



focused

D E V E L O P M E N T



2002
ANNUAL REPORT

S O U T H E R N D E V E L O P M E N T B A N C O R P O R A T I O N



Students practice math skills at KIPP Delta College Preparatory School

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FOCUSED DEVELOPMENT

With more than \$400 million in total assets and \$190 million in outstanding loans, Southern Development Bancorporation and its family of for-profit and non-profit organizations became the largest rural development banking organization in the United States in 2002. Also in 2002, Southern originated \$101 million of development loans, primarily in the Arkansas and Mississippi Delta region, one of the most severely impoverished areas of the United States.

We believe that community development banks are tools that facilitate the offering of all other development, training and support services, with the combination of these activities being the most efficient and effective form of sustained development in a rural environment.

75 MILE RADIUS

We also believe that successful development of the Delta requires a concentrated geographic development emphasis. We have defined this concentrated geographic focus as a radius of 75 miles around a community with a Southern-owned development bank. Within this radius, the Southern family of companies, our development partners and local community leaders and organizations are brought together to initiate a community-focused development plan. Each Southern entity, working in conjunction with our development partners and local community leaders, will then execute the community development plan.

Phillip N. Baldwin
President and Chief Operating Officer

William H. Brandon
Chairman and Chief Executive Officer

OUR MISSION

Southern Development Bancorporation (“Southern”) is a development bank holding company committed to help transform rural economies by creating new trends of investment in people, jobs, businesses and property.

At Southern, we offer banking, small business lending, affordable housing development, work force training and asset development. This innovative blend of services forms a comprehensive economic development strategy that allows us to help improve the Delta region in ways no other company can.

FINANCIAL SERVICES

Southern operates three full-service community development banks in Arkansas and Mississippi: Elk Horn Bank and Trust Company based in Arkadelphia, Arkansas; First National Bank of Phillips County based in Helena, Arkansas; and Delta Southern Bank based in Ruleville, Mississippi. All three banks are certified by the United States Treasury Department as Community Development Financial Institutions.

Our commitment to the local community goes far beyond traditional banking. Our officers and employees are involved in their local community leadership – sitting on city boards, working to improve education or helping develop plans for improvement. By putting our communities first, we all win.

SMALL BUSINESS LENDING

We strongly believe that by supporting small businesses, we create the potential for an economic revitalization of the Delta area. Southern Financial Partners, our 501(c)(3) non-profit affiliate, uses a unique combination of lending services, financial training and technical assistance to help small businesses grow and prosper in today’s business environment.

Southern Financial Partners is certified by the United States Treasury Department as a Community Development Financial Institution.

AFFORDABLE HOUSING

Decent, affordable housing is an indispensable building block of a healthy community and shapes the quality of community life. Opportunity Lands Corporation (“OLC”) and its 501(c)(3) non-profit affiliate, Southern Community Development Corporation (“SCDC”) work side-by-side to develop quality, affordable housing for very low to moderate-income families and senior citizens.

By combining housing development with community and economic development, we can make the Delta a more desirable place to live and do business.

IMPROVING LIVES

Far too many families in the Arkansas and Mississippi Delta do not have the skills to compete for better paying jobs, earn low incomes and have trouble meeting the basic living needs of their family. Good Faith Fund, our 501(c)(3) non-profit affiliate, offers a compliment of work force training, asset development and public policy programs to promote the increase of income and assets of low-income and low-skilled residents and families.

Good Faith Fund programs are about people – and giving them the skills, training and support they need to move up the economic ladder and make effective changes in their lives.

focused DEVELOPMENT

75
MILE
RADIUS
SET

The Arkansas and Mississippi Delta continues to experience population decline, limited employment opportunities, relatively poor community relations and a lost sense of hope among many residents.

We believe that these community issues can be successfully resolved through geographically-focused development initiatives that target all areas of community development through engagement in economic, social and political efforts involving local community leaders and institutions.

Community development banking is the cornerstone of Southern's focused development activities. Southern's development model uses its community development banks as hubs through which all other development activities are coordinated. Southern's banks operate with a local Board of Directors, local management and local employees. They are a part of the local leadership and have access to the base of professional, civic and governmental organizations that traditional nonprofits are unable to reach. This access stimulates a local development strategy and vision, as the community participates in the Southern mission process. We have found that without the support of the local community, sustained development initiatives are not possible.

FOCUS ON LOCAL COMMUNITIES

Southern's geographic development emphasis results in organized and concentrated development activities, within a 75 mile radius of a community with a Southern-owned development bank. The Southern family of companies and their related programs are worked through a community-focused development plan initiated by Southern and local community leadership. Each Southern entity uses its array of development programs to execute the community development plan.

Delta Communities vary significantly in the level of critical mass in business/economic potential, population base, leadership and community infrastructure. To be successful, development efforts should be tailored to specific Delta communities, concentrating on those communities that have reached or will soon reach sufficient critical mass, allowing for sustained initiatives over a 15 to 20 year time frame. These long-term development initiatives must become "owned" by the community to the point that the development activities are considered by local residents to be community-initiated activities.

Focused development will, over time, tangibly improve these communities and eventually create an economic expansion independent of development initiatives. This will positively affect surrounding areas, and eventually the entire Delta region.

helena radius



arkadelphia radius



ruleville radius



SENIOR HOUSING

After three years of planning, Southern Community Development Corporation and the DeWitt Housing Limited Partnership broke ground on Magnolia Lane Senior Apartments, a low-income senior housing development located in DeWitt, Arkansas. The \$1.3 million complex is scheduled to open in the fall of 2003.

Magnolia Lane features twenty cottage apartments clustered around a courtyard and a senior activity center that features a laundry room, office, computers with Internet access and a health and fitness area.

SCDC is also currently developing low-income senior housing complexes in Clarendon and West Helena, Arkansas.



H

DeWitt



Helena

KIPP

DELTA COLLEGE PREPARATORY SCHOOL

Southern Financial Partners teamed with First National Bank of Phillips County and USDA Rural Development to finance a \$2.3 million facility expansion for the KIPP Delta College Preparatory School in Helena, Arkansas. The school is part of the nationally-acclaimed Knowledge Is Power Program, or KIPP, which is a non-profit network of high-performing schools across the United States.

The school currently holds class in a renovated train station in downtown Helena. The new \$2.3 million classroom facility, scheduled to open in the 2004 fall semester, will be located across the street, adding 13 new classrooms.

The school's mission is to provide educationally underserved students with the knowledge, skills and character to succeed in top quality high schools, colleges, and the competitive world beyond.

HELENA

RADIUS

Chartered by the Arkansas Department of Education, the school is free and open to the public. Students attend class from 7:30 a.m. until 5:00 p.m. and average two hours of homework a day. The school has 70 students enrolled in the fifth grade this year and plans to add 75 fifth graders each year until they reach a capacity of 300 students in grades 5 through 8.

The school is governed by a board of directors made up of local volunteers and civic leaders who understand that quality education is the foundation for economic development efforts in the area.

women

S U C C E E D I N G I N B U S I N E S S

The Arkansas Women's Business Development Center (ARWBDC), a program of Southern Financial Partners, opened an office in Helena in the fall of 2002. ARWBDC programs assist women entrepreneurs at all levels of business development, from start-up businesses to mature, growing companies. ARWBDC's main office is in Pine Bluff, where they also operate a Business Information Center.





R U L E V I L L E

lula

GETS NEW CITY HALL

When Southern Development Bancorporation began operations in Mississippi with the acquisition of the several banks to form Delta Southern Bank, we also acquired an extra bank building in Lula, Mississippi.

Not needing two bank buildings within a block of each other, we decided to give the building to the town of Lula. It was our way of showing our support and commitment to the community. After a little thought, city officials decided to relocate their cramped City Hall to the new building.

100th ANNIVERSARY

On November 19, 2002, Delta Southern Bank in Ruleville, Mississippi celebrated 100 years in the Delta, a significant milestone for one of the county's oldest businesses.

Delta Southern Bank has operated without interruption through two World Wars, the Great Depression, 18 U.S. Presidents and the dawn of a new millennium. Delta Southern's Board of Directors believe in the value of a strong partnership between bank and community. The bank attributes its success to the fact that decisions are made locally, close to the customer, and by people who have the best interest of the community at heart.

LOANS

FOR SMALL BUSINESS
DEVELOPMENT

Beth Gladden has participated in pageants for years and always had to travel hours to another town to find the right gown. She had the same problem with school dances. That inconvenience started her thinking about starting a business selling gowns and accessories.

Robert Taylor, Director of the Small Business Development Center at Delta State University referred Beth to Southern Financial Partners to help her finance her business idea. After completing a market research plan, she had the data and a business plan to support her idea that Cleveland, Mississippi and Bolivar County could support a women's formalwear store. She developed her business plan and took it to Southern Financial Partners, who loaned the start-up funds to purchase her inventory.

On September 7, 2002 Beth opened Exposé Formalwear and Accessories. Exposé features a wide selection of after-five, prom, pageant dresses and bridal gowns. She also carries handmade jewelry, shoes and purses.

For Beth, opening her own business is both a personal and professional accomplishment. For Bolivar County, it means jobs for the community and another step closer to revitalizing the Delta.

RADIUS



ARKADELPHIA

HOME

HOME EQUITY LEVERAGE PROGRAM
MAKES DREAM COME TRUE

Owni ng a home is the heart of the American dream. But the greatest hurdles to first-time homeownership are the ability to save enough money to cover a down payment and closing costs, and earning enough to pay a mortgage.

When Matthew and Nikki Howard learned about Elk Horn Bank's Home Equity Leverage Program, or HELP, they moved a little closer to their dream of homeownership. HELP is an individual development account program specifically designed to allow potential home buyers save for a down payment. Once the down payment goal is reached, the savings are matched 3 to 1 by funds from the Federal Home Loan Bank of Dallas.

A local self-help housing program, Southern Arkansas Community Development ("SACD"), teamed with Elk Horn Bank to put the Howards in their new home. SACD helps low-income families achieve homeownership by providing low-interest loans in return for "sweat equity."

The Howards used their HELP savings to buy down the principal on the loan, making their monthly payments affordable. They worked about 20 hours a week, side by side with five other families to build their new home.

Matthew is a full-time student graduating in May 2003 with a degree in elementary education. Nikki works full-time at a local day care. They are proud to call themselves homeowners of a new three-bedroom, two-bathroom house.

elk horn BRANCHING OUT

In December 2002, Elk Horn Bank acquired the Superior Bank branches in Arkadelphia and Malvern, Arkansas. This acquisition is another milestone in the growth and expansion of Elk Horn Bank, which first opened for business in downtown Arkadelphia in 1884 with a capital base of \$4,000.

The bank's new location in Malvern is the sixth in its history and provides us with an opportunity to establish new relationships in the Hot Spring county area while at the same time bringing a community banking office closer to our many loyal customers who have been with us for years.

R A D I U S



LEARNING TO SAVE

First thing every Monday morning, the students at Perritt Primary School in Arkadelphia line up – eager to make their weekly deposit. They bring their dollar bills and loose change to be counted and deposited in their own special savings account.

Elk Horn Bank has been a proud sponsor of the School Savings program with the Arkadelphia Public School District for the last four years. The “Save for America” program, designed and endorsed by the federal government, aims to teach young Americans the basic features of banking and the importance of saving over the years.

These real bank accounts earn interest, generate quarterly mailed-home statements and help kids develop a life-long habit of saving.

financials

CONSOLIDATED BALANCE SHEETS

	December 31,	
	<u>2002</u>	<u>2001</u>
Assets		
Cash and due from banks	\$ 15,324,766	\$ 15,887,307
Federal funds sold	5,810,000	19,315,000
Total cash and cash equivalents	<u>21,134,766</u>	<u>35,202,307</u>
Interest-bearing deposits in other banks	7,678,834	28,195,125
Investment securities	154,354,558	77,901,518
Loans:		
Commercial, financial and agricultural	73,156,011	70,350,191
Real estate	63,839,315	83,902,309
Installment	39,543,080	24,165,561
Total loans	<u>176,538,406</u>	<u>178,418,061</u>
Allowance for loan losses	(5,354,913)	(4,276,094)
Net loans	<u>171,183,493</u>	<u>174,141,967</u>
Premises and equipment, net	14,470,783	11,755,986
Rental real estate	2,561,029	2,640,279
Goodwill	9,958,411	6,430,651
Other assets	17,375,419	14,210,968
Total Assets	<u>\$398,717,293</u>	<u>\$350,478,801</u>
Liabilities		
Deposits:		
Non-interest bearing demand	\$ 45,105,760	\$ 41,728,850
Interest-bearing demand	95,354,858	91,989,829
Savings	26,799,582	18,562,096
Time deposits less than \$100,000	115,692,151	101,001,897
Time deposits greater than or equal to \$100,000	50,892,489	53,115,885
Total deposits	<u>333,844,840</u>	<u>306,398,557</u>
Federal funds purchased and securities sold under agreements to repurchase	2,695,000	200,000
Federal Home Loan Bank advances and other short-term borrowings	13,997,509	1,309,166
Notes payable	-	1,850,000
Other liabilities	3,659,892	3,001,709
Total Liabilities	<u>354,197,241</u>	<u>312,759,432</u>
Guaranteed preferred beneficial interest in the Company's subordinated debentures	17,000,000	12,000,000
Stockholders' Equity		
Common stock, \$1 par value; 500,000 shares authorized; shares issued and outstanding:		
Series A-1, 41,925 in 2002 and 41,925 in 2001	41,925	41,925
Series A-2, 42,990 in 2002 and 42,164 in 2001	42,990	42,164
Series A-3, 57,484 in 2002 and 67,398 in 2001	57,484	67,398
Series A-5, 9,091 in 2002	9,091	-
Capital surplus	20,879,401	20,879,404
Retained earnings	5,088,991	3,984,462
Accumulated other comprehensive income	1,400,170	704,016
Total Stockholders' Equity	<u>27,520,052</u>	<u>25,719,369</u>
Total Liabilities and Stockholders' Equity	<u>\$398,717,293</u>	<u>\$350,478,801</u>

C O N S O L I D A T E D S T A T E M E N T S O F I N C O M E

Years Ended December 31,

	2002	2001	2000
Interest Income			
Loans, including fees	\$14,246,791	\$15,449,122	\$14,262,187
Investment securities:			
Taxable	4,142,638	3,122,238	3,417,765
Tax exempt	570,444	321,486	272,089
Federal funds sold and other	515,534	884,491	476,606
Total interest income	19,475,407	19,777,337	18,428,647
Interest Expense			
Deposits	6,050,032	8,699,302	7,793,274
Other	292,361	912,129	1,184,686
Total interest expense	6,342,393	9,611,431	8,977,960
Net interest income	13,133,014	10,165,906	9,450,687
Provision for loan losses	2,258,976	3,561,686	1,426,596
Net interest income after provision for loan losses	10,874,038	6,604,220	8,024,091
Other Income			
Service charges on deposit accounts	3,100,211	2,492,695	1,727,747
Investment securities gains (losses)	552,726	3,126	(6,862)
Fees, commissions and other	2,481,847	3,621,687	1,322,629
	6,134,784	6,117,508	3,043,514
Other Expense			
Salaries and employee benefits	7,798,944	6,396,598	5,798,105
Net occupancy and equipment expense	1,975,691	1,725,493	1,465,376
Other	4,327,188	4,335,092	3,254,146
	14,101,823	12,457,183	10,517,627
Income before income taxes and trust distributions	2,906,999	264,545	549,978
Distributions on trust preferred securities	558,715	34,010	-
Income tax expense (benefit)	443,755	(102,767)	122,128
Net Income	\$ 1,904,529	\$ 333,302	\$ 427,850

SOUTHERN G O V E R N I N G B O A R D

SENIOR OFFICERS

William H. Brandon
Chairman and Chief Executive Officer

Phillip N. Baldwin
President and Chief Operating Officer

James E. Boyd
President and Chief Executive Officer
First National Bank of Phillips County

Angela Duran
Director
Good Faith Fund

Sandra Linn
Senior Vice President and
Chief Financial Officer

René Pace
Vice President
Opportunity Lands Corporation and
Southern Community Development
Corporation

George Purcell
President and Chief Executive Officer
Delta Southern Bank

Deborah Slayton
Vice President
Southern Financial Partners

William Wright
President and Chief Executive Officer
Elk Horn Bank & Trust Company

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

Herman Davenport
President and Chief Executive Officer
Davenport Group

John Edwards
Executive Director
White River Irrigation District

LaVerne Feaster
Retired Educator and Administrator

Dr. Robert Fisher
President, Belmont University

James Harrington
President
Harrington Construction

Dr. Glen Jones, Jr.
Assistant to the President for Diversity
Initiatives
Arkansas State University

Dr. Jacquelyn McCray
Dean
University of Arkansas at Pine Bluff

Brian Miller
Attorney

Walter Patterson
Senior Vice President
Affiliated Computer Services

Rodney Slater
Attorney

Walter Smiley
President
Smiley Investment Company

David Solomon
Attorney

Dorothy Stuck
Retired Civic Leader and
Businesswoman

Sherman Tate
Vice President
Alltel Corporation

In memory of our friend and colleague

BART R. LINDSEY

1945 -2003



Bart Lindsey, President and Chief Executive Officer of First National Bank of Phillips County passed away after a valiant battle against cancer. Bart will be remembered for his kind spirit and his unwavering dedication to his family, friends and hometown community of Helena, Arkansas. Southern has lost a great business leader and a good friend. He will be missed by all that knew him.

SOUTHERN

OUR SUPPORTERS

None of what we do would be possible without grant, lending and investment support. Southern Development Bancorporation gratefully acknowledges the individuals and institutions that have supported our community development efforts over the years.

Alltel Corporation	Norman Foundation
Annie E. Casey Foundation	Pearle Vision Foundation
Arkansas Community Foundation	Public/Private Ventures
Arkansas Department of Human Services	Public Welfare Foundation
Arkansas Development Finance Authority	Riceland Foods Foundation
Arkansas State Highway and Transportation Department	Robert Wood Johnson Foundation
Catholic Health Initiatives	SE Arkansas Economic Development District
Charles A. Frueauff Foundation	The Sisters of St. Joseph
Charles and Mary Grant Foundation	Smiley Investment Company
Charles Stewart Mott Foundation	Southwestern Bell Telephone
CHRISTUS Health Corporation for Economic Development	United States Department of Agriculture Intermediary Relending Programs and Rural Business Enterprise Grant
The David and Lucille Packard Foundation	United States Department of Health and Human Services, Office of Community Service, Assets for Independence Act Program
Entergy Charitable Foundation	United States Department of Health and Human Services, Office of Community Service JOLI Program
Enterprise Corporation of the Delta	United States Department of Housing and Urban Development
The F.B. Heron Foundation	United States Department of Labor
Federal Home Loan Bank of Dallas	United States Department of Agriculture and Rural Development
The Flora Family Foundation	United States Small Business Administration
The Ford Foundation	United States Treasury Department Community Development Financial Institution Fund
Foundation for the Mid-South	W.K. Kellogg Foundation
The Hitachi Foundation	Walton Family Foundation
The John D. and Catherine T. MacArthur Foundation	Weyerhaeuser
Jefferson County TEA Coalition	Winthrop Rockefeller Foundation
Levi Strauss Foundation	
Mary Reynolds Babcock Foundation	
Ms. Foundation for Women	
National Community Investment Fund	
National Rural Funders Collaborative	

STOCK HOLDERS

Southern Development Bancorporation is proud of our stockholders, a generous group of foundations, corporations and individuals who believe in our mission. They invested in an idea of bringing economic opportunity to those that needed it most, without the expectation of any monetary return.

Alltel Corporation
 Aman & Company
 Arkansas Best Corporation
 Arkansas Capital Corporation
 Arkansas Community Foundation
 Arkansas Electric Cooperatives
 Arthur White
 Calmeadow Foundation, Canada
 Charles Stewart Mott Foundation
 Dominican Sisters of Springfield, IL
 Fannie Mae
 Fred Darragh Estate
 Hampshire College
 Henry Morgan Estate
 International Paper Company
 James Harrington
 Jean T. Gordon
 John D. & Catherine T. MacArthur Foundation
 Levi Strauss Foundation
 Metropolitan Life Foundation
 National Community Investment Fund
 Reliant Energy
 Robert B. Lifton Trust
 Southern Financial Partners
 Stephens Group, Inc.
 Union Planters Bank
 United Church Board of Homeland Ministries
 United States Treasury Department CDFI Fund
 Walton Family Foundation
 Weyerhaeuser Company
 Winrock International
 Winthrop Rockefeller Foundation



Southern Development Bancorporation

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Phillips County**

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Good Faith Fund

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Opportunity Lands Corporation

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Southern Community Development Corporation

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