SOUTHEASTERN BANKING CORP
Form 10-Q
August 14, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2007

Commission File Number 2-83157

SOUTHEASTERN BANKING CORPORATION

(Exact name of registrant as specified in its charter)

Georgia	**58-1423423**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**

P. O. Box 455, 1010 Northway, Darien, Georgia 31305

(Address of principal executive offices) (Zip Code)

(912) 437-4141

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes x   No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨   Accelerated filer ¨   Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No x

As of July 31, 2007, 3,207,430 shares of the registrant s common stock, par value $1.25 per share, were outstanding.

Table of Contents

Table of Contents

Table of Contents

Item I Financial Statements

Southeastern Banking Corporation

Consolidated Balance Sheets

	(Unaudited) June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	**$ 22,356,654**	$ 23,410,228
Investment securities		
Available-for-sale, at market value	**71,223,849**	93,490,850
Held-to-maturity (market value of approximately $32,528,000 and $33,233,000 at June 30, 2007 and December 31, 2006)	**32,441,542**	32,795,375
Total investment securities	**103,665,391**	126,286,225
Loans, gross	**274,776,094**	247,877,870
Unearned income	**(120,578)**	(112,437)
Allowance for loan losses	**(4,376,601)**	(4,239,966)
Loans, net	**270,278,915**	243,525,467
Premises and equipment, net	**10,897,958**	9,842,875
Intangible assets	**477,383**	506,490
Other assets	**6,375,816**	6,730,771
Total Assets	**$ 414,052,117**	$ 410,302,056
Liabilities and Shareholders Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	**$ 82,942,581**	$ 80,979,450
Interest-bearing deposits	**264,675,120**	260,971,580
Total deposits	**347,617,701**	341,951,030
Federal funds purchased	**2,362,000**	4,684,000
U. S. Treasury demand note	**1,771,301**	1,905,141
Federal Home Loan Bank advances	**5,000,000**	5,000,000
Other liabilities	**3,049,627**	4,575,699
Total liabilities	**359,800,629**	358,115,870
Shareholders Equity		
Common stock ($1.25 par value; 10,000,000 shares authorized; 3,580,797 shares issued; 3,207,430 and 3,213,600 shares outstanding at June 30, 2007 and December 31, 2006)	**4,475,996**	4,475,996
Additional paid-in-capital	**1,391,723**	1,391,723
Retained earnings	**56,697,982**	54,272,250

Treasury stock, at cost (373,367 and 367,197 shares at June 30, 2007 and December 31, 2006)	**(7,536,310)**	(7,356,329)
Realized shareholders equity	**55,029,391**	52,783,640
Accumulated other comprehensive loss	**(777,903)**	(597,454)
Total shareholders equity	**54,251,488**	52,186,186
Total Liabilities and Shareholders Equity	**$ 414,052,117**	$ 410,302,056

See accompanying notes to consolidated financial statements.

3

Table of Contents

Southeastern Banking Corporation

Consolidated Statements of Income

(Unaudited)

Period Ended June 30,	*Quarter* 2007	*Quarter* 2006	*Six Months* 2007	*Six Months* 2006
Interest income				
Loans, including fees	**$ 6,108,027**	$ 5,267,390	**$ 11,980,401**	$ 10,098,474
Federal funds sold	**30,539**	36,906	**39,993**	123,904
Investment securities				
Taxable	**889,208**	923,871	**1,896,378**	1,877,714
Tax-exempt	**318,343**	324,695	**640,114**	658,536
Other assets	**17,246**	16,071	**33,957**	31,899
Total interest income	**7,363,363**	6,568,933	**14,590,843**	12,790,527
Interest expense				
Deposits	**2,307,641**	1,488,172	**4,481,708**	2,766,853
Federal funds purchased	**31,165**	17,075	**88,010**	18,222
U. S. Treasury demand note	**11,430**	8,745	**22,064**	13,868
Federal Home Loan Bank advances	**74,822**	74,822	**148,822**	148,822
Total interest expense	**2,425,058**	1,588,814	**4,740,604**	2,947,765
Net interest income	**4,938,305**	4,980,119	**9,850,239**	9,842,762
Provision for loan losses	**20,000**		**135,000**	59,500
Net interest income after provision for loan losses	**4,918,305**	4,980,119	**9,715,239**	9,783,262
Noninterest income				
Service charges on deposit accounts	**702,948**	606,024	**1,312,237**	1,188,974
Investment securities gains, net			**134,628**	
Other operating income	**341,869**	341,299	**669,684**	628,044
Total noninterest income	**1,044,817**	947,323	**2,116,549**	1,817,018
Noninterest expense				
Salaries and employee benefits	**2,110,434**	2,035,755	**4,202,249**	4,020,017
Occupancy and equipment, net	**681,216**	662,904	**1,336,659**	1,297,847
Other operating expense	**739,078**	660,153	**1,398,971**	1,329,410
Total noninterest expense	**3,530,728**	3,358,812	**6,937,879**	6,647,274
Income before income tax expense	**2,432,394**	2,568,630	**4,893,909**	4,953,006
Income tax expense	**779,045**	838,214	**1,569,793**	1,592,518
Net income	**$ 1,653,349**	$ 1,730,416	**$ 3,324,116**	$ 3,360,488
Basic earnings per common share	**$ 0.52**	$ 0.54	**$ 1.04**	$ 1.04

Weighted average common shares outstanding	**3,208,694**	3,230,555	**3,210,780**	3,232,766

See accompanying notes to consolidated financial statements.

Table of Contents

Southeastern Banking Corporation

Consolidated Statements of Shareholders Equity

(Unaudited)

	Common Stock	*Additional Paid-In Capital*	*Retained Earnings*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Total*
Balance, December 31, 2005	$ 4,475,996	$ 1,391,723	$ 50,977,998	$ (6,757,073)	$ (687,744)	$ 49,400,900
Comprehensive income:						
Net income			3,360,488			3,360,488
Change in unrealized losses on available-for-sale securities, net of tax effect of $460,707					(894,314)	(894,314)
Total comprehensive income						2,466,174
Cash dividends declared ($0.27 per share)			(870,563)			(870,563)
Purchase of treasury stock				(599,256)		(599,256)
Balance, June 30, 2006	$ 4,475,996	$ 1,391,723	$ 53,467,923	$ (7,356,329)	$ (1,582,058)	$ 50,397,255
Balance, December 31, 2006	$ 4,475,996	$ 1,391,723	$ 54,272,250	$ (7,356,329)	$ (597,454)	$ 52,186,186
Comprehensive income:						
Net income			**3,324,116**			**3,324,116**
Change in unrealized losses on available-for-sale securities, net of tax effect of $92,959					**(180,449)**	**(180,449)**
Total comprehensive income						**3,143,667**
Cash dividends declared ($0.28 per share)			**(898,384)**			**(898,384)**
Purchase of treasury stock				**(179,981)**		**(179,981)**
Balance, June 30, 2007	**$ 4,475,996**	**$ 1,391,723**	**$ 56,697,982**	**$ (7,536,310)**	**$ (777,903)**	**$ 54,251,488**

See accompanying notes to consolidated financial statements.

5

Table of Contents

Southeastern Banking Corporation

Consolidated Statements of Cash Flows

(Unaudited)

Six Months Ended June 30,	**2007**	**2006**
Operating activities		
Net income	**$ 3,324,116**	$ 3,360,488
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**135,000**	59,500
Depreciation	**333,230**	319,144
Amortization and accretion, net	**65,583**	101,410
Investment securities gains, net	**(134,628)**	
Net gains on sales of other real estate	**(30,067)**	(6,019)
Changes in assets and liabilities:		
Decrease (increase) in other assets	**247,977**	(149,904)
Increase (decrease) in other liabilities	**1,252**	(265,146)
Net cash provided by operating activities	**3,942,463**	3,419,473
Investing activities		
Principal collections and maturities of investment securities:		
Available-for-sale	**129,323,046**	44,808,171
Held-to-maturity	**700,000**	1,947,400
Proceeds from sales of available-for-sale investment securities	**3,126,500**	
Purchases of available-for-sale investment securities	**(110,293,466)**	(39,982,871)
Purchases of held-to-maturity investment securities	**(400,000)**	(720,000)
Net increase in loans	**(26,936,075)**	(14,367,255)
Proceeds from sales of other real estate	**267,130**	41,332
Capital expenditures, net	**(1,388,313)**	(664,974)
Net cash used in investing activities	**(5,601,178)**	(8,938,197)
Financing activities		
Net increase in deposits	**5,666,671**	8,890,931
Net decrease in federal funds purchased	**(2,322,000)**	
Net decrease in U. S. Treasury demand note	**(133,840)**	(866,718)
Purchase of treasury stock	**(179,981)**	(599,256)
Dividends paid	**(2,425,709)**	(2,474,777)
Net cash provided by financing activities	**605,141**	4,950,180
Net decrease in cash and cash equivalents	**(1,053,574)**	(568,544)
Cash and cash equivalents at beginning of period	**23,410,228**	36,590,266
Cash and cash equivalents at end of period	**$ 22,356,654**	$ 36,021,722
Supplemental disclosure		
Cash paid during the period		
Interest	**$ 4,506,464**	$ 2,858,308
Income taxes	**$ 1,105,000**	$ 1,700,000
Noncash investing and financing activities		

Real estate acquired through foreclosure	**$**	**71,252**	$	168,410
Loans made in connection with sales of foreclosed real estate		**23,625**		84,072

See accompanying notes to consolidated financial statements.

6

Table of Contents

Southeastern Banking Corporation

Notes to Consolidated Financial Statements

(Unaudited)

1. Accounting and Reporting Policy for Interim Periods

The accompanying unaudited consolidated financial statements of Southeastern Banking Corporation and subsidiary (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. These statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statement presentation. In the opinion of management, all adjustments necessary for a fair presentation have been made. These adjustments, consisting of normal, recurring accruals, include estimates for various fringe benefits and other transactions normally determined or settled at year-end. Operating results for the quarter and six months ended June 30, 2007 are not necessarily indicative of trends or results to be expected for the full year 2007. The Company operates within one business segment, community banking, providing a full range of services to individual, corporate, and government customers in southeast Georgia and northeast Florida. The condensed consolidated balance sheet as of December 31, 2006 has been extracted from the audited financial statements included in the Company s 2006 Annual Report to Shareholders. For further information, refer to the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2006. There have been no significant changes to the Company s Accounting Policies as disclosed in the 2006 Form 10-K.

2. Recent Accounting Standards

In June 2006, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, a clarification of Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. FIN 48 provides a single model to address accounting for uncertainty in tax positions by prescribing a recognition threshold that an individual tax position must meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted the provisions of FIN 48 effective January 1, 2007, and the adoption did not have a material impact on the Company s financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This statement requires that all separately recognized servicing rights be initially measured at fair value. Subsequently, an entity may either recognize its servicing rights at fair value or amortize its servicing rights over an estimated life and assess any impairment at least quarterly. SFAS No. 156 also amends how gains and losses are computed in transfers or securitizations that qualify for sale treatment in which the transferor retains the right to service the transferred financial asset. Additional disclosures for all separately recognized servicing rights are also required. SFAS No. 156 applies to loan participations sold by the Company to non-affiliated banks. In accordance with SFAS No. 156, the Company will initially measure servicing rights at fair value with any changes reported in earnings at least quarterly. The Company adopted the provisions of SFAS No. 156 effective January 1, 2007, and the adoption did not have a material impact on the Company s financial position or results of operations.

Table of Contents

Southeastern Banking Corporation

Notes to Consolidated Financial Statements

(Unaudited)

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement provides enhanced guidance for using fair value to measure assets and liabilities. The statement also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. The statement does not expand the use of fair value in any new circumstances. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of SFAS 157 on its financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to fair value certain financial assets and liabilities on an instrument-by-instrument basis with changes in fair value recognized in earnings as they occur. The election to fair value a financial asset or liability is generally irrevocable. Adoption of this statement is not expected to have a material impact on the Company s financial position or results of operations.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This Analysis should be read in conjunction with the 2006 Annual Report on Form 10-K and the consolidated financial statements & related notes on pages 3 8 of this quarterly filing. The Company s accounting policies, which are described in detail in Form 10-K, are integral to understanding the results reported. The Company s accounting policies require management s judgment in valuing assets, liabilities, commitments, and contingencies. A variety of factors could affect the ultimate value that is obtained when earning income, recognizing an expense, recovering an asset, or relieving a liability. This Analysis contains forward-looking statements with respect to business and financial matters. Actual results may vary significantly from those contained in these forward-looking statements. See the sections entitled Critical Accounting Policies and Forward-Looking Statements within this Analysis.

Description of Business

Southeastern Banking Corporation, with assets exceeding $414,052,000, is a financial services company with operations in southeast Georgia and northeast Florida. Southeastern Bank (SEB), the Company s wholly-owned commercial bank subsidiary, offers a full line of commercial and retail services to meet the financial needs of its customer base through its seventeen branch locations and ATM network. Services offered include traditional deposit and credit services, long-term mortgage originations, and credit cards. SEB also offers 24-hour delivery channels, including internet and telephone banking, and through an affiliation with Raymond James Financial Services, provides insurance agent and investment brokerage services.

Financial Condition

Consolidated assets totaled $414,052,117 at June 30, 2007, up $3,750,061 from year-end 2006. Asset growth was concentrated in the loan portfolio, particularly real estate construction and residential mortgage balances. Specifically, loans grew $26,753,448 or 10.99% while investment securities declined $22,620,834 or 17.91%. Loans comprised approximately 73%, and investment securities, 27%, of earning assets at June 30, 2007 versus 66% and 34% at December 31, 2006. Overall, earning assets approximated 91% of total assets at June 30, 2007. During the year-earlier period, total assets grew $7,151,207 or 1.84%. An increase in loans outstanding was the main factor. Refer to the Liquidity section of this Analysis for details on deposits and other funding sources.

Investment Securities

On a carrying value basis, investment securities declined $22,620,834 or 17.91% since December 31, 2006. The maturity of Agency discount notes purchased in December 2006 to collateralize public funds was the predominant factor in the decline. Overall, purchases of securities during the six-month period, primarily comprising short-term securities with original maturities of 90 days or less, approximated $110,693,000, and redemptions, $133,015,000. The Company recognized a gain of $134,628 on the sale of corporate securities approximating $2,992,000 during the first quarter; these securities were sold to fund growth in the loan portfolio and take advantage of favorable market conditions. The remaining redemptions were attributable to maturities and prepayments in the normal course of business. The effective repricing of redeemed securities impacts current and future earnings results; refer to the Interest Rate and Market Risk/Interest Rate Sensitivity and Operations sections of this Analysis for more details. In conjunction with asset/liability management, the Company continues to increase its proportionate holdings of mortgage-backed securities, corporates, and municipals when feasible to reduce its exposure to Agency securities with call features. At June 30, 2007, mortgage-backed securities, corporates, and municipals comprised 19%, 8%, and 31% of the portfolio. Overall, securities comprised 27% of earning assets at June 30, 2007, down from 34% at year-end 2006. The portfolio yield approximated 5.09% during the first two quarters of 2007.

Table of Contents

Management believes the credit quality of the investment portfolio remains sound, with 60.93% of the carrying value of debt securities being backed by the U.S. Treasury or other U.S. Government-sponsored agencies at June 30, 2007. The weighted average life of the portfolio approximated 3 years at June 30, 2007. The amortized cost and estimated fair value of investment securities are delineated in the table below:

Investment Securities by Category June 30, 2007 *(In thousands)*	*Amortized Cost*	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
Available-for-sale:				
U. S. Government agencies	**$ 43,579**	$ 6	$ 577	**$ 43,008**
Mortgage-backed securities	**20,743**	24	607	**20,160**
Corporates	**8,080**	62	86	**8,056**
	72,402	92	1,270	**71,224**
Held-to-maturity:				
States and political subdivisions	**32,442**	395	309	**32,528**
Total investment securities	**$ 104,844**	$ 487	$ 1,579	**$ 103,752**

As shown, the market value of the investment portfolio reflected $1,091,914 in net unrealized losses at June 30, 2007; refer to the Capital Adequacy section of this Analysis for more details on investment securities and related fair value. The Company does not have a concentration in the obligations of any issuer other than the U.S. Government and its agencies.

Loans

Loans, net of unearned income, grew 10.85% or $26,890,083 since year-end 2006. The net loans to deposits ratio aggregated 79.01% at June 30, 2007 versus 72.46% at December 31, 2006 and 70.47% a year ago. A $22,334,114 or 15.56% increase in real estate construction and residential mortgage loans was the primary factor in the 2007 results. The majority of the growth within the real estate portfolio was residential in nature and concentrated in the Company s coastal markets. Most of the loans in the real estate construction portfolio are preparatory to customers attainment of permanent financing or developer s sale and are, by nature, short-term and somewhat cyclical; swings in these account balances are normal and to be expected. Although the Company, like peer institutions of similar size, originates permanent mortgages for new construction, it traditionally does not hold or service long-term mortgage loans for its own portfolio. Rather, permanent mortgages are typically brokered through a mortgage underwriter or government agency. The Company receives mortgage origination fees for its participation in these origination transactions; refer to the disclosures provided under Results of Operations for more details. Consumer loans increased $380,766 at June 30, 2007 compared to year-end 2006; these loans comprised 6.35% of the total portfolio at June 30, 2007. Overall, the commercial portfolio grew $4,183,344 at June 30, 2007 compared to December 31, 2006. Commercial balances, which include agricultural and governmental loans, are projected to improve throughout 2007.

Despite economic uncertainties within the Company s markets, management is optimistic that loan volumes will continue to grow at a moderate pace. Managerial strategies to increase loan production include continuing competitive pricing on loan products, development of additional loan relationships, and purchase of loan participations from correspondent banks, all without compromising portfolio quality. During the same period in 2006, net loans increased $14,164,294. Loans outstanding are presented by type in the table on the next page.

Table of Contents

Loans by Category *(In thousands)*	June 30, 2007	December 31, 2006	June 30, 2006
Commercial, financial, and agricultural[1]	**$ 91,438**	$ 87,255	$ 87,036
Real estate construction	**116,707**	104,212	92,760
Real estate residential mortgage[2]	**49,179**	39,340	39,577
Consumer, including credit cards	**17,452**	17,071	18,718
Loans, gross	**274,776**	247,878	238,091
Unearned income	**121**	112	135
Loans, net	**$ 274,655**	$ 247,766	$ 237,956

[1] Includes obligations of states and political subdivisions.
[2] Typically have final maturities of 15 years or less.

Although the Company s loan portfolio is diversified, significant portions of its loans are collateralized by real estate. At June 30, 2007, approximately 83% of the loan portfolio was comprised of loans with real estate as the primary collateral. As required by policy, real estate loans are collateralized based on certain loan-to-appraised value ratios. A geographic concentration in loans arises given the Company s operations within a regional area of southeast Georgia and northeast Florida. On an aggregate basis, commitments to extend credit and standby letters of credit approximated $52,414,000 at June 30, 2007; because a substantial amount of these contracts expire without being drawn upon, total contractual amounts do not represent future credit exposure or liquidity requirements. The Company has not funded or incurred any losses on letters of credit in 2007 year-to-date.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, restructured loans, and foreclosed real estate and other assets. Overall, nonperforming assets aggregated $869,878 at June 30, 2007, down $397,394 or 31.36% from year-end 2006. As a percent of total assets, nonperforming assets totaled 0.21% at June 30, 2007 versus 0.31% at year-end 2006 and 0.34% at June 30, 2006. No material credits have been added to or removed from nonaccrual status during 2007 year-to-date. Industry or individual concentrations within nonaccrual balances at June 30, 2007 included:

a) Industry concentrations: Approximately 11% or $86,000 of nonaccrual balances at June 30, 2007 pertained to the shrimping industry. Collateral held varies but includes real estate and commercial fishing vessels. Management considers the allowance sufficient to absorb any additional losses that may result from these loans. Refer to the Allowance for Loan Losses section of this Analysis for details on specific charge-offs and recoveries recognized on these type agricultural loans.

b) Individual concentrations: At June 30, 2007, nonaccrual balances also included loans to two other borrowers averaging $76,000 each. Due to the underlying collateral coverage, no significant losses, if any, are expected on these balances.

Refer to the subsection entitled Policy Note for criteria used by management in classifying loans as nonaccrual. The allowance for loan losses approximated 5.68X the nonperforming loans balance at June 30, 2007 versus 4.40X at year-end 2006 and 3.97X a year ago. Significant activity within foreclosed real estate balances included the sale of a residential parcel valued at approximately $138,000. Management is unaware of any other material developments in nonperforming assets at June 30, 2007 that should be presented or otherwise discussed.

Table of Contents

Loans past due 90 days or more approximated $427,000, or less than 1% of net loans, at June 30, 2007. Management is unaware of any material concentrations within these past due balances. The table below provides further information about nonperforming assets and loans past due 90 plus days:

Nonperforming Assets *(In thousands)*	**June 30, 2007**	**December 31, 2006**	**June 30, 2006**
Nonaccrual loans:			
Commercial, financial, and agricultural	**$ 142**	$ 235	$ 224
Real estate construction[3]	**119**	121	135
Real estate mortgage[3]	**297**	318	420
Consumer, including credit cards	**212**	290	291
Total nonaccrual loans	**770**	964	1,070
Restructured loans[1]			
Total nonperforming loans	**770**	964	1,070
Foreclosed real estate[2]	**99**	288	236
Other repossessed assets	**1**	15	44
Total nonperforming assets	**$ 870**	$ 1,267	$ 1,350
Accruing loans past due 90 days or more	**$ 427**	$ 647	$ 466
Ratios:			
Nonperforming loans to net loans	**0.28%**	0.39%	0.45%
Nonperforming assets to net loans plus foreclosed/repossessed assets	**0.32%**	0.51%	0.57%

1 Does not include restructured loans that yield a market rate.

2 Includes only other real estate acquired through foreclosure or in settlement of debts previously contracted.

3 To comply with regulatory guidelines, certain loans that formerly would have been classified as real estate-mortgage are now being coded as real estate-construction. Comparable loans from prior periods have not been reclassified to reflect this change. The majority of real estate-construction loans are residential in nature.

Policy Note. Loans classified as nonaccrual have been placed in nonperforming, or impaired, status because the borrower s ability to make future principal and/or interest payments has become uncertain. The Company considers a loan to be nonaccrual with the occurrence of any one of the following events: a) interest or principal has been in default 90 days or more, unless the loan is well-collateralized and in the process of collection; b) collection of recorded interest or principal is not anticipated; or c) income on the loan is recognized on a cash basis due to deterioration in the financial condition of the borrower. Smaller balance consumer loans are generally not subject to the above-referenced guidelines and are normally placed on nonaccrual status or else charged-off when payments have been in default 90 days or more. Nonaccrual loans are reduced to the lower of the principal balance of the loan or the market value of the underlying real estate or other collateral net of selling costs. Any impairment in the principal balance is charged against the allowance for loan losses. Accrued interest on any loan placed on nonaccrual status is reversed. Interest income on nonaccrual loans, if subsequently recognized, is recorded on a cash basis. No interest is subsequently recognized on nonaccrual (or former nonaccrual) loans until all principal has been collected. Loans are classified as restructured when either interest or principal has been reduced or deferred because of deterioration in the borrower s financial position. Foreclosed real estate represents real property acquired by foreclosure or directly by title or deed transfer in settlement of debt. Provisions for subsequent devaluations of foreclosed real estate are charged to operations, while costs associated with improving the properties are generally capitalized.

Table of Contents

Allowance for Loan Losses

The Company continuously reviews its loan portfolio and maintains an allowance for loan losses available to absorb losses inherent in the portfolio. The six-month provision for loan losses at June 30, 2007 totaled $135,000, and net recoveries, $1,635. The comparable provision and charge-off amounts at June 30, 2006 were $59,500 and $118,623. Net recoveries represented less than 0.01% of average loans at June 30, 2007 compared to net charge offs of 0.10% at June 30, 2006 and 0.14% in 2005. A $48,000 recovery on an agricultural loan comprised approximately 34% of gross recoveries in 2007 year-to-date. The Company is committed to the early recognition of problem loans and to an appropriate and adequate level of allowance. The adequacy of the allowance is further discussed in the next subsection of this Analysis. Activity in the allowance is presented in the table below:

Allowance for Loan Losses Six Months Ended June 30, *(Dollars in thousands)*	**2007**	**2006**	**2005**
Allowance for loan losses at beginning of year	**$ 4,240**	$ 4,311	$ 4,134
Provision for loan losses	**135**	60	226
Charge-offs:			
Commercial, financial, and agricultural	**17**	72	107
Real estate construction	**15**	1	
Real estate mortgage		23	15
Consumer, including credit cards	**107**	115	136
Total charge-offs	**139**	211	258
Recoveries:			
Commercial, financial, and agricultural	**58**	10	14
Real estate construction			4
Real estate mortgage	**20**	9	3
Consumer, including credit cards	**63**	73	88
Total recoveries	**141**	92	109
Net (recoveries) charge-offs	**(2)**	119	149
Allowance for loan losses at end of period	**$ 4,377**	$ 4,252	$ 4,211
Net loans outstanding[1] at end of period	**$ 274,655**	$ 237,956	$ 219,162
Average net loans outstanding[1] at end of period	**$ 264,949**	$ 232,717	$ 218,507
Ratios:			
Allowance to net loans	**1.59%**	1.79%	1.92%
Net (recoveries) charge-offs to average loans[2]	**0.00%**	0.10%	0.14%
Provision to average loans[2]	**0.10%**	0.05%	0.21%
Recoveries to total charge-offs	**101.44%**	43.60%	42.25%

1 Net of unearned income.

2 Annualized.

The Company prepares a comprehensive analysis of the allowance for loan losses at least quarterly. SEB s Board of Directors is responsible for affirming the allowance methodology and assessing the general and specific allowance factors in relation to estimated and actual net charge-off trends. The allowance for loan losses consists of three elements: a) specific allowances for individual loans; b) general allowances for loan pools based on historical loan loss experience and current trends; and c) allowances based on economic conditions and other risk factors in the Company s markets. The specific allowance is based on a regular analysis of classified loans where the internal risk ratings are below a predetermined classification. The specific allowance established for these classified loans is based on a careful analysis of probable and potential sources of repayment, including cash flow, collateral value, and guarantor capacity. The general allowance is determined by the mix of loan products within the portfolio, an internal loan grading process, and associated allowance factors. These general allowance factors are updated at least annually and are based on a statistical loss analysis and current loan charge-off trends. The loss analysis examines loss experience for loan portfolio segments in relation to internal loan grades. Charge-off trends are analyzed for homogeneous loan categories (e.g., residential real estate, consumer loans, etc.). While formal loss and charge-off trend analyses are conducted annually, the Company continually monitors credit quality in all portfolio segments and revises the general allowance factors whenever necessary in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan category. The third element, comprised of economic conditions, concentrations, and other risk factors, is based on marketplace conditions and/or events that may affect loan repayment in the near-term. This element requires a high degree of managerial judgment to anticipate the impact that economic trends, legislative or governmental actions, or other unique market and/or portfolio issues will have on credit losses. Consideration of other risk factors typically includes such issues as recent loss experience in specific portfolio segments, trends in loan quality, changes in market focus, and concentrations of credit. These factors are based on the influence of current external variables on portfolio risk, so there will typically be some movement between this element and the specific allowance component during various stages of the economic cycle. Because of their subjective nature, these risk factors are carefully reviewed by management and revised as conditions indicate. Based on its analyses, management believes the allowance was adequate at June 30, 2007.

Other Commitments

Other than a) construction of a permanent branch building to replace the temporary facility at Scranton Road in Brunswick, Georgia, b) renovation of other SEB offices, and c) the purchase of new core banking software, the Company had no material plans or commitments for capital expenditures as of June 30, 2007. Estimated remaining costs associated with new construction and renovations in progress at June 30, 2007 were $1,825,000; remaining costs associated with the new operating system, which includes both teller and deposit platforms, approximate $275,000.

Liquidity

Liquidity is managed to ensure sufficient cash flow to satisfy demands for credit, deposit withdrawals, and other corporate needs. The Company s sources of funds include a large, stable deposit base and secured advances from the Federal Home Loan Bank. Additional liquidity is provided by payments and maturities, including both principal and interest, of the loan and investment securities portfolios. At June 30, 2007, loans[1] and investment securities with carrying values exceeding $163,740,000 and $16,728,000 were scheduled to mature in one year or less. The investment portfolio has also been structured to meet liquidity needs prior to asset maturity when necessary. The Company s liquidity position is further strengthened by its access, on both a short- and long-term basis, to other local and regional funding sources.

Funding sources primarily comprise customer-based core deposits but also include borrowed funds and cash flows from operations. Customer-based core deposits, the Company s largest and most cost-effective source of funding, comprised 88% of the funding base at June 30, 2007, virtually unchanged from 2006 levels. Borrowed funds, which variously encompass U.S. Treasury demand notes, federal funds purchased, and FHLB advances, totaled $9,133,301 at June 30, 2007 versus $11,589,141 at December 31, 2006. More specifically, the maximum amount of U.S. Treasury demand notes available to the Company at June 30, 2007 totaled $3,000,000, of which $1,771,301 was outstanding. Unused borrowings under unsecured federal funds lines of credit from other banks, each with varying terms and expiration dates, totaled $23,000,000. Additionally, under a credit facility with the FHLB, the Company can borrow up to 16% of SEB s total assets; at June 30, 2007, unused borrowings approximated $61,063,000. Refer to the subsection

Table of Contents

entitled FHLB Advances for details on the Company s outstanding balance with the FHLB. Cash flows from operations also constitute a significant source of liquidity. Net cash from operations derives primarily from net income adjusted for noncash items such as depreciation and amortization, accretion, and the provision for loan losses.

Management believes the Company has the funding capacity, from operating activities or otherwise, to meet its financial commitments in 2007. Refer to the Capital Adequacy section of this Analysis for details on treasury stock purchases and intercompany dividend policy and the Financial Condition section for details on unfunded loan commitments.

---

1 No cash flow assumptions other than final contractual maturities have been made for installment loans. Nonaccrual loans are excluded.

Deposits

Deposits grew $5,666,671 or 1.66% since year-end 2006. Noninterest-bearing deposits increased $1,963,131 or 2.42% and interest-bearing deposits, $3,703,540. Overall, interest-bearing deposits comprised 76.14%, and noninterest-bearing deposits, 23.86%, of total deposits at June 30, 2007. The distribution of interest-bearing balances at June 30, 2007 and certain comparable quarter-end dates is shown in the table below:

	June 30, 2007		**December 31, 2006**		**June 30, 2006**	
Deposits	***Balances***	***Percent of Total***	***Balances***	***Percent of Total***	***Balances***	***Percent of Total***
(Dollars in thousands)						
Interest-bearing demand deposits[1]	**$ 89,333**	**33.75%**	$ 97,305	37.28%	$ 90,770	36.49%
Savings	**70,998**	**26.82%**	69,800	26.75%	75,855	30.50%
Time certificates < $100,000	**60,985**	**23.04%**	54,419	20.85%	49,235	19.79%
Time certificates >= $100,000	**43,359**	**16.39%**	39,448	15.12%	32,884	13.22%
Total interest-bearing deposits	**$ 264,675**	**100.00%**	$ 260,972	100.00%	$ 248,744	100.00%

---

1 NOW and money market accounts.

Deposits of one local governmental body comprised approximately $25,064,067 and $37,045,000 of the overall deposit base at June 30, 2007 and December 31, 2006. The Company had no brokered deposits at June 30, 2007.

Approximately 80% of time certificates at June 30, 2007 were scheduled to mature within the next twelve months. The composition of average deposits and the fluctuations therein at June 30 for the last two years is shown in the Average Balances table included in the Operations section of this Analysis.

FHLB Advances

Advances outstanding with the FHLB totaled $5,000,000 at June 30, 2007, unchanged from year-end 2006. The outstanding advance, which matures March 17, 2010, accrues interest at an effective rate of 6.00%, payable quarterly. The advance is convertible into a three-month Libor-based floating rate anytime at the option of the FHLB. Year-to-date, interest expense on the advance approximated $149,000. Mortgage-backed securities were pledged to collateralize advances under this line of credit.

Interest Rate and Market Risk/Interest Rate Sensitivity

The normal course of business activity exposes the Company to interest rate risk. Fluctuations in interest rates may result in changes in the fair market value of the Company s financial instruments, cash flows, and net interest income. The asset/liability committee regularly reviews the Company s exposure to interest rate risk and formulates strategy based on acceptable levels of interest rate risk. The overall objective of this process is to optimize the Company s financial position, liquidity, and net interest income, while limiting volatility to net interest income from changes in interest rates. The Company uses gap analysis and simulation modeling to measure and manage interest rate sensitivity.

Table of Contents

An indicator of interest rate sensitivity is the difference between interest rate sensitive assets and interest rate sensitive liabilities; this difference is known as the interest rate sensitivity gap. In an asset sensitive, or positive, gap position, the amount of interest-earning assets maturing or repricing within a given period exceeds the amount of interest-bearing liabilities maturing or repricing within that same period. Conversely, in a liability sensitive, or negative, gap position, the amount of interest-bearing liabilities maturing or repricing within a given period exceeds the amount of interest-earning assets maturing or repricing within that time period. During a period of rising rates, a negative gap would tend to affect net interest income adversely, while a positive gap would theoretically result in increased net interest income. In a falling rate environment, a negative gap would tend to result in increased net interest income, while a positive gap would affect net interest income adversely. The gap analysis below provides a snapshot of the Company s interest rate sensitivity position at June 30, 2007:

Interest Rate Sensitivity	*Repricing Within*				
June 30, 2007	*0 - 3 Months*	*4 - 12 Months*	*One - Five Years*	*More Than Five Years*	*Total*
(Dollars in thousands)					
Interest Rate Sensitive Assets					
Securities[1]	**$ 5,209**	**$ 12,132**	**$ 56,605**	**$ 30,898**	**$ 104,844**
Loans, gross[2]	**173,147**	**24,076**	**72,436**	**4,347**	**274,006**
Other assets	**1,047**				**1,047**
Total interest rate sensitive assets	**179,403**	**36,208**	**129,041**	**35,245**	**379,897**
Interest Rate Sensitive Liabilities					
Deposits[3]	**$ 183,157**	**60,399**	**21,109**	**10**	**264,675**
Fed Funds purchased	**2,362**				**2,362**
U.S. Treasury demand note	**1,771**				**1,771**
Federal Home Loan Bank advances			**5,000**		**5,000**
Total interest rate sensitive liabilities	**187,290**	**60,399**	**26,109**	**10**	**273,808**
Interest rate sensitivity gap	**$ (7,887)**	**$ (24,191)**	**$ 102,932**	**$ 35,235**	**$ 106,089**
Cumulative gap	**$ (7,887)**	**$ (32,078)**	**$ 70,854**	**$ 106,089**	
Ratio of cumulative gap to total rate sensitive assets	**(2.08)%**	**(8.44)%**	**18.65%**	**27.93%**	
Ratio of cumulative rate sensitive assets to rate sensitive liabilities	**95.79%**	**87.05%**	**125.88%**	**138.75%**	
Cumulative gap at December 31, 2006	$ (35,279)	$ (57,988)	$ 71,836	$ 102,621	
Cumulative gap at June 30, 2006	$ (36,615)	$ (51,255)	$ 79,601	$ 107,662	

1 Distribution of maturities for available-for sale-securities is based on amortized cost. Additionally, distribution of maturities for mortgage-backed securities is based on expected average lives, which may be different from the contractual terms. Equity securities, if any, are excluded.

2 No cash flow assumptions other than final contractual maturities have been made for installment loans with fixed rates. Nonaccrual loans are excluded.

3 NOW, money market, and savings account balances are included in the 0-3 months repricing category.

Table of Contents

As shown in the preceding table, the Company s cumulative gap position remained negative through the short-term repricing intervals at June 30, 2007, approximately $(7,887,000) at three months and $(32,078,000) through one-year. Excluding traditionally nonvolatile NOW balances from the gap calculation, the cumulative gap at June 30, 2007 totaled $69,562,000 at three months and $45,371,000 at twelve months. The narrowing of the short-term gap position at June 30, 2007 versus year-end 2006 was primarily attributable to an increase in variable rate loans tied to prime. Other than seasonal variations, primarily in deposit balances, and extension of maturities in the investment portfolio, no significant changes are anticipated in the gap position during 2007. Shortcomings are inherent in any gap analysis since certain assets and liabilities may not move proportionally as rates change. For example, the gap analysis presumes that all loans[2] and securities[1] will perform according to their contractual maturities when, in many cases, actual loan terms are much shorter than the original terms and securities are subject to early redemption.

In addition to gap analysis, the Company uses simulation modeling to test the interest rate sensitivity of net interest income and the balance sheet. Contractual maturity and repricing characteristics of loans are incorporated into the model, as are prepayment assumptions, maturity data, and call options within the investment portfolio. Non-maturity deposit accounts are modeled based on past experience. Simulation results quantify interest rate risks under various interest rate scenarios. In estimating the impact of these rate movements on the Company s net interest income, the following general assumptions were made: a) Spreads on all loans, investment securities, and deposit products remain constant; b) Interest rate movements occur gradually over an extended period versus rapidly; and c) Loans and deposits are projected to grow at constant speeds. Limitations inherent with these assumptions include: a) Certain deposit accounts, in particular, interest-bearing demand deposits, infrequently reprice and historically, have had limited impact on net interest income from a rate perspective; b) In a down rate environment, competitive and other factors constrain timing of rate cuts on other deposit products whereas loans tied to prime and other variable indexes reprice instantaneously and securities with call or other prepayment features are likely to be redeemed prior to stated maturity and replaced at lower rates (lag effect); c) Changes in balance sheet mix, for example, unscheduled pay-offs of large commercial loans, are oftentimes difficult to forecast; and d) Rapid and aggressive rate movements by the Federal Reserve can materially impact estimated results. Management is optimistic that initiatives taken to increase loan production and diversify the securities portfolio have reduced the interest rate sensitivity of net interest income and the balance sheet, and such actions will continue.

The Company has not in the past, but may in the future, utilize interest rate swaps, financial options, financial futures contracts, or other rate protection instruments to reduce interest rate and market risks.

Impact of Inflation

The effects of inflation on the local economy and the Company s operating results have been relatively modest the last several years. Because substantially all the Company s assets and liabilities, including cash, securities, loans, and deposits, are monetary in nature, their values are less sensitive to the effects of inflation than to changing interest rates. As discussed in the preceding section, the Company attempts to control the impact of interest rate fluctuations by managing the relationship between its interest sensitive assets and liabilities.

Capital Adequacy

Federal banking regulators have established certain capital adequacy standards required to be maintained by banks and bank holding companies. These regulations define capital as either Tier 1 (primarily shareholders equity) or Tier 2 (certain debt instruments and a portion of the allowance for loan losses).

Table of Contents

The Company and SEB are subject to a minimum Tier 1 capital ratio (Tier 1 capital to risk-weighted assets) of 4%, total capital ratio (Tier 1 plus Tier 2 to risk-weighted assets) of 8%, and Tier 1 leverage ratio (Tier 1 to average quarterly assets) of 4%. To be considered a well-capitalized institution, the Tier 1 capital, total capital, and Tier 1 leverage ratios must equal or exceed 6%, 10%, and 5%, respectively. Banks and bank holding companies are prohibited from including unrealized gains and losses on debt securities in the calculation of risk-based capital but are permitted to include up to 45 percent of net unrealized pre-tax holding gains on equity securities in Tier 2 capital. The Company did not have any unrealized gains on equity securities includible in the risk-based capital calculations for any of the periods presented. The Company is committed to maintaining its well-capitalized status.

The Company s capital ratios for the most recent periods are presented in the table below:

Capital Ratios	**June 30, 2007**	**December 31, 2006**	**June 30, 2006**
(Dollars in thousands)			
Tier 1 capital:			
Realized shareholders equity	**$ 55,029**	$ 52,784	$ 51,979
Intangible assets and other adjustments	**(477)**	(507)	(536)
Total Tier 1 capital	**54,552**	52,277	51,443
Tier 2 capital:			
Portion of allowance for loan losses	**3,792**	3,568	3,440
Allowable long-term debt			
Total Tier 2 capital	**3,792**	3,568	3,440
Total risk-based capital	**$ 58,344**	$ 55,845	$ 54,883
Risk-weighted assets	**$ 302,816**	$ 284,789	$ 274,417
Risk-based ratios:			
Tier 1 capital	**18.01%**	18.36%	18.75%
Total risk-based capital	**19.27%**	19.61%	20.00%
Tier 1 leverage ratio	**13.13%**	13.05%	12.77%
Realized shareholders equity to assets	**13.25%**	12.88%	13.08%

Book value per share grew $0.73 or 4.44% during the first six months of 2007 to $17.16 at June 30, 2007. Dividends declared totaled $0.28, up 3.70% or $0.01 from 2006. For more specifics on the Company s dividend policy, refer to the subsection immediately following. Accumulated other comprehensive loss, which measures net fluctuations in the fair values of investment securities, increased $180,449 at June 30, 2007 compared to year-end 2006. Movement in interest rates remained a dominant factor in the fair value results. Further details on investment securities and associated fair values are contained in the Financial Condition section of this Analysis.

Under existing authorization, the Company can purchase up to $10,000,000 in treasury stock. From 2000 2006, the Company repurchased 367,197 shares on the open market and through private transactions at an average price of $20.03 per share. During the first two quarters of 2007, the Company purchased an additional 6,170 shares at an aggregate purchase price of $179,981 or $29.17 per share. The maximum consideration available for additional purchases, at prices to be determined in the future, is $2,463,690. Any acquisition of additional shares will be dictated by market conditions. There is no expiration date for the treasury authorization.

Refer to the Financial Condition and Liquidity sections of this Analysis for details on planned capital expenditures.

Dividend Policy

The Parent Company is a legal entity separate and distinct from its subsidiaries, and its revenues and liquidity position depend primarily on the payment of dividends from its subsidiaries. State banking regulations limit the amount of dividends SEB may pay without prior approval of the regulatory agencies. Year-to-date, SEB has paid 50% or $1,639,600 of the $3,279,200 in cash dividends available to the Company in 2007 without such prior approval. The Company uses regular dividends paid by SEB in order to pay quarterly dividends to its own shareholders. Management anticipates that the Company will continue to pay cash dividends on a recurring basis.

Results of Operations

Net income for the second quarter of 2007 totaled $1,653,349, down $77,067 or 4.45% from June 30, 2006 and 1.04% from March 31, 2007. On a per share basis, quarterly earnings totaled $0.52 at June 30, 2007 versus $0.54 at June 30, 2006 and $0.52 at March 31, 2007. Year-to-date, net income declined $36,372 to $3,324,116 at June 30, 2007 from $3,360,488 in 2006. Per share income for the six-month period approximated $1.04 at June 30, 2007 and June 30, 2006. The return on beginning equity for the six-month period totaled 12.60% at June 30, 2007 versus 13.42% at June 30, 2006. Variations in net interest income and noninterest income/expense are further discussed within the next two subsections of this Analysis; the provision for loan losses is separately discussed within the Financial Condition section.

Net Interest Income

Net interest income fell $41,814 or 0.84% during the second quarter of 2007 compared to 2006. Year-to-date, net interest income grew a marginal $7,477 from 2006. The net interest margin approximated 5.41% at June 30, 2007 versus 5.75% a year ago; the interest rate spread, 4.41% versus 5.05%. Higher funding costs on deposits and other liabilities absorbed virtually all improvements in net interest income from asset volumes and yields year-to-date. Specifically, interest earnings on loans, investment securities, and other earning assets improved $1,881,927, $242, and $2,058, while earnings on federal funds sold declined $83,911 from same period results in 2006. Asset yields averaged 7.93% at June 30, 2007 versus 7.41% in 2006. Interest expense on deposits and other borrowed funds increased $836,244 or 52.63% during the second quarter of 2007 versus 2006 and $1,792,839 year-to-date. Cost of funds increased 116 basis points from 2006 levels, totaling 3.52% at June 30, 2007 versus 2.36% at June 30, 2006. Approximately 72% of the increased funding costs resulted from higher rates on deposits at June 30, 2007 compared to 2006. Given the rate environment currently propelled by the Federal Reserve and pricing pressures from local markets, management expects costs of funds and corresponding interest expense to continue increasing as deposits and other funds reprice at higher levels. Anticipated loan growth in Brunswick and other markets - albeit moderate - is expected to alleviate projected declines in margins and spreads. See the interest differential table on page 21 for more details on changes in interest income attributable to volume and rates at June 30, 2007 versus 2006.

The intense competition for loans and deposits continues in 2007 and shows no sign of abating. The high number of new and existing financial institutions in the Company s market areas essentially guarantees downward pressure on net interest spreads and margins as all participants struggle to amass and grow market share. Volume of assets and deposits will become even more important as margins decline. Strategies implemented by management to increase average loans outstanding emphasize competitive pricing on loan products and development of additional loan relationships, all without compromising portfolio quality. Management s strategy for deposits is to closely manage anticipated market increases and maintain a competitive position with respect to pricing and products. Comparative details about average balances, income/expense, and average yields earned and rates paid on interest-earning assets and liabilities for the last two years are provided in the table on the next page.

Table of Contents

Selected Average Balances, Income/Expense, and Average Yields Earned and Rates Paid

Average Balances[6]	2007			2006		
Six Months Ended June 30, *(Dollars in thousands)*	*Average Balances*	*Income/ Expense*	*Yields/ Rates*	*Average Balances*	*Income/ Expense*	*Yields/ Rates*
Assets						
Interest-earning assets:						
Loans, net[1,2,4]	**$ 265,460**	**$ 12,019**	**9.13%**	$ 232,717	$ 10,120	8.77%
Federal funds sold	**1,523**	**40**	**5.30%**	5,474	124	4.57%
Taxable investment securities[3]	**82,811**	**1,896**	**4.62%**	87,599	1,878	4.32%
Tax-exempt investment securities[3,4]	**29,710**	**969**	**6.58%**	30,629	991	6.52%
Other assets	**1,112**	**34**	**6.17%**	1,107	32	5.83%
Total interest-earning assets	**$ 380,616**	**$ 14,958**	**7.93%**	$ 357,526	$ 13,145	7.41%
Liabilities						
Interest-bearing liabilities:						
Interest-bearing demand deposits[5]	**$ 92,072**	**$ 1,306**	**2.86%**	$ 88,644	$ 875	1.99%
Savings	**70,031**	**749**	**2.16%**	78,884	534	1.37%
Time deposits	**100,039**	**2,427**	**4.89%**	77,691	1,358	3.52%
Federal funds purchased	**3,366**	**88**	**5.27%**	684	18	5.31%
U. S. Treasury demand note	**836**	**22**	**5.31%**	626	14	4.51%
Federal Home Loan Bank advances	**5,000**	**149**	**6.00%**	5,000	149	6.00%
Total interest-bearing liabilities	**$ 271,344**	**$ 4,741**	**3.52%**	$ 251,529	$ 2,948	2.36%
Excess of interest-earning assets over interest-bearing liabilities	**$ 109,272**			$ 105,997		
Interest rate spread			**4.41%**			5.05%
Net interest income		**$ 10,217**			$ 10,197	
Net interest margin			**5.41%**			5.75%

1 Average loans are shown net of unearned income. Nonperforming loans are included. Income on nonaccrual loans, if recognized, is recorded on a cash basis.
2 Includes loan fees and late charges.
3 Securities are presented on an amortized cost basis. Investment securities with original maturities of three months or less are included, as applicable.
4 Interest income on tax-exempt loans and securities is presented on a taxable-equivalent basis, using a federal income tax rate of 34%. No adjustments have been made for any state tax benefits or the nondeductible portion of interest expense.
5 NOW and money market accounts.
6 Averages presented generally represent average daily balances.

Analysis of Changes in Net Interest Income

The average balance table above provides detailed information about average balances, income/expense, and average yields earned and rates paid on interest-earning assets and interest-bearing liabilities for the six months ended June 30, 2007 and 2006. The table on the next page summarizes the changes in interest income and interest expense attributable to volume and rates during this period.

Table of Contents

Interest Differential[1]	2007 Compared to 2006 Increase (Decrease) Due to		
Six Months Ended June 30, *(In thousands)*	Volume	Rate	Net
Interest income			
Loans[2,3]	$ 1,469	$ 430	$ 1,899
Federal funds sold	(101)	17	(84)
Taxable investment securities	(106)	124	18
Tax-exempt investment securities[3]	(30)	8	(22)
Other interest-earning assets		2	2
Total interest income	1,232	581	1,813
Interest expense			
Interest-bearing demand deposits[4]	35	396	431
Savings	(66)	281	215
Time deposits	455	614	1,069
Federal funds purchased[5]	70		70
U.S. Treasury demand note	5	3	8
Federal Home Loan Bank advances			
Total interest expense	499	1,294	1,793
Net change in net interest income	$ 733	$ 713	$ 20

1 Changes in net interest income are attributed to either changes in average balances (volume change) or changes in average rates (rate change) for earning assets and sources of funds on which interest is received or paid. Volume change is calculated as change in volume times the previous rate while rate change is change in rate times the previous volume. The rate/volume change, change in rate times change in volume, is allocated between volume change and rate change at the ratio each component bears to the absolute value of their total.

2 Includes loan fees. See the average balances table on the previous page for more details.

3 Interest income on tax-exempt loans and securities is presented on a taxable-equivalent basis, using a federal income tax rate of 34%. No adjustments have been made for any state tax benefits or the nondeductible portion of interest expense.

4 Now and money market accounts.

5 The entire change in net interest income attributable to the Company s initial borrowings under these credit facilities has been allocated to the change in volume. Similarly, when these facilities are unutilized in subsequent years, the change in net interest income is allocated to the change in volume.

Noninterest Income and Expense

Noninterest income increased $97,494 or 10.29% during the second quarter of 2007 compared to 2006 and $299,531 year-to-date. An increase in service charges on deposit accounts was a key factor in both the quarterly and year-to-date results. Specifically, service charges on deposit accounts increased $96,924 on a quarterly basis and $123,263 or 10.37% year-to-date; the 2007 improvement was primarily attributable to higher volume of NSF fees. A $134,628 gain on the sale of investment securities was also a major element in the 2007 results; more details on this gain are provided in the Financial Condition section of this Analysis. The other operating portion of noninterest income increased a $41,640 or 6.63% in 2007 year-to-date. By type and amount, the chief components of other operating income at June 30, 2007 were mortgage origination fees, $227,857; income on sale of check products, $75,086; surcharge fees - ATM, $73,358; commissions on the sale of credit life insurance, $43,409; and safe deposit box rentals, $37,196. Together, these five income items comprised 68.23% of other operating income at June 30, 2007. In 2006, these same five income components comprised 72.28% of other operating income. Overall, noninterest expense increased $290,605 or 4.37% in 2007 year-to-date. Personnel costs accounted for $182,232 or 63% of the increase. The vast majority, or 85%, of employee expenses remained concentrated in salaries and other direct compensation, including related payroll taxes, at June 30, 2007. Profit-sharing accruals and other fringe benefits constituted the remaining 5% and 10% of employee expenses. The division of employee expenses between compensation, profit sharing, and other fringe benefits remained consistent with historical norms in 2007. When compared to the prior year, net occupancy and equipment expense increased $38,812 or 2.99% during the first six months of 2007 compared to 2006. Costs associated with SEB s new branch facility at Southport in Brunswick, operational since January 2007, accounted for the bulk of the 2007 - 2006 fluctuation. Other operating expenses increased $69,561 or 5.23% at June 30, 2007 compared to 2006; increases in postage, supplies, and ATM expenses were primary variables. Besides advertising expense, which approximated $175,000 in 2007 and $168,000 in 2006, no individual component of other operating expenses aggregated or exceeded 10% of the total in 2007 or 2006. Overhead related to the Company s Southport facility, as noted above, and new core banking software, as discussed in earlier sections of this Analysis, are expected to increase noninterest expense approximately $500,000 in 2007 compared to 2006.

Table of Contents

Critical Accounting Policies

The Company s consolidated financial statements are prepared applying certain critical accounting policies. Critical accounting policies affect accounts such as the allowance for loan losses, income taxes, investment securities, and goodwill and other intangibles and require numerous estimates and strategic or economic assumptions that may prove inaccurate or subject to variations and may significantly affect the Company s reported results and financial position for the period or in future periods. Changes in underlying factors, assumptions, or estimates in any of these areas could have a material impact on the Company s future financial condition and results of operations. The Company s critical accounting policies are further discussed in the 2006 Form 10-K. There have been no material changes in the Company s critical accounting policies since December 31, 2006.

Recent Accounting Pronouncements

Recent accounting pronouncements affecting the Company are discussed in the notes to the consolidated financial statements.

Various other accounting proposals affecting the banking industry are pending with the Financial Accounting Standards Board. Given the inherent uncertainty of the proposal process, the Company cannot assess the impact of any such proposals on its financial condition or results of operations.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives have made, and may continue to make, various written or oral forward-looking statements with respect to business and financial matters, including statements contained in this report, filings with the Securities and Exchange Commission, and press releases. Generally, the words believe, expect, intend, estimate, anticipate, project, will, should, and similar identify forward-looking statements. All statements which address operating performance, events or developments that we expect or anticipate will occur in the future, including statements related to loan growth, deposit growth, per share growth, and statements expressing general sentiment about future operating results and non-historical information, are forward-looking statements within the meaning of the Act. The forward-looking statements are and will be based on management s then current views and assumptions regarding future events and operating performance. The Company undertakes no obligation to publicly update or revise any forward-looking statements in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. Certain factors that could cause actual results to differ materially from estimates contained in or underlying forward-looking statements include:

Competitive pressures between depository and other financial institutions may increase significantly.

Changes in the interest rate environment may reduce margins and impact funding sources.

Table of Contents

General economic or business conditions in the geographic regions and industry in which the Company operates may lead to a deterioration in credit quality or a reduced demand for credit.

Legislative or regulatory changes, including changes in accounting standards, monetary policies, and taxation requirements, may adversely affect the Company s business.

Other factors include:

Changes in consumer spending and saving habits as well as real estate markets.

Management of costs associated with expansion of existing and development of new distribution channels, and ability to realize increased revenues from these distribution channels.

The outcome of litigation which depends on judicial interpretations of law and findings of juries.

The effect of mergers, acquisitions, and/or dispositions and their integration into the Company.

Other risks and uncertainties as detailed from time to time in Company filings with the Securities and Exchange Commission.

The foregoing list of factors is not exclusive. Many of the factors that will determine actual financial performance and values are beyond the Company s ability to predict or control. This Analysis should be read in conjunction with the consolidated financial statements and related notes.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

The discussion on market risk is included in the Interest Rate and Market Risk/Interest Rate Sensitivity section of Part I, Item 2.

Item 4. Controls and Procedures.

The Company s management, with the participation of the Company s Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO or Treasurer), has evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15(d)-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the CEO and Treasurer have concluded that the Company s current disclosure controls and procedures, as designed and implemented, were effective.

Table of Contents

Part II Other Information

Item 1. Legal Proceedings.
Not Applicable

Item 1A. Risk Factors.
There were no material changes to the Company s risk factors during the first half of 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
Treasury purchases made during the quarter and six months ended June 30, 2007 are summarized in the table below:

Share Repurchases Six Months Ended June 30, 2007	Total Number of Shares Purchased	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet be Purchased under the Plans or Programs[1]
January 1 March 31	4,000	$ 29.50	4,000	$ 2,525,671
April 1 - 30				2,525,671
May 1 - 31	2,170	28.56	2,170	2,463,690
June 1 - 30				2,463,690
Total	6,170	$ 29.17	6,170	

[1] The Board of Directors approved the repurchase of up to $10,000,000 in Company common stock at its December 9, 2003 meeting. This action increased the previous repurchase resolution of $7,000,000, which was approved by the Company s Board on March 14, 2000 and had a remaining balance of $2,399,833. There is no expiration date for the treasury authorization.

Item 3. Defaults Upon Senior Securities.
Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders.
The Annual Meeting of Shareholders (the Meeting) was held on June 13, 2007. At the Meeting, the following individuals were elected directors:

Directors	For	Withheld
Alyson G. Beasley	2,361,659	
Leslie H. Blair	2,361,659	
David H. Bluestein	2,361,659	

Cornelius P. Holland, III	2,307,549	54,110
Alva J. Hopkins, III	2,361,659	
A. Wade Strickland	2,359,679	1,980

Table of Contents

The shareholders also approved the following proposals:

(a) Setting the number of directors at a 9 member maximum, with 3 to remain vacant until the elected Board deems it in the Company s best interest to fill one or more of such vacancies.

For	Against	Abstain	Broker Non-Votes
2,306,227	49,619	5,813	

(b) Proposal to approve the Southeastern Banking Corporation 2006 Stock Option Plan.

For	Against	Abstain & Broker Non-Votes
2,100,389	32,700	228,570

(c) The appointment of independent auditors by the Audit Committee for fiscal year 2007.

For	Against	Abstain	Broker Non-Votes
2,346,663		14,996	

Item 5. Other Information.
Not Applicable

Item 6. Exhibits.

(a) Index to Exhibits:

Exhibit 3	Articles of Incorporation and Bylaws, incorporated by reference from the Company s Annual Report on Form 10-K for the year ended December 31, 1990
Exhibit 31.1	Rule 13a-14(a) Certification of CEO
Exhibit 31.2	Rule 13a-14(a) Certification of Treasurer
Exhibit 32	Section 1350 Certification of CEO/Treasurer

Table of Contents

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOUTHEASTERN BANKING CORPORATION
(Registrant)

By: /s/ ALYSON G. BEASLEY
Alyson G. Beasley, Vice President & Treasurer
(Chief Accounting Officer)

Date: August 14, 2007