**CONTENTS**

**Focused Development**
  Letter to Stockholders

**Company Overview**

**Focused Development**
  75 Mile Radius

**Helena Radius**
  KIPP Delta College Preparatory School

**Ruleville Radius**
  Loans for Small Business Development

**Arkadelphia Radius**
  Home Equity Leverage Program

**Financials**

**Southern Board and Officers**

**Southern Supporters and Stockholders**
ith 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
COMPANY OVERVIEW

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.
he 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 work 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.
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.
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.

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.

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

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.
### CONSOLIDATED BALANCE SHEETS

December 31,

<table>
<thead>
<tr>
<th>Assets</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>$15,324,766</td>
<td>$15,887,307</td>
</tr>
<tr>
<td>Federal funds sold</td>
<td>5,810,000</td>
<td>19,315,000</td>
</tr>
<tr>
<td><strong>Total cash and cash equivalents</strong></td>
<td>21,134,766</td>
<td>35,202,307</td>
</tr>
<tr>
<td>Interest-bearing deposits in other banks</td>
<td>7,678,834</td>
<td>28,195,125</td>
</tr>
<tr>
<td>Investment securities</td>
<td>154,354,558</td>
<td>77,901,518</td>
</tr>
<tr>
<td>Loans:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial, financial and agricultural</td>
<td>73,156,011</td>
<td>70,350,191</td>
</tr>
<tr>
<td>Real estate</td>
<td>63,839,315</td>
<td>83,902,309</td>
</tr>
<tr>
<td>Installment</td>
<td>39,543,080</td>
<td>24,165,561</td>
</tr>
<tr>
<td><strong>Total loans</strong></td>
<td>176,538,406</td>
<td>178,418,061</td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>(5,354,913)</td>
<td>(4,276,094)</td>
</tr>
<tr>
<td><strong>Net loans</strong></td>
<td>171,183,493</td>
<td>174,141,967</td>
</tr>
<tr>
<td>Premises and equipment, net</td>
<td>14,470,783</td>
<td>11,755,986</td>
</tr>
<tr>
<td>Rental real estate</td>
<td>2,561,029</td>
<td>2,640,279</td>
</tr>
<tr>
<td>Goodwill</td>
<td>9,958,411</td>
<td>6,430,651</td>
</tr>
<tr>
<td>Other assets</td>
<td>17,375,419</td>
<td>14,210,968</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$398,717,293</td>
<td>$350,478,801</td>
</tr>
</tbody>
</table>

| 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** | 333,844,840 | 306,398,557 |
| 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** | 354,197,241 | 312,759,432 |

**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** | 27,520,052 | 25,719,369 |

**Total Liabilities and Stockholders' Equity** | $398,717,293 | $350,478,801 |
### CONSOLIDATED STATEMENTS OF INCOME

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

Southern Development Bancorporation gratefully acknowledges the individuals and institutions that have supported our community development efforts over the years.

- Alltel Corporation
- Annie E. Casey Foundation
- Arkansas Community Foundation
- Arkansas Department of Human Services
- Arkansas Development Finance Authority
- Arkansas State Highway and Transportation Department
- Catholic Health Initiatives
- Charles A. Frueauff Foundation
- Charles and Mary Grant Foundation
- Charles Stewart Mott Foundation
- CHRISTUS Health Corporation for Economic Development
- The David and Lucille Packard Foundation
- Entergy Charitable Foundation
- Enterprise Corporation of the Delta
- The F.B. Heron Foundation
- Federal Home Loan Bank of Dallas
- The Flora Family Foundation
- The Ford Foundation
- Foundation for the Mid-South
- The Hitachi Foundation
- The John D. and Catherine T. MacArthur Foundation
- Jefferson County TEA Coalition
- Levi Strauss Foundation
- Mary Reynolds Babcock Foundation
- Ms. Foundation for Women
- National Community Investment Fund
- National Rural Funders Collaborative
- Norman Foundation
- Pearle Vision Foundation
- Public/Private Ventures
- Public Welfare Foundation
- Riceland Foods Foundation
- Robert Wood Johnson Foundation
- SE Arkansas Economic Development District
- The Sisters of St. Joseph
- Smiley Investment Company
- Southwestern Bell Telephone
- United States Department of Agriculture Intermediary Relending Programs and Rural Business Enterprise Grant
- United States Department of Health and Human Services, Office of Community Service, Assets for Independence Act Program
- United States Department of Health and Human Services, Office of Community Service JOLI Program
- United States Department of Housing and Urban Development
- United States Department of Labor
- United States Department of Agriculture and Rural Development
- United States Small Business Administration
- United States Treasury Department Community Development Financial Institution Fund
- W.K. Kellogg Foundation
- Walton Family Foundation
- Weyerhaeuser
- W.inkthrop Rockefeller Foundation
- Winrock International
- Winthrop Rockefeller Foundation
- None of what we do would be possible without grant, lending and investment support.
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870.246.3945
southerndevelopmentbancorp.com

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goodfaithfund.org

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southerncdc.org

Southern Community Development Corporation
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Southern Development Mortgage Company
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870.246.0618

Southern Financial Partners
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