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 incorporation or organization)	**(IRS Employer 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.

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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.

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Southeastern Banking Corporation

Consolidated Statements of Income

(Unaudited)

Period Ended June 30,	*Quarter* 2007	2006	*Six Months* 2007	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.

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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.

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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.

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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.

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.

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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.

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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	*Amortized Cost*	*Unrealized Gains*	*Unrealized Losses*	*Fair Value*
(In thousands)				
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.

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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.

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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.

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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,	**2007**	**2006**	**2005**
(Dollars in thousands)			
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