SOUTHERN DEVELOPMENT BANCORPORATION

expanding into the
mississippi delta

2001 annual report
I find the great thing in this world is not so much where we stand,
as in what direction we are moving.
To reach the port of heaven, we must sail sometimes with the wind
and sometimes against it.
But we must sail, and not drift nor lie at anchor.

– Oliver Wendell Holmes

The inscription on the fountain donated
to the city of Drew, Mississippi by Billy
and Louise Williams, 1988.
We are proud to report that in 2001, Southern Development Bancorporation expanded its rural development mission in Arkansas and Mississippi by acquiring banking organizations in eight Delta communities. The acquisition of these banking organizations increased total assets by $100 million and, more importantly, provided us with additional markets through which to offer development services.

In 2001, Southern became one of the largest banking organizations in the Arkansas and Mississippi Delta, and was recognized nationally as a top ten development company. We received this recognition because our unique comprehensive development concept seeks to improve economic vitality and the quality of life in rural Arkansas and Mississippi. The traditional development services offered by our banks, coupled with Southern Financial Partners, our 501(c)3 nonprofit lender, Opportunity Lands Corporation, our real estate development subsidiary, and the Good Faith Fund’s workforce training programs, allow Southern to address many of the basic problems affecting the Arkansas and Mississippi Delta.

Southern’s most significant strength is its employees, each of whom are committed to making a real impact in the rural markets we serve. This strength of commitment is not unusual, since many of us live, work and raise families in the Delta. We believe the Delta must change from within and have organized ourselves according to this belief.

Southern Development Bancorporation is a commercial business with a social purpose. We are a bridge between traditional organizations and entities whose purpose is to promote financial and social development. We are unique, we are strong, we are serious, and we will be here one hundred years from now. We promise – the Delta will be different because of us.
Southern Development Bancorporation ("Southern") is a development bank holding company committed to transforming rural economies by creating new trends of investment in people, jobs, businesses and real property.

At Southern, we focus our resources, energy and efforts on a comprehensive economic development strategy that combines banking, small business lending, affordable housing development and human development services.

Expansion Opportunities

In 2001, Southern Development Bancorporation’s assets grew $100 million to end the year with almost $351 million in total assets. This substantial growth is due to our expansion of banking operations in the Arkansas and Mississippi Delta.

Community banking is the cornerstone of our operations. We firmly believe that strong community banks are critical to revitalizing the Arkansas and Mississippi Delta. The local bank, much as the local school and church, is a critical institution in rural America, and is essential to maintaining community identity. The community bank will maintain local leadership, provide employment opportunities, and increase access to credit.

Focus on Community

Many federal, state and philanthropic organizations are trying to help the Mississippi Delta by injecting large sums of money into the region. This approach has not been successful because it has always originated from outside the Delta, and because short-term funding cycles are not able to effectively deal with the long-term needs of the Delta.

2001 In review

Southern acquires Delta Bank and Trust in Drew, Mississippi.

Southern acquires four Union Planters branches in Friars Point, Lambert, Lula and Sledge, Mississippi.

Southern banking subsidiary First National Bank of Phillips County acquires three Union Planters branches – two in West Helena, Arkansas and one in Marvell, Arkansas.

At Southern, we know how important credit availability is to Delta residents. Our community bank focus assures that customer deposits are injected back into the community through personal, business and mortgage loans. Money stays in the community and is the starting place for opportunity.

We’re in it for the Long Run

Our banks have stood the test of time. Elk Horn Bank & Trust has been in operation since 1884, First National Bank of Phillips County since 1931, and Delta Southern Bank since 1902. Our employees, management and board of directors all take a personal and vested interest in making our rural communities better — after all, that’s where we live and work.

As one of the largest banking organizations in the Arkansas and Mississippi Delta, we are committed to maintaining local leadership, providing financial access and promoting employment opportunities for all area residents.

We know we can’t do it all. The Delta must change from within. That’s why we are working with local leaders and residents to help them transform what seem like insurmountable challenges into opportunities.

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We realize that our mission will be successful only if we are able to break through economic, political and social barriers that make opportunity, self-sufficiency and economic vitality out of reach for many people. Our comprehensive development strategy engages various aspects of the economic, political and social realities and problems of rural America. Within these areas, our subsidiaries and affiliates provide a variety of services designed specifically to improve economic, political and social conditions.
mississippi delta

birthplace of the blues

The Delta region in Mississippi is a land that stretches flat and empty. It is a land of contrasts: an area known for agricultural richness, but entrenched in poverty. Low levels of income and education, welfare dependency, poor healthcare and crumbling shacks that serve as housing show us that in spite of our many successes as a nation, we are either unable or unwilling to help those who live in the heartland of our country.

When you drive through Delta towns, they look quite similar. Stores and businesses have been abandoned, their fronts covered in plywood. On many “Main Streets,” only the foundations are left to serve as reminders of better days.

So why is Southern investing time, energy and resources in the Delta? Because it’s the right thing to do, and because we have both an opportunity and a responsibility to bring hope to the region.

We believe the Delta should not be abandoned. It is a land with a strong sense of history that is struggling to break free from ghosts of its past. It is a land where families are a vital part of the social fabric and people have a powerful sense of pride. It is a land filled with faith, traditions, dignity and determination. You can see it in the faces of the people that live here and call the Delta home.
The minute you step into the room, you know Francella Grigsby loves what she does. It’s clear the kids she cares for every day love her, too. In fact, many of the kids, who range in age from two to five, call her “Mom.”

Francella opened Kids’ World Family Home Child Care in September 2000. Her registered in-home daycare in Pine Bluff, Arkansas is licensed to serve up to five kids. And it’s full.

She credits the Rapid Assets Individual Development Account (“IDA”) program for making it possible. The IDA program enables low-income workers to save money for assets like home ownership or improvement, post-secondary education or capitalizing a business. Participants receive a three dollar match for every dollar they save.

Francella was able to save the money she needed to pay the down payment on her house. She also saved money to purchase arts and craft supplies and make improvements to her home, creating a better living and learning environment for the children.

The personal finance classes she took as part of the IDA program have helped her learn more about running a business and managing money. Francella demonstrates her professionalism and dedication by wearing scrubs on the job. This also allows freedom of movement for keeping up with her young charges. By September 2002, she will have earned the Child Development Associate credential from Southeast Arkansas College.

The childcare area at Kids’ World is divided into different “centers” dedicated to specific activities like art, music, dramatic play, puzzles, games, and crafts. Kids follow a daily schedule that includes time in each center, exercise, outdoor play, naps, meals, snacks, and brushing teeth.

Francella is proud to provide a professional environment that is rich in learning and age-appropriate activities to prepare her kids for preschool and kindergarten. It’s not unusual to find Francella on the floor, playing with the children, teaching a lesson, or just giving hugs.

I can’t ask God for much more. Every day I’m rewarded with being able to show my love through the children. I try to provide a home away from home.
home sweet home

delta acres

Gladys Yelvington calls Clarendon, Arkansas home. She’s lived there for almost 60 years. When her husband died five years ago, Gladys continued to live in the home where she raised their daughters, and where she had lived with her husband for 36 years.

However, after a while, the daily upkeep and maintenance became difficult to manage for Gladys, who is 73 years old. She wanted to stay in Clarendon where she could be close to her children, six grandchildren and three great-grandchildren. So when Delta Acres Apartments opened in May 2001, Gladys found the perfect new home.

Opportunity Lands Corporation ("OLC") partnered with USDA Rural Development, Arkansas Development Finance Authority, Guilford Capital Corporation and the Clarendon Industrial Commission to build the 25-unit Delta Acres, a $1.4 million low- and moderate-income housing development.

Delta Acres, like other OLC housing developments, offers affordable, quality housing in rural communities where decent housing options are scarce.

Her comfortable two-bedroom apartment has abundant home-like details, including a front porch that is adorned with rocking chairs she bought 35 years ago. Even though Gladys moved to Delta Acres to escape things like lawn care, if the spirit moves her, she can still be found in front of her apartment or at the community center pulling weeds and tending the flowerbeds.

When you live alone, it’s hard to do all the work yourself. I love my new home at Delta Acres. It’s just the right size, easy to keep clean, and I don’t have the worries of home ownership.

Under Construction

Opportunity Lands Corporation and Southern Community Development Corporation are developing three 20-unit senior housing complexes in Clarendon, DeWitt and West Helena Arkansas.
Delta Resource Center believes in the saying “location, location, location.” That’s why they’ve been a tenant in Enterprise III for about eight years. Developed by Opportunity Lands Corporation, Enterprise III is located on Main Street in downtown Pine Bluff, Arkansas, with a city bus stop right outside the front door. Their office is easily accessible to their clients, and that’s important.

Delta Resource Center provides services, support and advocacy for people with severe disabilities, allowing them to live as independently as possible within their communities. Their convenient location and easy access to the bus make it easy for their clients – especially those who use a wheelchair – to get to the Center.

Sandra Jasper, program director, and her team of independent living specialists offer personalized training at the Center. Much of the training is tailored to individual needs, but they frequently teach clients how to set up a budget, pay bills, buy groceries and other life skills that make it possible for someone with a disability to live independently.

In addition to educational training, they also work as advocates for people with disabilities – helping to make life a little easier. For example, Delta Resource Center worked with the city of Pine Bluff to install “curb cuts” which improve handicap access.

As a non-profit organization that relies on state and federal funding, they must manage costs effectively. Designed for small businesses with limited capital, Enterprise III offers affordable rent. Tenants also share facilities, such as a conference room, copy machine, and a break area complete with a refrigerator and a microwave, which helps keep costs low. Opportunity Lands Corporation also provides a similar facility, Enterprise I, in Arkadelphia, Arkansas.

When I took this position seven years ago, I had a personal interest. I have a twenty-year-old daughter with a disability, and wanted to learn as much as I could to teach her to be as independent as possible. She now lives in her own apartment and is getting ready to start cosmetology school.
delta rehab

JoLynn Carter and Paula Boaz have known each other for close to 11 years. Many of those years they’ve worked together for national medical rehabilitation companies. However, in November 2001, they made life-changing career moves and went into business together.

With help from Southern Financial Partners and the Rural Health Revolving Loan Fund, they obtained the financing they needed to buy a rehabilitation business in Forrest City, Arkansas.

Delta Rehab offers physical, occupational and speech therapy services across the state of Arkansas, employing about 35 rehabilitation professionals. They specialize in providing rehabilitation services to nursing homes, pediatric facilities, schools and development centers – especially in rural communities where there is limited access to rehabilitation services.

JoLynn and Paula share a genuine enthusiasm for customer service and strive to create a positive work environment for their employees. Their years of administrative experience in the rehabilitation field provide them with a wealth of knowledge and an extensive network of professionals and referral sources. Both women share responsibility for marketing and managing the state-wide team of therapists and techs, but JoLynn focuses her energy on insurance and patient billing services, while Paula works to bring in new business.

One of the most rewarding aspects is our ability to really take care of our customers and employees without interference from a corporate office that doesn’t understand the people or communities we help.

–JoLynn Carter, State Manager

Like so many of Southern Financial Partners’ customers, Delta Rehab provides a valuable service. In addition, their annual payroll of almost $1.2 million helps stimulate the economy in rural communities throughout Arkansas.
sheilah's designs

It all started because her husband never had tissues in his office. So Sheila Waddell created a wooden birdhouse, decorated it with golf-related miniatures and put a tissue box inside. People liked it so much, she started a home-based business to sell her birdhouses and other wood crafts. She even bought a little building on Pullen Street in Pine Bluff, Arkansas to use as a workshop.

To her surprise, demand for the birdhouses and other crafts grew quickly. Before she knew it, her little 12 x 20 foot building was filled with merchandise, had a sign in front, and Sheilah's Designs was opened for business in July 2000.

The cozy consignment craft boutique is filled with only handmade items such as beautiful wooden cutting boards, compact disc cases, lotions, gift baskets, candles and soaps. She offers fraternity and sorority items that appeal to the local college students, as well as her famous signature birdhouses, which she custom designs for individuals and businesses.

In the beginning, Sheila was like many new small business owners. She had a little background in running a business, but had never dealt with the “bumps and grinds of customers coming through the doors.”

She contacted the Arkansas Women's Business Development Center in Pine Bluff and enrolled in their ten-week Woman-to-Woman Business Mentoring program. It was just what she needed to turn a little shop into a booming business.

“I've been blessed and just love what I do. I've learned to create things and market on a shoestring budget.”
queen for a day

They say big things come in small packages, and that is certainly true of Queen Johnson. It's hard to imagine that someone so petite – standing only four feet, eleven inches – could possess so much determination, energy and spirit.

A naturally compassionate person, Queen has always wanted to be a nurse and care for the elderly. She'd heard about the Certified Nursing Assistant program at Industry Partners Employment Training Center (“IPE”) in Stuttgart, Arkansas and knew it could launch her career goals. When she was laid-off from her job at the Health Department, she seized the opportunity to start her training.

Queen graduated from IPE in October 2001 with a Certified Nursing Assistant certificate and began working at Stuttgart Memorial Hospital in December. Earning her CNA certificate has given her the motivation and encouragement to go all the way. She's currently enrolled in the registered nursing program at the Stuttgart campus of Phillips Community College of the University of Arkansas.

As if working and going to school full-time weren't enough, she and her husband are busy raising three kids: Cachet, thirteen; Isaac, twelve; and Roger, eleven years old. It does help that her family is supportive and proud. In fact, daughter Cachet is a straight “A” student and often helps Queen with her homework. Her sister and parents also live nearby and lend a hand with the kids.

The youngest of five siblings, Queen's Dad is responsible for giving her the unique name, saying she was “Queen of the crop.” After seeing her in action on the job, we agree.

I stay pretty busy and it's only with the Lord's help that I keep it together. Family, school, work and church are so important to me right now. I just find a way to get it all done.
### CONSOLIDATED BALANCE SHEETS

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2001</th>
<th>December 31, 2000</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
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<td>Cash and due from banks</td>
<td>$15,887,307</td>
<td>$13,948,858</td>
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<td>Federal funds sold</td>
<td>19,315,000</td>
<td>5,100,000</td>
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<td>Total cash and cash equivalents</td>
<td>35,202,307</td>
<td>19,048,858</td>
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<td>Interest bearing deposits in other banks</td>
<td>28,195,125</td>
<td>100,000</td>
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<td>Investment securities</td>
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<tr>
<td>Loans:</td>
<td></td>
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<tr>
<td>Commercial, financial and agricultural</td>
<td>70,350,191</td>
<td>67,101,097</td>
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<td>Real estate</td>
<td>83,902,309</td>
<td>71,787,104</td>
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<td>Installment</td>
<td>24,165,561</td>
<td>19,166,028</td>
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<td>Total loans</td>
<td>178,418,061</td>
<td>158,054,229</td>
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<td>Allowance for loan losses</td>
<td>(4,276,094)</td>
<td>(1,949,166)</td>
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<tr>
<td>Net loans</td>
<td>174,141,967</td>
<td>156,105,063</td>
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<tr>
<td>Premises and equipment, net</td>
<td>11,755,986</td>
<td>6,198,653</td>
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<tr>
<td>Rental real estate</td>
<td>2,640,279</td>
<td>2,616,584</td>
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<tr>
<td>Goodwill</td>
<td>6,430,651</td>
<td>4,350,817</td>
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<tr>
<td>Other assets</td>
<td>14,210,968</td>
<td>6,128,250</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$350,478,801</strong></td>
<td><strong>$252,234,677</strong></td>
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<tr>
<td><strong>Liabilities</strong></td>
<td></td>
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<tr>
<td>Deposits:</td>
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<tr>
<td>Non-interest bearing demand</td>
<td>$41,728,850</td>
<td>$24,685,360</td>
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<tr>
<td>Interest-bearing demand</td>
<td>91,989,829</td>
<td>60,073,215</td>
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<td>Savings</td>
<td>18,562,096</td>
<td>14,155,830</td>
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<td>Time deposits less than $100,000</td>
<td>101,001,897</td>
<td>69,020,430</td>
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<tr>
<td>Time deposits greater than or equal to $100,000</td>
<td>53,115,885</td>
<td>45,776,082</td>
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<tr>
<td><strong>Total deposits</strong></td>
<td><strong>306,398,557</strong></td>
<td><strong>213,710,917</strong></td>
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<td>Federal funds purchased and securities sold under agreements to repurchase</td>
<td>200,000</td>
<td>1,715,000</td>
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<tr>
<td>Federal Home Loan Bank advances and other short-term borrowings</td>
<td>1,309,166</td>
<td>1,459,626</td>
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<tr>
<td>Notes payable</td>
<td>1,850,000</td>
<td>9,886,747</td>
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<tr>
<td>Other liabilities</td>
<td>3,001,709</td>
<td>2,273,490</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>312,759,432</strong></td>
<td><strong>229,045,78</strong></td>
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<tr>
<td><strong>Guaranteed preferred beneficial interest in the Company’s subordinated debentures</strong></td>
<td><strong>12,000,000</strong></td>
<td><strong>-</strong></td>
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<tr>
<td><strong>Stockholders’ Equity</strong></td>
<td><strong>25,719,369</strong></td>
<td><strong>23,188,897</strong></td>
</tr>
<tr>
<td>Common stock, $1 par value; 200,000 shares authorized; shares issued and outstanding: Series A-1, 41,925 in 2001 and 34,711 in 2000</td>
<td>41,925</td>
<td>34,711</td>
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<tr>
<td>Series A-2, 42,164 in 2001 and 41,658 in 2000</td>
<td>42,164</td>
<td>41,658</td>
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<tr>
<td>Capital surplus</td>
<td>20,879,404</td>
<td>19,337,101</td>
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<tr>
<td>Retained earnings</td>
<td>3,984,462</td>
<td>3,651,160</td>
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<tr>
<td>Accumulated other comprehensive income</td>
<td>704,016</td>
<td>56,869</td>
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<tr>
<td><strong>Total Stockholders’ Equity</strong></td>
<td><strong>25,719,369</strong></td>
<td><strong>23,188,897</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Stockholders’ Equity</strong></td>
<td><strong>$350,478,801</strong></td>
<td><strong>$252,234,677</strong></td>
</tr>
</tbody>
</table>
## CONSOLIDATED STATEMENTS OF INCOME

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2000</th>
<th>1999</th>
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</thead>
<tbody>
<tr>
<td><strong>Interest Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans, including fees</td>
<td>$15,449,122</td>
<td>$14,262,187</td>
<td>$13,413,692</td>
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<td>Investment securities:</td>
<td></td>
<td></td>
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<tr>
<td>Taxable</td>
<td>3,122,238</td>
<td>3,417,765</td>
<td>3,061,271</td>
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<tr>
<td>Tax exempt</td>
<td>321,486</td>
<td>272,089</td>
<td>234,741</td>
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<tr>
<td>Federal funds sold and other</td>
<td>884,491</td>
<td>476,606</td>
<td>573,469</td>
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<tr>
<td><strong>Total interest income</strong></td>
<td>19,777,337</td>
<td>18,428,647</td>
<td>17,283,173</td>
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<tr>
<td><strong>Interest Expense</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Deposits</td>
<td>8,699,302</td>
<td>7,793,274</td>
<td>7,363,954</td>
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<tr>
<td>Other</td>
<td>912,129</td>
<td>1,184,686</td>
<td>876,099</td>
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<td><strong>Total interest expense</strong></td>
<td>9,611,431</td>
<td>8,977,960</td>
<td>8,240,053</td>
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<tr>
<td><strong>Net interest income</strong></td>
<td>10,165,906</td>
<td>9,450,687</td>
<td>9,043,120</td>
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<tr>
<td>Provision for loan losses</td>
<td>3,561,686</td>
<td>1,426,596</td>
<td>670,091</td>
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<tr>
<td><strong>Net interest income after provision for loan losses</strong></td>
<td>6,604,220</td>
<td>8,024,091</td>
<td>8,373,029</td>
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<tr>
<td><strong>Other Income</strong></td>
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<tr>
<td>Service charges on deposit accounts</td>
<td>2,492,695</td>
<td>1,727,747</td>
<td>1,304,024</td>
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<tr>
<td>Investment securities gains (losses)</td>
<td>3,126</td>
<td>(6,862)</td>
<td>(68,419)</td>
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<tr>
<td>Fees, commissions and other</td>
<td>3,621,687</td>
<td>1,322,629</td>
<td>1,523,466</td>
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<tr>
<td><strong>Other Income</strong></td>
<td>6,117,508</td>
<td>3,043,514</td>
<td>2,759,071</td>
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<tr>
<td><strong>Other Expense</strong></td>
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<tr>
<td>Salaries and employee benefits</td>
<td>6,396,598</td>
<td>5,798,105</td>
<td>5,337,781</td>
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<td>Net occupancy and equipment expense</td>
<td>1,725,493</td>
<td>1,465,376</td>
<td>1,278,212</td>
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<td>Amortization of goodwill</td>
<td>395,679</td>
<td>395,575</td>
<td>421,910</td>
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<td>Charitable contribution to affiliated company</td>
<td>105,500</td>
<td>225,000</td>
<td>225,000</td>
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<td>Other</td>
<td>3,833,913</td>
<td>2,633,571</td>
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<td><strong>Other Expense</strong></td>
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<td>10,517,627</td>
<td>10,570,592</td>
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<tr>
<td>Income before income taxes and trust distribution</td>
<td>264,545</td>
<td>549,978</td>
<td>561,508</td>
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<tr>
<td>Distributions on trust preferred securities</td>
<td>34,010</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Income tax expense (benefit)</strong></td>
<td>(102,767)</td>
<td>122,128</td>
<td>148,661</td>
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<td><strong>Net Income</strong></td>
<td><strong>$333,302</strong></td>
<td><strong>$427,850</strong></td>
<td><strong>$412,847</strong></td>
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</tbody>
</table>
southern board and officers

governing board

William H. Brandon
Chairman and Chief Executive Officer
Southern Development Bancorporation

Dr. Jacqueline McCray
Dean
University of Arkansas at Pine Bluff

Dr. Jacquelyn McCray
Dean
University of Arkansas at Pine Bluff

David Solomon
Partner
David Solomon, PA

Thomas Condit
Consultant

Brian Miller
Partner
Miller Law Firm

Dorothy Stuck
Retired Civic Leader and Businesswoman

Herman Davenport
President and Chief Executive Officer
Davenport Group

Don Munro
Chairman
Munro and Company, Inc.

Sherman Tate
Vice President
At&t

John Edwards
Executive Director
White River Irrigation District

Walter Patterson
Senior Vice President
Affiliated Computer Services, Inc.
Georgia Health Partnership

Freddye Webb-Petett
Coordinator
W.K. Kellogg Foundation’s
Mid South Delta Initiative

Jerry Fairfax
President
Harrington Construction

Rodney Slater
Partner
Patton Boggs, LLP

Walter Smiley
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