All CDFIs	CDFIs \$1-3 Billion
ROAA	0.88	0.78	1.00
ROAE	7.09	7.10	9.55
Nonperforming Assets	1.98	1.66	0.75
Efficiency Ratio	69.77	75.01	63.70
Net Charge Offs	0.24	0.20	0.10
Texas Ratio	17.56	15.31	8.09



EMPOWERING HOMEOWNERS

Created or supported affordable housing with **1,727** affordable housing project loans, including financing for multifamily housing, single family homeownership, home improvement loans, housing construction in low income areas, and lending to nonprofit providers of housing. Additionally, Southern Bancorp homebuyer counselors served **61** clients and supported **18** home-related matched savings account purchases.



SUPPORTING ENTREPRENEURS

Supported the creation or retention of **6,098** jobs through commercial, small business, and micro loans—**75%** of which were made in low to moderate income census tracts. In 2016, we made **437** microloans of \$50,000 or less.



BUILDING ECONOMIC SECURITY

Empowered **12,854** people to save and build their net worth. Southern Bancorp staff opened over **9,000** new accounts to help people save, opened **92** credit builder CDs, served **96** counseling clients, and helped make **37** education asset purchases. Southern Bancorp VITA volunteers helped nearly **3,000** people file their tax returns for free, resulting in **\$6.28 million** in tax refunds and credits, **\$3.35 million** of which was the Earned Income Tax Credit.

CONSOLIDATED BALANCE SHEETS

At DECEMBER 31st (\$ AMOUNTS IN THOUSANDS)

ASSETS

	2016	2015
Cash and due from banks	\$ 29,862	\$ 29,694
Interest-bearing deposits in other banks	13,818	45,333
Cash and cash equivalents	\$ 43,680	\$ 75,057
Investment securities, AFS and HTM	199,049	206,337
Other equity investments	11,973	12,296
Net loans	776,037	768,019
Premises and equipment, net	41,037	43,525
Goodwill	36,753	36,753
Other assets	42,071	36,170
TOTAL ASSETS	\$ 1,150,600	\$ 1,178,127

LIABILITIES

Total deposits	\$ 953,066	\$ 989,799
Securities sold under agreements to repurchase	26,355	20,362
Federal Home Loan Bank advances	27,538	11,575
Subordinated debentures	17,437	17,437
Notes payable	19,455	8,964
Other liabilities	7,911	7,430
TOTAL LIABILITIES	\$ 1,051,762	\$ 1,055,567

SHAREHOLDERS' EQUITY

Preferred stock, \$1 par value; 0% cumulative 200,000 shares authorized; \$4,550 and \$38,350 issued; aggregate liquidation preference \$4,550 and \$38,350.	\$ 4,550	\$ 38,248
Common stock, \$1 par value; 1,600,000 shares authorized; 170,394 and 168,977 shares issued and outstanding.	170	169
Additional paid-in capital	24,958	24,155
Retained earnings	69,927	60,338
Accumulated other comprehensive loss	(767)	(350)
TOTAL SHAREHOLDERS' EQUITY	\$ 98,838	\$ 122,560
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,150,600	\$ 1,178,127

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31 (\$ AMOUNTS IN THOUSANDS)

	2016	2015
INTEREST INCOME		
Loans, including fees	\$ 40,398	\$ 41,414
INVESTMENT SECURITIES:		
Taxable	2,398	3,018
Tax exempt	2,425	2,067
Federal funds sold and other	309	248
TOTAL INTEREST INCOME	\$ 45,530	\$ 46,747
 INTEREST EXPENSE		
Deposits	2,082	2,205
Subordinated debentures	343	692
Other interest expense	558	412
TOTAL INTEREST EXPENSE	\$ 2,983	\$ 3,309
Net interest income	42,547	42,982
Provision for loan losses	1,680	1,600
 NON-INTEREST INCOME		
Service charges	5,869	6,224
Net investment securities gains	52	106
Fees, commissions, and other	7,333	3,359
TOTAL NON-INTEREST INCOME	\$ 13,254	\$ 9,689
 NON-INTEREST EXPENSE		
Salaries and employee benefits	23,386	21,381
Net occupancy and equipment expense	4,462	4,541
Other non-interest expense	15,053	15,439
TOTAL NON-INTEREST EXPENSE	\$ 42,901	\$ 41,361
 INCOME BEFORE INCOME TAXES	11,220	10,166
Income tax provision	2,471	2,586
NET INCOME	\$ 8,749	\$ 7,580

GOVERNING BOARDS

Southern Bancorp, Inc.

Glendell Jones, Jr., Chair

President, Henderson State University

Jerry Damerow

Partner (Retired), Ernst & Young

Herman Davenport

President & CEO, Davenport Group

John C. Edwards

Principal, Edwards Law Office

Donna Gambrell

President & CEO, Appalachian Community Capital

Former CDFI Fund Director

Dan Koehler

President, Koehler Software, Inc.

Mike Myers

Vice President & CFO, Winrock International

Rodney Slater

Partner, Squire Patton Boggs, LLP

Sherman Tate

President & CEO, HT & Associates

Diane Tatum

Regional Customer Service Manager (Retired), Entergy Arkansas

Southern Bancorp Bank

Sherman Tate, Chair

President & CEO, HT & Associates

Hugh Arant, Jr.

President, Arant Farms

Jerry Damerow

Partner (Retired), Ernst & Young

Kim Evans

Sr. Director of Development, College of Medicine University of Arkansas for Medical Sciences

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 Petett, Co-Chair

Professor (Retired), Clinton School of Public Service Program Coordinator, W. K. Kellogg Foundation

John C. Edwards

Principal, Edwards Law Office

Bob Fisher

President, Belmont University

Sarah Gentry

CPA, Principal, Hudson Cisne & Co. LLP

Amanda Johnson

Fellow, Building Excellent Schools

Aurelia Jones-Taylor

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

Jacquelyn W. McCray

Dean (Retired), University of Arkansas at Pine Bluff

George Miles

Vice President of Commercial Business Development, Hope Enterprise Corporation

Walt Patterson

Principal, Patco Services, Inc.

Mary Gay Shipley

Founder (Retired), That Bookstore in Blytheville

THANK YOU

Southern Bancorp is thankful to our shareholders which include foundations, corporations, and individuals who believe in our mission. They have invested in the idea that bringing economic opportunity to underserved people and places can generate both profit and purpose.

We are also grateful to our many partners, customers, and investors, including our supporters from all parts of the globe who help us fulfill our mission. We always remember that it is our friends such as those in the Global Alliance for Banking on Values; community, coalition, and public policy partners; and the thousands of customers who have chosen to bank with us who enable us to meet our mission and margin goals. Their support is key to our ongoing success.

If you'd like to learn more about balancing profits and purpose by becoming a shareholder, customer, or partner, e-mail us at southern@banksouthern.com.



“It’s not just a **HOME.**
It’s an **asset** for
my son’s **FUTURE.**”

— *LaKristen Spiller*
Mother, saver, homeowner.