SOUTHEASTERN BANKING CORP
Form 10-Q
May 20, 2009

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 March 31, 2009

Commission File Number 000-32627

(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 North Way, 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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceeding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company.)	Smaller reporting company	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 May 15, 2009, 3,158,331 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) March 31, 2009	December 31, 2008
Assets		
Cash and due from banks	**$ 18,942,308**	$ 16,387,348
Federal funds sold	**1,106,000**	
Cash and cash equivalents	**20,048,308**	16,387,348
Investment securities:		
Available-for-sale, at market value	**93,830,551**	85,253,669
Held-to-maturity; market value of approximately $30,300,000 at December 31, 2008		30,225,957
Total investment securities	**93,830,551**	115,479,626
Loans, gross	**282,458,039**	279,885,949
Unearned income	**(123,418)**	(129,254)
Allowance for loan losses	**(5,771,517)**	(4,929,177)
Loans, net	**276,563,104**	274,827,518
Premises and equipment, net	**12,201,649**	12,396,208
Bank-owned life insurance, at cash surrender value	**5,315,382**	5,254,600
Other real estate	**3,848,246**	3,630,338
Intangible assets	**118,734**	133,287
Other assets	**6,556,281**	6,877,624
Total Assets	**$ 418,482,255**	$ 434,986,549
Liabilities and Shareholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	**$ 58,407,943**	$ 55,628,317
Interest-bearing demand, savings, and time deposits	**289,540,184**	294,181,474
Total deposits	**347,948,127**	349,809,791
Federal funds purchased		6,258,000
U. S. Treasury demand note	**726,415**	1,982,486
Federal Home Loan Bank advances	**10,000,000**	17,000,000
Other liabilities	**2,702,862**	2,752,729
Total liabilities	**361,377,404**	377,803,006
Shareholders Equity		
Common stock, $1.25 par value	**4,475,996**	4,475,996
Additional paid-in-capital	**1,415,267**	1,406,788
Retained earnings	**61,093,883**	60,726,000

Treasury stock, at cost	**(8,576,118)**	(8,350,032)
Accumulated other comprehensive loss	**(1,304,177)**	(1,075,209)
Total shareholders equity	**57,104,851**	57,183,543
Total Liabilities and Shareholders Equity	**$ 418,482,255**	$ 434,986,549
Common shares issued	3,580,797	3,580,797
Common shares authorized	10,000,000	10,000,000
Common shares outstanding	3,158,331	3,176,331
Treasury shares	422,466	404,466

See accompanying Notes to Consolidated Financial Statements.

Southeastern Banking Corporation

Consolidated Statements of Income

(Unaudited)

Three Months Ended March 31,	2009	2008
Interest income:		
Interest and fees on loans	**$ 4,113,636**	$ 5,200,933
Interest on federal funds sold	**49**	64,743
Interest on investment securities:		
Taxable	**1,008,785**	1,040,199
Tax-exempt	**281,713**	302,183
Other interest income	**2,419**	15,082
Total interest income	**5,406,602**	6,623,140
Interest expense:		
Interest on deposits	**1,471,314**	2,246,895
Interest on federal funds purchased	**10,995**	22,186
Interest on U. S. Treasury demand note		4,055
Interest on Federal Home Loan Bank advances	**96,810**	74,822
Total interest expense	**1,579,119**	2,347,958
Net interest income	**3,827,483**	4,275,182
Provision for loan losses	**940,000**	111,000
Net interest income after provision for loan losses	**2,887,483**	4,164,182
Noninterest income:		
Service charges on deposit accounts	**664,448**	666,859
Net gains on sales of investment securities available-for-sale	**197,871**	
Other operating income	**343,385**	369,416
Total noninterest income	**1,205,704**	1,036,275
Noninterest expense:		
Salaries and employee benefits	**1,899,805**	2,072,211
Occupancy and equipment expense, net	**683,374**	709,777
Other operating expense	**715,869**	710,619
Total noninterest expense	**3,299,048**	3,492,607
Income before income tax expense	**794,139**	1,707,850
Income tax expense	**156,267**	498,822
Net income	**$ 637,872**	$ 1,209,028
Basic and diluted earnings per common share	**$ 0.20**	$ 0.38

Basic and diluted weighted average common shares outstanding	**3,174,731**	3,178,331

See accompanying Notes to Consolidated Financial Statements.

Southeastern Banking Corporation

Consolidated Statements of Shareholders Equity

(Unaudited)

	Common Stock *Shares*	*Stated Value*	*Additional Paid-In Capital*	*Retained Earnings*	*Treasury Stock*	*Accumulated Other Comprehensive Income (Loss)*	*Total*
Balance, December 31, 2007	3,178,331	$ 4,475,996	$ 1,391,723	$ 59,161,894	$ (8,307,905)	$ 15,602	$ 56,737,310
Comprehensive income:							
Net income				1,209,028			1,209,028
Unrealized holding gains (losses) on available-for-sale investment securities arising during the period, net of tax (benefit) of $129,104						250,613	250,613
Total comprehensive income							1,459,641
Cash dividends declared, $0.25 per share				(794,582)			(794,582)
Balance, March 31, 2008	3,178,331	$ 4,475,996	$ 1,391,723	$ 59,576,340	$ (8,307,905)	$ 266,215	$ 57,402,369
Balance, December 31, 2008	3,176,331	4,475,996	1,406,788	60,726,000	(8,350,032)	(1,075,209)	57,183,543
Comprehensive income:							
Net income				**637,872**			**637,872**
Unrealized holding gains (losses) on available-for-sale investment securities arising during the period, net of tax (benefit) of $(206,264)						**(400,395)**	**(400,395)**
Reclassification adjustment for (gains) losses on sales of available-for-sale investment securities included in net income, net of tax (benefit) of $67,275						**(130,596)**	**(130,596)**
Reclassification adjustment for gains (losses) on investment securities transferred from held-to-maturity to available-for-sale category, net of tax (benefit) of $155,587						**302,023**	**302,023**
Total comprehensive income							**408,904**
Cash dividends declared, $0.085 per share				**(269,989)**			**(269,989)**
Stock-based compensation			**8,479**				**8,479**
Purchase of treasury stock	**(18,000)**				**(226,086)**		**(226,086)**
Balance, March 31, 2009	**3,158,331**	**$ 4,475,996**	**$ 1,415,267**	**$ 61,093,883**	**$ (8,576,118)**	**$ (1,304,177)**	**$ 57,104,851**

See accompanying Notes to Consolidated Financial Statements.

Southeastern Banking Corporation

Consolidated Statements of Cash Flows

(Unaudited)

Three Months Ended March 31,	**2009**	**2008**
Cash flows from operating activities:		
Net income	**$ 637,872**	$ 1,209,028
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**219,384**	205,227
Amortization and accretion, net	**66,766**	(85,985)
Provision for loan losses	**940,000**	111,000
Net gains on sales of investment securities	**(197,871)**	
Increase in cash surrender value of bank-owned life insurance	**(60,782)**	(58,464)
Net gain on sales of other real estate	**(13,255)**	
Stock-based compensation	**8,479**	
Decrease in interest receivable	**310,135**	688,431
Increase (decrease) in interest payable	**(168,723)**	181,476
Net change in income tax receivable or payable	**69,158**	495,357
Changes in assets and liabilities:		
(Increase) decrease in other assets	**274,611**	(218,481)
Increase (decrease) in other liabilities	**49,697**	(911,562)
Net cash provided by operating activities	**2,135,471**	1,616,027
Cash flows from investing activities:		
Purchase of available-for-sale investment securities		(199,871,535)
Purchase of held-to-maturity investment securities		(643,726)
Proceeds from sales of available-for-sale investment securities	**13,417,091**	
Proceeds from maturities, calls, and payments of investment securities:		
Available-for-sale	**7,236,272**	193,096,096
Held-to-maturity	**799,700**	1,385,400
Net increase in loans	**(2,912,660)**	7,860,818
Purchase of Federal Home Loan Bank stock		46,400
Redemption of Federal Home Loan Bank stock	**(150,700)**	
Capital expenditures, net	**(24,825)**	(57,611)
Proceeds from sales of other real estate	**32,421**	
Net cash used in investing activities	**18,397,299**	1,815,842
Cash flows from financing activities:		
Net increase (decrease) in deposits	**(1,861,664)**	12,062,088
Net decrease in federal funds purchased	**(6,258,000)**	(7,292,000)
Net decrease in U. S. Treasury demand note	**(1,256,071)**	(46,236)
Advances from Federal Home Loan Bank	**7,000,000**	
Repayment of advances from Federal Home Loan Bank	**(14,000,000)**	
Purchase of treasury stock	**(226,086)**	
Dividends paid	**(269,989)**	(794,582)
Net cash provided by (used in) financing activities	**(16,871,810)**	3,929,270
Net increase in cash and cash equivalents	**3,660,960**	7,361,139
Cash and cash equivalents at beginning of period	**16,387,348**	26,558,995

Cash and cash equivalents at end of period	**$ 20,048,308**	$ 33,920,134

Southeastern Banking Corporation

Consolidated Statements of Cash Flows

(Unaudited)

Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$ 1,747,842**	$ 2,116,482
Income taxes, net of refunds	**100,000**	
Noncash investing and financing transactions:		
Increase in unrealized gains (losses) on investment securities available-for-sale	**(346,920)**	379,717
Transfer of investment securities from held-to-maturity to available-for-sale category	**28,811,418**	
Real estate acquired through foreclosure	**237,075**	

See accompanying Notes to Consolidated Financial Statements.

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 three months ended March 31, 2009 are not necessarily indicative of trends or results to be expected for the full year 2009. The Company operates within one business segment, community banking, offering a broad range of services to consumer and commercial customers in southeast Georgia and northeast Florida. The condensed consolidated balance sheet as of December 31, 2008 has been extracted from the audited financial statements included in the Company s 2008 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, 2008. Except as discussed in Note 2, there have been no significant changes to the Company s Accounting Policies as disclosed in the 2008 Form 10-K. Certain reclassifications, with no effect on total assets or net income, have been made to prior period amounts to conform to the current period presentation.

Earnings Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted earnings per share are based on the weighted average number of common shares outstanding and common share equivalents calculated for stock options. Because they would have been antidilutive, 42,000 equivalent shares related to stock options were excluded from the computation of diluted earnings per share at March 31, 2009. The Company did not have any common share equivalents at March 31, 2008.

2. INVESTMENT SECURITIES

On February 2, 2009, the Company transferred all investment securities classified as held-to-maturity to the available-for-sale category. The amortized cost of the transferred securities totaled $28,811,418, and the market value, $29,269,028. The Company recorded a $302,023 reclassification adjustment to accumulated other comprehensive income, net of tax, as a result of the transfer.

3. RECENT ACCOUNTING STANDARDS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141R, Business Combinations, which revises SFAS No. 141 and changes multiple aspects of the accounting for business combinations. Under the guidance in SFAS No. 141R, the acquisition method must be used, which requires the acquirer to recognize most identifiable assets acquired, liabilities assumed, and noncontrolling interests in

Southeastern Banking Corporation

Notes to Consolidated Financial Statements

(Unaudited)

the acquiree at their full fair value on the acquisition date. Goodwill is to be recognized as the excess of the consideration transferred plus the fair value of the noncontrolling interest over the fair values of the identifiable net assets acquired. Subsequent changes in the fair value of contingent consideration classified as a liability are to be recognized in earnings, while contingent consideration classified as equity is not to be remeasured. Costs such as transaction costs are to be excluded from acquisition accounting, generally leading to recognizing expense and additionally, restructuring costs that do not meet certain criteria at acquisition date are to be subsequently recognized as post-acquisition costs. The Company adopted SFAS No 141R effective January 1, 2009, and the adoption did not impact the Company s financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. This statement requires enhanced disclosures about the use of derivative instruments, the accounting for derivative instruments under SFAS No. 133 and related interpretations, and the impact of derivative instruments and related hedged items on financial position, financial performance, and cash flows, particularly from a risk perspective. SFAS No. 161 is effective for annual and interim periods beginning after November 15, 2008. Adoption of this statement did not impact the Company s financial position or results of operations.

4. FAIR VALUE MEASUREMENTS

As further discussed in the 2008 Form 10-K, the Company adopted SFAS No. 157, Fair Value Measurements, effective January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. 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 No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the applicable asset or liability. As a basis for considering assumptions in fair value measurements, the statement establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 and 2 of the hierarchy) and the reporting entity s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs other than quoted prices that are observable for the asset or liability such as interest rates and yield curves that are observable at commonly quoted intervals, volatilities, prepayment speeds, credit risks, and default rates. Level 3 inputs are unobservable inputs for assets or liabilities, which are typically based on an entity s own assumptions, as there is little, if any, related market activity. The determination of the fair value hierarchy within which the measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement requires judgment, considering factors specific to the asset or liability.

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Notes to Consolidated Financial Statements

(Unaudited)

Assets Measured at Fair Value on a Recurring Basis

Fair value is the primary basis of accounting for available-for-sale investment securities. When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, such as U.S. Treasury notes, or exchange-traded equity securities. If quoted market prices are not available, then fair values are estimated using matrix models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include U.S. Government-sponsored agency securities, mortgage-backed agency securities, state and municipal securities, and certain corporate bonds. The Company used unobservable or Level 3 inputs to fair value certain trust-preferred securities at March 31, 2009. The use of unobservable inputs resulted from the lack of market liquidity, which has resulted in diminished observability of both actual trades and assumptions that would otherwise be available to value these instruments.

The table below presents the Company s securities measured at fair value on a recurring basis at March 31, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall:

March 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Available-for-sale investment securities	$	$ 91,053,301	$ 2,777,250	$ 93,830,551
Total fair value of assets on a recurring basis	$	$ 91,053,301	$ 2,777,250	$ 93,830,551

As the market valuation of the Level 3 securities did not change in 2009 to-date, a separate table showing beginning balance, unrealized gains and losses included in comprehensive income, and other activity is not provided. At March 31, 2009, the unrealized loss on these particular securities totaled $719,358.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain instruments are measured at fair value on a nonrecurring basis. Such instruments include impaired loans and other real estate. Loan impairment is reported when full payment under the original loan terms is not expected. Impaired loans are carried at the present value of estimated future cash flows using the loan s existing rate or the fair value of collateral if the loan is collateral-dependent. When management believes the uncollectibility of all or any portion of a loan is confirmed, a loss is charged against the allowance. Any necessary increase to the allowance resulting from impaired loans is recorded as a component of the provision for loan losses. During the first three months of 2009, certain impaired loans were partially charged-off or re-evaluated for

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(Unaudited)

impairment resulting in a remaining balance, net of specific allowances, of $20,791,287 at March 31, 2009. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan impairment as a level 2 instrument. When an appraised value is not available or management determines the fair value of the collateral is impaired beyond appraised value and no observable market price exists, the Company records the loan impairment in level 3.

Other real estate is adjusted to the lower of cost or fair value upon transfer of the underlying loan to foreclosed balances. Fair value is based upon independent market prices, appraised values, or management s estimate of collateral value. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company classifies other real estate as level 2; otherwise, other real estate is classified as level 3. Any write-down to fair value at foreclosure is charged to the allowance for loan losses while subsequent devaluations are included in noninterest expense.

Intangible and other long-lived assets, including fixed assets, are also measured at fair value on a nonrecurring basis. The Company s other intangible assets, solely comprising core deposit intangibles and classified in level 3, were not deemed impaired at March 31, 2009. Level 3 assets also include Federal Home Loan Bank (FHLB) stock, which is only redeemable with the issuer at par and cannot be traded in the market; as such, no observable market data for this holding is available. The table below presents the Company s assets for which a nonrecurring change in fair value has been recorded or reviewed during the three months ended March 31, 2009, aggregated by the level in the fair value hierarchy within which those measurements fall:

March 31, 2009	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets:				
Impaired loans	**$**	**$**	**$ 20,791,287**	**$ 20,791,287**
Other real estate		**2,967,173**	**881,073**	**3,848,246**
Intangible assets			**118,734**	**118,734**
Other financial assets			**1,397,400**	**1,397,400**
Total fair value of assets on a nonrecurring basis	**$**	**$ 2,967,173**	**$ 23,188,494**	**$ 26,155,667**

No nonrecurring change in fair value was recognized on any liabilities in 2009 year-to-date.

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

This Analysis should be read in conjunction with the 2008 Annual Report on Form 10-K and the consolidated financial statements & related notes on pages 3 11 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 $418,482,000, is a financial services company with operations in southeast Georgia and northeast Florida. Southeastern Bank (SEB), the Company s wholly-owned commercial bank subsidiary established in 1889, 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 $418,482,255 at March 31, 2009, down $16,504,294 or 3.79% from year-end 2008. An 18.75% decline in investment securities was the primary factor in the three-month results. Specifically, investment securities declined $21,649,075; cash & due from banks, which includes correspondent balances, cash letters in transit, and federal funds sold, grew $3,660,960, while net loans increased $1,735,586. A $16,375,735 reduction in deposits and other funding liabilities, particularly FHLB advances and federal funds purchased, precipitated the asset drop. Loans comprised approximately 74%, investment securities, 25%, and bank-owned life insurance, 1%, of earning assets at March 31, 2009 versus 70%, 29%, and 1%, at December 31, 2008. Overall, earning assets approximated 91% of total assets at March 31, 2009. During the year-earlier period, total assets increased $4,826,522 or 1.11%. The 2008 asset growth was concentrated in federal funds sold and investment securities. Refer to the Liquidity section of this Analysis for details on deposits and other funding sources.

Investment Securities

As further discussed in the Notes to the Consolidated Financial Statements, the Company transferred all investment securities classified as held-to-maturity to the available-for-sale category on February 2, 2009. The amortized cost of the transferred securities totaled $28,811,418, and the market value, $29,269,028. The Company recorded a $302,023 reclassification adjustment to accumulated other comprehensive income, net of tax, as a result of the transfer. The transfer provides management more flexibility in managing the portfolio.

Overall, investment securities declined $21,649,075 or 18.75% since December 31, 2008. No securities were purchased during the three-month period as management sought to reduce holdings of corporate securities and improve the Company s overall liquidity position. Proceeds from sales of securities totaled $13,417,091 during the three-month period. Approximately $9,225,240 or 69% of the year-to-date sales occurred in the corporate sector, 18% in the agency sector, and 13% in the municipal sector. Gross realized gains on these sales were $282,572, and gross realized losses, $84,701. The $84,701 gross realized loss was recognized on a single corporate holding. The remaining redemptions were largely attributable to various issuers exercise of call options and other prepayments in the normal course of business and also to the relatively low-rate interest environment. 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. At March 31, 2009, mortgage-backed securities, corporates, and municipals comprised 26%, 13%, and 29% of the portfolio. Overall, securities comprised 25% of earning assets at March 31, 2009, down 400 basis points from year-end 2008. The portfolio yield approximated 5.36% during the first three months of 2009 versus 5.23% in 2008. Yields are expected to decline during the second quarter due largely to the corporate sales discussed above; these corporate securities had higher yields than many of the other holdings in the portfolio.

Management believes the credit quality of the investment portfolio remains fundamentally sound, with 58.16% of the carrying value of debt securities being backed by the U.S. Treasury or other U.S. Government-sponsored agencies at March 31, 2009. The Company does not own any collateralized debt obligations, widely known as CDOs, secured by subprime residential mortgage-backed securities. Additionally, the Company does not own any private label mortgage-backed securities. The Company held $23,856,854 mortgage-backed securities issued by Fannie Mae (FNMA) and Freddie Mac (FHLMC) at March 31, 2009. Mortgage-backed securities issued by FNMA and FHLMC are collateralized foremost by the underlying mortgages and secondly, by FNMA and FHLMC themselves. In September 2008, the U.S. Government placed FNMA and FHLMC under regulatory conservatorship, easing credit concerns about these two entities. Fortunately, the Company did not own any FNMA or FHLMC common or preferred stock. Besides FNMA and FHLMC, the Company also owned Ginnie Mae mortgage securities with a carrying value of $538,781 at March 31, 2009. U.S. Government-sponsored Agency holdings at March 31, 2009 included FHLB, U.S. Small Business Administration, and Federal Farm Credit Bank obligations. Recently, credit concern surrounding the FHLB system has been widespread. The FHLB obligations owned by the Company carry the highest rating available from Moody s and Standard and Poor s. Nonetheless, the Company reviewed its holdings of FHLB debt securities and stock and concluded that its bond and stock holdings are recoverable at par. The Company s ownership of FHLB stock, which totaled $1,397,400 at March 31, 2009, is included in other assets and recorded at cost.

As noted earlier, the Company sold corporate securities totaling $9,225,240 during the first three months of 2009, reducing these holdings 42%. At March 31, 2009 and also, year-end 2008, the entire corporate bond portfolio comprised issues of banks and bank holding companies domiciled in the southeastern United States. These corporate bonds were all rated BBB or higher by at least one nationally recognized rating agency at March 31, 2009 except for three non-rated trust preferred securities with an aggregate carrying value of $2,777,250 and unrealized loss of $719,358. The $3,528,704 net unrealized loss on the total corporate portfolio, up $613,674 from year-end 2008 and including the trust preferred holdings, is largely reflective of the illiquidity and risk premiums reflected in the market for bank-issued securities due to pervasive capital, asset quality, and other issues currently affecting the banking industry. As further discussed on the next page, management is optimistic these values will improve. Except for twelve non-rated Georgia municipals and one non-rated Florida municipal, all securities in the municipal portfolio were rated, investment grade securities. In analyzing non-rated municipals, management considers debt service coverage and whether the bonds support essential services such as water/sewer systems and education.

The Company reviews securities for impairment on a quarterly basis, and more frequently when conditions warrant. Factors considered in determining whether an impairment is other-than-temporary include (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term prospects of the underlying collateral or issuer, and (3) the Company s intent and ability to hold the investment for a period of time sufficient to allow for any fair value recovery. Management did not recognize any securities as other-than-temporarily impaired during the first three months of 2009.

The weighted average life of the portfolio approximated 4 years at March 31, 2009; management does not expect any extension in duration during 2009. The amortized cost and estimated fair value of investment securities, all available-for-sale, are delineated in the table below:

Investment Securities by Category March 31, 2009	***Amortized Cost***	***Unrealized Gains***	***Unrealized Losses***	***Fair Value***
(In thousands)				
U.S. Government agencies[1]	**$ 29,437**	$ 737	$	**$ 30,174**
Mortgage-backed securities	**23,801**	596	1	**24,396**
States and political subdivisions	**27,166**	469	249	**27,386**
Corporates	**15,403**		3,528	**11,875**
Total investment securities	**$ 95,807**	$ 1,802	$ 3,778	**$ 93,831**

[1] Includes Agency discount notes with original maturities of three months or less, as applicable.

At March 31, 2009, the market value of the investment portfolio reflected $1,976,026 in net unrealized losses, mostly in the corporate portfolio. Management is optimistic these market values will eventually recover as issues facing banks and their affiliates are fully addressed. Initiatives recently enacted by the Treasury Department, including various capital and other programs, are positive developments for these corporate holdings; nonetheless, ratings downgrades and additional losses have occurred and may continue. For more details on investment securities and related fair value, refer to the Capital Adequacy section of this Analysis.

The Company did not have a concentration in the obligations of any issuer at March 31, 2009 other than U.S. Government-sponsored agencies and certain corporate holdings. At March 31, 2009, the Company held $9,129,324 in corporate securities issued by three separate regional bank holding companies; these holdings comprised 9.73% of the total securities portfolio and 76.88% of the corporate portfolio.

Loans

Loans, net of unearned income, grew 0.92% or $2,577,926 since year-end 2008. The net loans to deposit ratio aggregated 81.14% at March 31, 2009 versus 79.97% at December 31, 2008, and 69.93% a year ago. Balances in the commercial portfolio posted the largest growth, increasing $2,168,667 or 2.25% year-to-date. Nonfarm real estate within the commercial portfolio grew $4,181,136, while agricultural, governmental, and other commercial/industrial loans fell $728,281, $934,186, and $350,002. The real estate residential mortgage portfolio also grew, increasing 2.25% or $1,063,104 at March 31, 2009 compared to December 31, 2008. Real estate construction balances, predominantly residential in nature and concentrated in the Company s coastal markets, grew a modest $306,235 or 0.25% due to funding of existing commitments. Most of the loans in the real estate construction portfolio are preparatory to customers attainment of permanent financing or developer s sale and typically, are short-term and somewhat cyclical; swings in these account balances are normal and to be expected. Due to the current slowdown in real estate activity, duration of these particular loans has increased in the last year and is expected to increase further throughout 2009. Not surprisingly and as further discussed in the next subsection of this Analysis, the recent escalation in nonperforming assets is largely attributable to these land holding and development loans. Other than existing commitments, the Company is originating new land holding and development loans only to customers with extraordinary equity injections, outside financial strength, or other performance metrics with low dependence on the underlying collateral. Although the Company, like peer institutions of similar size, originates permanent mortgages for new construction, it historically has not held or serviced 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. The Company has been revamping its mortgage origination department and has begun originating, holding, and servicing such mortgage loans in-house on a limited scale; at March 31, 2009, the three loans originated under this program had an aggregate carrying value of $1,153,774. Originations under this program are expected to increase moderately during 2009 and beyond. Consumer loans declined $965,916 at March 31, 2009 compared to year-end 2008; these loans comprised 4.95% of the total portfolio at March 31, 2009.

Due to economic uncertainties within the Company s markets, particularly in the real estate sector, and resultant concerns regarding credit opportunities, management expects loan volumes to flatten or even decline the remainder of 2009. Additionally, as further discussed in the next subsection of this Analysis, management expects problem asset volumes to increase given the Company s significant real estate portfolio. During the same period in 2008, net loans declined 2.91% or $7,839,241. Pay-downs on large real estate credits, particularly real estate construction balances, was the leading factor in the 2008 results. Loans outstanding are presented by type in the table below**:**

Loans by Category *(In thousands)*	**March 31, 2009**	December 31, 2008	March 31, 2008
Commercial, financial, and agricultural[1]	**$ 98,661**	$ 96,492	$ 88,114
Real estate construction	**121,500**	121,194	115,818
Real estate residential mortgage[2]	**48,302**	47,239	40,873
Consumer, including credit cards	**13,995**	14,961	16,969
Loans, gross	**282,458**	279,886	261,774
Unearned income	**123**	(129)	137
Loans, net	**$ 282,335**	$ 279,757	$ 261,637

[1] Includes obligations of states and political subdivisions.

[2] Typically have final maturities of 15 years or less. In the third quarter of 2008, the Company began originating, holding, and servicing longer-term mortgage loans in-house on a limited scale.

Many commercial and real estate credits with floating rates reached their contractual floors in late 2008 and the first three months of 2009. Additionally, new originations and renewals, particularly in the last six months, have been priced at fixed rather than adjustable rates, unless floors applied. Loans with floating rates that had reached a contractual floor approximated $105,047,000 at March 31, 2009 compared to $77,400,000 at December 31, 2008 and less than $10,500,000 at March 31, 2008. In 2009, management has shortened maturity options on commercial credits, a move that should mitigate the Company s interest sensitivity position when prime adjusts upward.

Although the Company s loan portfolio is diversified, significant portions of its loans are collateralized by real estate. At March 31, 2009, approximately 83.59% of the loan portfolio was comprised of loans with real estate as the primary collateral, including lots for new construction. 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 northeast Florida and particularly, southeast Georgia. The Company continues to closely monitor real estate valuations in its markets and consider any implications on the allowance for loan losses and the related provision. On an aggregate basis, commitments to extend credit and standby letters of credit approximated $41,286,000 at March 31, 2009; because a substantial amount of these contracts expire without being drawn upon, total contractual amounts do not necessarily represent future credit exposure or liquidity requirements.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, restructured loans, foreclosed real estate, and other repossessed assets. Nonperforming assets continued to trend upward year-to-date, increasing $2,229,462 or 21.98% to $12,374,823 at March 31, 2009 from year-end 2008 and increasing $10,673,123 from March 31, 2008. As a percent of total assets, nonperforming assets totaled 2.96% at March 31, 2009 versus 2.33% at year-end 2008 and 0.39% at March 31, 2008. Nonaccrual loans comprised $8,680,772 or 70.15% of nonperforming asset balances at March 31, 2009. The transfer of a $1,982,000 relationship secured by residential lots in an established coastal subdivision to nonaccrual status and a $177,000 increase in an existing nonaccrual loan were the major factors in the nonperforming loans increase year-to-date. A $177,000 advance would not customarily be made once a loan has been placed on nonaccrual status. To explain, during 2008, a $643,000 participation loan secured by an office building in north Georgia was placed on nonaccrual status. In February 2009, the Company successfully negotiated the purchase of the FDIC s interest in the north Georgia participation, bringing its recorded investment in this credit to approximately $820,000. The Georgia Department of Banking and Finance and the FDIC had closed the lead bank, the only other participant in the loan, in November 2008. Although this credit is expected to remain outstanding in the near term, no charge-off is expected. The Company does not have other purchased participation loans on its books. Individual concentrations within nonaccrual balances included the aforementioned $2,802,000 loans. Other large relationships within nonaccrual loans, most of which became nonaccrual subsequent to March 31, 2008, included: 1) a $2,115,000 construction/lot loan on a private island with planned development, 2) a $462,000 residential real estate loan secured by waterfront property, 3) a $759,000 relationship secured by assorted real estate and equipment, reduced by a $130,000 foreclosure in January 2009, 4) a separate $256,000 relationship also secured by assorted collateral, 5) a $360,000 residential real estate loan in a north Florida beachfront community, and 6) a $239,000 residential real estate loan secured by a junior lien. The next largest relationship within nonaccrual loans at March 31, 2009 approximated $94,000. Cumulative charge-offs recognized on the eight loans discussed above totaled $97,145 in 2009 year-to-date and $331,594 life-to-date. Nonaccrual balances did not include any industry concentrations at March 31, 2009. Additionally, except for the $360,000 credit, the collateral underlying the large nonaccrual balances at March 31, 2009 was located in Georgia. Management continues to evaluate collateral underlying nonaccrual loans but based on appraisal and similar information currently available, does not expect any other significant losses on these balances above the $570,000 specifically reserved; nonetheless, management realizes valuation estimates can change. Unless collected, higher nonaccrual balances adversely affect interest income versus nonperforming loans. No material relationships have been placed on nonaccrual status subsequent to March 31, 2009. For criteria used by management in classifying loans as nonaccrual, refer to the subsection entitled Policy Note.

The troubled debt restructured (TDR) balance at March 31, 2009 and December 31, 2008 comprised one owner-occupied commercial real estate loan for which payment concessions were granted. The allowance for loan losses approximated 0.63X the nonperforming loans balance at March 31, 2009 versus 0.69X at year-end 2008 and 3.29X a year ago. Management expects overall credit conditions and the performance of the loan portfolio to continue deteriorating in the near term, resulting in additional charge-offs and more provisioning.

Other than foreclosure of one borrower s residential lots valued at approximately $130,000, as noted above, no significant activity occurred within foreclosed real estate balances during the first quarter of 2009. Foreclosed real estate balances included five material credits aggregating $3,052,000 at March 31, 2009; individual values ranged from $130,000 $1,460,000. Charge-offs recognized on these properties prior to foreclosure, all recorded in the third and fourth quarters of 2008, approximated $277,000. In February 2009, a $150,000 recovery resulting from a deficiency suit was recorded on the largest of the five credits. Although these and other properties continue to be marketed aggressively, management expects to incur carrying costs for at least one year. Any subsequent devaluations will be charged to operations. Foreclosed real estate balances primarily comprised residential and commercial lots at March 31, 2009; all holdings were located in Georgia. No significant activity occurred within other repossessed assets during 2009 year-to-date.

Loans past due 90 days or more and still accruing totaled $210,021, or less than 1% of net loans, at March 31, 2009. Management is unaware of any material concentrations within these past due balances; the vast majority, or 72%, of these past due balances were real estate-secured. The table below provides further information about nonperforming assets and loans past due 90 plus days:

Nonperforming Assets (In thousands)	**March 31, 2009**	December 31, 2008	March 31, 2008
Nonaccrual loans:			
Commercial, financial, and agricultural	**$ 1,610**	$ 1,232	$ 202
Real estate construction	**5,291**	3,594	164
Real estate mortgage	**1,571**	1,595	823
Consumer, including credit cards	**208**	241	210
Total nonaccrual loans	**8,680**	$ 6,662	1,399
Restructured loans[1]	**468**	468	
Total nonperforming loans	**9,148**	$ 7,130	1,399
Foreclosed real estate[2]	**3,226**	3,005	291
Other repossessed assets		10	12
Total nonperforming assets	**$ 12,374**	$ 10,145	$ 1,702
Accruing loans past due 90 days or more	**$ 210**	$ 135	$ 300
Ratios:			
Nonperforming loans to net loans	**3.24%**	2.55%	0.53%
Nonperforming assets to net loans plus foreclosed/repossessed assets	**4.33%**	3.59%	0.65%

1 Does not include restructured loans that yield a market rate or loans reported as nonaccrual.
2 Includes only other real estate acquired through foreclosure or in settlement of debts previously contracted.

Loans past due 30-89 days comprised 1.16% of net loans at March 31, 2009, totaling $3,288,848. Approximately 83% of these past due loans were secured by real estate, predominantly 1 4 family residential properties with first liens and raw land. Five relationships, mostly real estate-secured and averaging $188,819 each, comprised $944,093 or 29% of these past due balances.

Accruing loans classified as individually impaired under SFAS No. 114, Accounting by Creditors for Impairment of a Loan an amendment of FASB Statements No. 5 and 15, totaled approximately $15,175,000 at March 31, 2009. This entire classified balance pertained to six separate borrowers whose loan repayment was expected to come foremost from commercial or residential real estate development or lot loan sales of the underlying collateral. Due to lagging sales and lingering distress in the real estate market, payment of principal and interest on these coastal real estate loans has come from borrower reserves or other resources, constituting a change in the initial source of payment/terms of these loans. Management reviews all loans with total credit exposure of $250,000 or more on a monthly basis and evaluates underlying collateral, assuming salvage values and estimating any allowance necessary to cover projected losses at worse case scenario liquidation. After adjustments for collateral value shortfalls, the allowance for loan losses allocated to these six credits approximated $1,481,000 at March 31, 2009. The $1,481,000 assumes a loss if the underlying real estate required liquidation currently. Management fully expects additional relationships to be identified as impaired under SFAS No. 114 the remainder of 2009, necessitating specific allowances for the underlying loans.

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 debtor. 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; subsequent charge-offs may be required as a result of changes in the market value of collateral or other repayment prospects. Unpaid interest on any loan placed on nonaccrual status is reversed against interest income. Interest income on nonaccrual loans, if subsequently recognized, is recorded on a cash basis. No interest is subsequently recognized on nonaccrual loans until all principal has been collected. Loans are classified as TDR when a concession, including interest reduction or deferral, has been granted to the borrower due to the borrower s deteriorating financial condition. 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.

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 three-month provision for loan losses at March 31, 2009 totaled $940,000, and net charge-offs, $97,660. The comparable provision and charge-off amounts at March 31, 2008 were $111,000 and $12,381. Deterioration in the real estate portfolio, particularly land holding and development loans, was the overriding factor in the 2009 provision; these and other loans will continue to be monitored, and the provision adjusted accordingly. Net charge-offs represented 0.14% of average loans at March 31, 2009, up from 0.02% at March 31, 2008 and 0.08% in 2007. Charge-offs on the large nonaccrual loans discussed earlier and a separate commercial real estate loan comprised $97,145 and $91,471 of total charge-offs at March 31, 2009, or 65% combined. Independently, the $150,000 recovery noted in the Nonperforming Assets section comprised 77% of total recoveries year-to-date. As further mentioned in other sections of this Analysis, 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 on the next page.

Allowance for Loan Losses

Three Months Ended March 31, *(Dollars in thousands)*	**2009**	2008	2007
Allowance for loan losses at beginning of year	**$ 4,929**	$ 4,510	$ 4,240
Provision for loan losses	**940**	111	115
Charge-offs:			
Commercial, financial, and agricultural	**136**	4	17
Real estate construction	**49**	1	15
Real estate mortgage	**42**	1	
Consumer, including credit cards	**66**	50	59
Total charge-offs	**293**	56	91
Recoveries:			
Commercial, financial, and agricultural	**6**	2	4
Real estate construction	**150**		
Real estate mortgage	**2**	2	2
Consumer, including credit cards	**38**	40	34
Total recoveries	**196**	44	40
Net charge-offs	**97**	12	51
Allowance for loan losses at end of period	**$ 5,772**	$ 4,609	$ 4,304
Net loans outstanding[1] at end of period	**$ 282,335**	$ 261,637	$ 267,268
Average net loans outstanding[1] at end of period	**$ 280,966**	$ 264,018	$ 259,386
Ratios:			
Allowance to net loans	**2.04%**	1.76%	1.61%
Net charge-offs to average loans[2]	**0.14%**	0.02%	0.08%
Provision to average loans[2]	**1.34%**	0.17%	0.20%
Recoveries to total charge-offs	**66.89%**	78.57%	43.96%

1 Net of unearned income

2 Annualized.

The Company prepares a comprehensive analysis of the allowance for loan losses monthly. 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. Such evaluation considers numerous factors, including, but not limited to, net charge-off trends, internal risk ratings, loss forecasts, collateral values, geographic location, delinquency rates, nonperforming loans, underwriting practices, industry conditions, and economic trends. Specific allowances for loan losses are established for large impaired loans evaluated on an individual basis. The specific allowance established for these loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan s expected future cash flows, the loan s estimated market value, or the estimated fair value of the underlying collateral. General allowances are established for loans grouped into pools based on similar characteristics.

In this process, general allowance factors are established based on an analysis of historical charge-off experience and expected loss-given-default derived from the Company s internal risk rating process. Other adjustments may be made to the allowance for the pools after an assessment of internal and external influences on credit quality that are not fully reflected in the historical loss or risk rating data. These influences typically include recent loss experience in specific portfolio segments, trends in loan quality, changes in market focus, and concentrations of credit. This element necessarily 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. Unallocated allowances relate to inherent losses that are not included elsewhere in the allowance. The qualitative factors associated with unallocated allowances include the inherent imprecisions in models and lagging or incomplete data. 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 March 31, 2009 but expects further provisioning throughout 2009.

Other Commitments

The Company had no material plans or commitments for capital expenditures as of March 31, 2009.

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 relatively large, stable deposit base and secured advances from the FHLB. Additional liquidity is provided by payments and maturities, including both principal and interest, of the loan and investment securities portfolios. At March 31, 2009, loans[1] and investment securities with carrying values exceeding $156,000,000 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 81% of the funding base at March 31, 2009, virtually unchanged from year-end 2008 levels. Borrowed funds, which variously encompass U.S. Treasury demand notes, federal funds purchased, and FHLB advances, totaled $10,726,415 at March 31, 2009, down $14,514,071 or 57.50% from December 31, 2008. As discussed earlier, the Company sold investment securities year-to-date largely to improve its overall liquidity position, which included repayment of borrowed funds. More specifically, the maximum amount of U.S. Treasury demand notes available to the Company at March 31, 2009 totaled $3,000,000, of which $726,415 was outstanding. Unused borrowings under unsecured federal funds lines of credit from other banks, each with varying terms and expiration dates, totaled $33,415,000. The Company s correspondent banks have been affected by the current economic crisis to varying degrees. Because of regulatory constraints or concerns about the banking industry and the overall economy, the Company s correspondents may be unwilling or unable to extend credit to other banks, including SEB, when needed or may require collateral; accordingly, the Company s actual access to these lines may be less than $33,415,000 although the Company has no present intention of fully advancing these lines. To-date, the Company s lines have not been modified or withdrawn by its correspondents or successors. In April 2009, Silverton Bank (Silverton), one of the Company s correspondents, was closed by the FDIC. The Company did not own any Silverton securities, including equity securities or trust preferred securities, when it failed; exposure was limited to one fully insured correspondent account. A bridge bank was created by regulators to handle correspondent functions of Silverton. The FDIC has stated its intention to honor federal funds purchased lines established by Silverton short-term. The Company is currently exploring additional relationships to replace the $13,000,000 Silverton line.

Additionally, under a credit facility with the FHLB, the Company can borrow up to 16% of SEB s total assets; at March 31, 2009, unused borrowings, which are subject to collateral requirements, approximated $61,818,000. Refer to the subsection 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 2009. 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.

Deposits

Deposits dropped $1,861,664 or 0.53% since year-end 2008. Interest-bearing deposits fell $4,641,290 or 1.58%, while noninterest-bearing deposits grew $2,779,626. The bulk of the decline in interest-bearing deposits was centered in NOW balances, particularly local government balances. Governmental NOW balances fell largely due to seasonal variation. More specifically, NOW balances fell $3,706,034, time certificates, $1,727,732, and money market balances, $781,174; savings grew $1,573,650. The majority, or 78%, of the growth in savings balances resulted from increases in passbook balances held by retail customers. Time certificate balances of $100,000 or more comprised $1,482,658 of the three-month

[1] No cash flow assumptions other than final contractual maturities have been made for installment loans. Additionally, many loans may be renewed in part or total at maturity. Nonaccrual loans are excluded.

decline in certificates and 49.52% of certificate totals at March 31, 2009. Lower balance certificate totals fell $245,074 or 0.37% since December 31, 2008. The Company has focused certificate pricing on customers who also have non-certificate deposit and/or loan balances. Funding costs associated with deposits declined 34.52% overall at March 31, 2009 versus March 31, 2008 due to moderate reductions in cost of funds; see the Results of Operations section of this Analysis for more details. No single factor precipitated the decline in noninterest-bearing deposits; these balances tend to be somewhat cyclical. To provide reassurance to customers, the Company is participating in the FDIC Temporary Liquidity Guarantee Program that provides full deposit insurance for noninterest-bearing transaction accounts, regardless of dollar amount and including NOW accounts with rates of 0.50% or less, until December 31, 2009. The Company will incur a 10 basis points surcharge, currently estimated to cost less than $5,000 per year, on its deposit insurance for accounts not otherwise covered by the existing deposit insurance limit of $250,000. Overall, interest-bearing deposits comprised 83.21%, and noninterest-bearing deposits, 16.79%, of total deposits at March 31, 2009. Approximately 82% of March 31, 2009 deposits were based in Georgia and the residual 18% in Florida. The distribution of interest-bearing balances at March 31, 2009 and certain comparable quarter-end dates is shown in the table below:

	March 31, 2009		**December 31, 2008**		**March 31, 2008**	
Deposits	***Balances***	***Percent of Total***	***Balances***	***Percent of Total***	***Balances***	***Percent of Total***
(Dollars in thousands)						
Interest-bearing demand deposits[1]	**$ 90,673**	**31.32%**	$ 95,160	32.35%	$ 117,786	37.69%
Savings	**66,740**	**23.05%**	65,166	22.15%	63,461	20.30%
Time certificates < $100,000	**66,697**	**23.03%**	66,942	22.76%	68,726	21.99%
Time certificates >= $100,000	**65,430**	**22.60%**	66,913	22.74%	62,583	20.02%
Total interest-bearing deposits	**$ 289,540**	**100.00%**	$ 294,181	100.00%	$ 312,556	100.00%

1 NOW and money market accounts.

Deposits of one local governmental body comprised approximately $20,947,000 and $27,477,000 of the overall deposit base at March 31, 2009 and December 31, 2008. The Company had no brokered deposits at March 31, 2009 or December 31, 2008.

Approximately 86% of time certificates at March 31, 2009 were scheduled to mature within the next twelve months. The composition of average deposits and the fluctuations therein at March 31 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 $10,000,000 at March 31, 2009, down $7,000,000 from year-end 2008. One $5,000,000 advance, which was also outstanding throughout 2008, matures March 17, 2010 and accrues interest at an effective rate of 6.00%, payable quarterly. This advance is convertible into a three-month Libor-based floating rate anytime at the option of the FHLB. Year-to-date, interest expense on this one advance approximated $74,000. The additional $5,000,000 advance outstanding at March 31, 2009 is a fixed rate advance due June 11, 2009 with an effective rate of 1.04%. Year-to-date, total advances averaged $14,056,778; the Company has used recent advances to provide temporary liquidity. A blanket lien on the Company s qualifying residential and commercial real estate loans with a lendable value of $26,750,000 secured the outstanding advances at March 31, 2009.

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.

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 March 31, 2009.

Interest Rate Sensitivity	*Repricing Within*				
March 31, 2009 *(Dollars in thousands)*	*0 - 3 Months*	*4 - 12 Months*	*One - Five Years*	*More Than Five Years*	*Total*
Interest Rate Sensitive Assets					
Federal funds sold	**$ 1,106**	**$**	**$**	**$**	**$ 1,106**
Securities[1]	**2,497**	**5,963**	**55,464**	**31,883**	**95,807**
Loans, gross[2]	**88,946**	**81,090**	**94,648**	**9,094**	**273,778**
Other assets[3]	**1,419**				**1,419**
Total interest rate sensitive assets	**93,968**	**87,053**	**150,112**	**40,977**	**372,110**
Interest Rate Sensitive Liabilities					
Deposits[4]	**183,110**	**88,351**	**18,029**	**50**	**289,540**
U.S. Treasury demand note	**726**				**726**
Federal Home Loan Bank advances	**5,000**	**5,000**			**10,000**
Total interest rate sensitive liabilities	**188,836**	**93,351**	**18,029**	**50**	**300,266**
Interest rate sensitivity gap	**$ (94,868)**	**$ (6,298)**	**$ 132,083**	**$ 40,927**	**$ 71,844**
Cumulative gap	**$ (94,868)**	**$ (101,166)**	**$ 30,917**	**$ 71,844**	
Ratio of cumulative gap to total rate sensitive assets	**(25.49)%**	**(27.19)%**	**8.31%**	**19.31%**	
Ratio of cumulative rate sensitive assets to rate sensitive liabilities	**49.76%**	**64.15%**	**110.30%**	**123.93%**	
Cumulative gap at December 31, 2008	$ (91,279)	$ (106,911)	$ 16,583	$ 72,471	
Cumulative gap at March 31, 2008	$ (25,100)	$ (52,285)	$ 28,678	$ 84,407	

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

Due to current immateriality for sensitivity purposes, the interest-bearing portion of the correspondent balance with the Federal Reserve Bank of Atlanta is excluded.

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

As shown in the preceding table, the Company s cumulative gap position remained negative through the short-term repricing intervals at March 31, 2009, totaling $(94,868,000) at three months and $(101,166,000) through one-year. Excluding traditionally nonvolatile NOW balances from the gap calculation, the cumulative gap at March 31, 2009 totaled $(22,344,000) at three months and $(28,642,000) at twelve months, effectively reflecting the Company s liability sensitive position. The cumulative three-month gap position widened a moderate 3.93% at March 31, 2009 versus December 31, 2008; the one-year gap narrowed 5.37%. One year ago, the Company s gap position was effectively asset sensitive. Loans that reached or were priced with a contractual floor were the primary factor in the sensitivity shift since March 31, 2008. At March 31, 2009, adjustable rate loans that had reached a contractual floor approximated $105,047,000; at March 31, 2008, such loans totaled less than $10,500,000 and at December 31, 2008, such loans approximated $77,400,000. For more details on these particular loans, refer to the Financial Condition section of this Analysis. Other than seasonal variations, mainly in deposit balances, no significant changes are anticipated in the gap position during the remainder of 2009. 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. Based on the Company s latest analysis, the simulation model estimates that a gradual 300 basis points rise in rates over the next twelve months would increase net interest income approximately 2%; a gradual 300 basis points decline in rates would reduce net interest income approximately 5%. An immediate downward shock of 200 basis points would adversely impact net interest income approximately 10% over the next year; a similar upward shock would increase net interest income approximately 3%. Limitations inherent with simulation modeling include: a) 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); and b) Changes in balance sheet mix, for example, unscheduled pay-offs of large commercial loans, are oftentimes difficult to forecast.

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 realized shareholders equity) or Tier 2 (certain debt instruments and a portion of the allowance for loan losses). 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. At March 31, 2009, the Company s Tier 1, total capital, and Tier 1 leverage ratios totaled 18.04%, 19.29%, and 13.65%. On a stand-alone basis, SEB s same ratios totaled 16.46%, 17.71%, and 12.47%. Regulators have expressed the need for increased capital requirements for bank holding companies and their subsidiaries; management expects minimum required capital levels will rise in the future.

In October 2008, the Treasury Department announced a Capital Program to provide capital and restore confidence in banks and their holding companies. Under the Capital Program, the Treasury injects capital directly into approved bank holding companies by buying senior preferred shares totaling 1% 3% of risk-weighted assets. Dividends on the preferred shares accrue at a 5% rate annually the first five years and 9% thereafter until redeemed. In exchange for the capital injection, the Treasury receives warrants equal to 15% of its investment. Although the Company is confident it would have qualified for the initial Capital Program due to its strong financial condition, the Company did not apply simply because its capital levels were already strong and able to withstand substantial declines before reaching minimum or even capital adequate levels by regulatory standards. Additionally, the Company is able to take advantage of market opportunities presented by the current crisis without the Treasury injection. In May 2009, the Treasury Department announced it would re-open the application window for banks with total assets under $500 million; again, the Company does not plan to participate. However, as discussed below, the Company has cut its dividends and re-evaluated its stock buyback program in order to preserve capital during the current economic cycle. The Company is committed to maintaining its well-capitalized status.

Capital ratios for the most recent periods are presented in the table below:

Capital Ratios ***(Dollars in thousands)***	**March 31, 2009**	**December 31, 2008**	**March 31, 2008**
Tier 1 capital:			
Total shareholders equity	**$ 57,105**	$ 57,184	$ 57,402
Accumulated other comprehensive (income) loss	**1,304**	1,075	(266)
Intangible assets and other adjustments	**(119)**	(133)	(434)
Total Tier 1 capital	**58,290**	58,126	56,702
Tier 2 capital:			
Portion of allowance for loan losses	**4,061**	4,184	3,980
Allowable long-term debt			
Total Tier 2 capital	**4,061**	4,184	3,980
Total risk-based capital	**$ 62,351**	$ 62,310	$ 60,682
Risk-weighted assets	**$ 323,172**	$ 333,965	$ 317,772
Risk-based ratios:			
Tier 1 capital	**18.04%**	17.40%	17.84%
Total risk-based capital	**19.29%**	18.66%	19.10%
Tier 1 leverage ratio	**13.65%**	13.61%	13.32%
Shareholders equity to assets	**13.64%**	13.15%	13.01%

Book value per share grew a nominal $0.08 or 0.44% during the first three months of 2009 to $18.08 at March 31, 2009. Dividends declared totaled $0.085, down 66% or $0.165 from 2008. The dividend reduction reflects management s proactive management of capital through a period of economic uncertainty and earnings pressure in the financial industry. The dividend reduction strengthens the Company s overall balance sheet by retaining not only capital but also cash. Not surprisingly, regulators are encouraging financial companies to set dividend payouts with the current economic crisis in mind. On May 13, 2009, the Board approved a second quarter dividend, also $0.085 per share. For more specifics on the Company s dividend policy, refer to the subsection immediately following.

Under existing authorization, the Company can purchase up to $15,000,000 in treasury stock. From 2000-2008, the Company repurchased 404,466 shares on the open market and through private transactions at an average price of $20.64 per share. During the first quarter of 2009, the Company purchased an additional 18,000 shares at an aggregate purchase price of $226,086 or $12.56 per share; the treasury purchase is expected to create additional value for shareholders long-term. The remaining consideration available for additional purchases, at prices to be determined in the future, is $6,423,882. Any additional acquisition of shares will be dictated by market conditions and capital considerations. There is no expiration date for the treasury authorization.

Accumulated other comprehensive loss, which measures net fluctuations in the fair values of investment securities, declined $228,968 at March 31, 2009 compared to year-end 2008 due mainly to market losses on corporate holdings. Further details on corporate and other investment securities and their associated fair values are contained in the Financial Condition section of this Analysis.

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 bank subsidiary, and its revenues and liquidity position depend primarily on the payment of dividends from SEB. In turn, the Company uses regular dividends paid by SEB in order to pay dividends to its own shareholders. Unless an exception is granted, state banking regulations limit the amount of dividends SEB may pay to 50% of prior year earnings. Cash dividends available from SEB for payment in 2009 without approval approximate $2,053,000, a 35% drop from 2008 levels. Through March 31, SEB had paid 19%, or $400,000, of the available dividends for 2009. The Company does not expect to withdraw the entire amount available in 2009.

Results of Operations

Net income for the first quarter declined $571,156 or 47.24% to $637,872 at March 31, 2009 from $1,209,028 at March 31, 2008. On a per share basis, quarterly earnings totaled $0.20 at March 31, 2009, down $0.18 from $0.38 at March 31, 2008. The return on beginning equity for the three-month period totaled 4.46% at March 31, 2009, down substantially from 8.42% at March 31, 2008. Major variances in the year-to-date results included:

$447,699 reduction in net interest income due to comparative asset sensitivity and margin compression;

$829,000 increase in the provision for loan losses to address loan quality issues;

$197,871 net gain on sales of investment securities available-for-sale in the first quarter of 2009 versus $0 in the first quarter of 2008; and

$342,555 reduction in income tax expense.

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

Due to comparative asset sensitivity and margin compression, net interest income declined $447,699 or 10.47% during the first quarter of 2009 compared to 2008. Simply put, asset sensitivity means earnings on loans and other assets generally decline quicker than expenses on deposits and other liabilities when rates drop. Rate movements promulgated by the Federal Reserve during the last 15 months, whose full impact is still being felt from a comparative perspective, were particularly rapid and aggressive as the Federal Reserve sought to address the current economic crisis: Prime dropped from 7.25% at December 31, 2007 and settled at 5.00% April 30, 2008 before falling thrice more in the fourth quarter of 2008 to 4.50% on October 8, 4.00% October 30, and 3.25% December 16. Loans tied to prime and other variable indexes reprice instantaneously in a down rate environment, and securities with call or other prepayment features are normally redeemed prior to stated maturity and replaced at lower rates. Management cut deposit rates multiple times in 2008 and 2009 to-date although competitive and other factors preclude simultaneous and proportionate declines in these rates. Reducing cost of funds in the current economic cycle has been particularly difficult since liquidity constraints have compelled regional and other banks to rely more heavily on deposits, particularly time certificates, for funding; this reliance has kept deposit rates higher and lowered margins and spreads for competitor banks attempting to maintain market share. Although many variable rate loans have reached a contractual floor, reducing asset sensitivity, asset rates remain exceedingly low and deposit costs high on a relative basis. Net interest income and resultant margins and spreads are projected to decline further in 2009 due to a) yield reductions on a year-over-year basis, particularly on prime-based loans and investment securities with optionality; b) overall lower average balances on loans and also, investment securities due to sales; and c) increases in nonperforming assets, particularly nonaccrual loans and foreclosed other real estate. As discussed earlier, unless collected, nonaccrual balances adversely affect interest income two ways interest reversals and nonearning status. The drop in net interest income in April 2009 versus April 2008 alone approximated 14%. To recap, the net interest margin approximated 4.14% at March 31, 2009 versus 4.60% a year ago; the interest rate spread, 3.70% versus 3.94%. Interest earnings on loans, federal funds sold, investment securities, and other earning assets fell $1,087,297, $64,694, $51,884, and $12,663, respectively, from same period results in 2008. Significant declines in asset yields precipitated the 2009 results. Asset yields averaged 5.78% at March 31, 2009, down 125 basis points from 7.03% in 2008; see the interest differential table on the next page for more details on changes in interest income attributable to volume and rates at March 31, 2009 versus 2008. Interest expense on deposits and other borrowed funds declined $768,839 or 32.75% during the first quarter of 2009 versus 2008. Cost of funds dropped 101 basis points from 2008 levels, totaling 2.08% at March 31, 2009 versus 3.09% at March 31, 2008. The reduced funding costs resulted from lower rates on all interest-bearing liabilities, including deposits, at March 31, 2009 compared to 2008. Although interest expense on time certificates declined 23.09% at March 31, 2009 compared to 2008, higher average balances, competitive pressure, and the aforementioned lag effect have constrained desired rate reductions in this product. Additionally, the Company increased its average advances with the FHLB in 2009 year-to-date. Refer to the Liquidity and Interest Sensitivity sections of this Analysis for more details on deposit/funding fluctuations and the Company s asset/liability sensitivity position.

The intense competition for deposits and certain loans continues in 2009 and shows no sign of abating. The high number of financial institutions in the Company s market areas essentially guarantees downward pressure on net interest spreads and margins as all participants struggle to amass, grow, and maintain market share. Volume of assets and deposits become even more important as margins decline. Long-term 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 below:

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

Average Balances[6]	2009			2008		
Three Months Ended March 31, *(Dollars in thousands)*	*Average Balances*	*Income/ Expense*	*Yields/ Rates*	*Average Balances*	*Income/ Expense*	*Yields/ Rates*
Assets						
Interest-earning assets:						
Loans, net[1,2,4]	**$ 280,966**	**$ 4,129**	**5.96%**	**$ 264,018**	**$ 5,214**	**7.94%**
Federal funds sold	**718**		**0.03%**	**9,207**	**65**	**2.84%**
Taxable investment securities[3]	**81,596**	**1,009**	**5.02%**	**86,578**	**1,040**	**4.83%**
Tax-exempt investment securities[3,4]	**25,210**	**422**	**6.79%**	**27,671**	**453**	**6.58%**
Other interest-earning assets	**1,501**	**2**	**0.54%**	**1,016**	**15**	**5.94%**
Total interest-earning assets	**$ 389,991**	**$ 5,562**	**5.78%**	**$ 388,490**	**$ 6,787**	**7.03%**
Liabilities						
Interest-bearing liabilities:						
Interest-bearing demand deposits[5]	**$ 90,483**	**$ 204**	**0.91%**	**$ 113,182**	**$ 549**	**1.95%**
Savings	**65,855**	**108**	**0.67%**	**62,971**	**191**	**1.22%**
Time certificates	**132,249**	**1,159**	**3.55%**	**121,733**	**1,507**	**4.98%**
Federal funds purchased	**4,614**	**11**	**0.97%**	**2,130**	**22**	**4.15%**
U. S. Treasury demand note	**596**			**530**	**4**	**3.04%**
Federal Home Loan Bank advances	**14,057**	**97**	**2.80%**	**5,000**	**75**	**6.03%**
Total interest-bearing liabilities	**$ 307,854**	**$ 1,579**	**2.08%**	**$ 305,546**	**$ 2,348**	**3.09%**
Excess of interest-earning assets over interest-bearing liabilities	**$ 82,137**			**$ 82,944**		
Interest rate spread			**3.70%**			**3.94%**
Net interest income		**$ 3,983**			**$ 4,439**	
Net interest margin			**4.14%**			**4.60%**

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 three months ended March 31, 2009 and 2008. The table on the next page summarizes the changes in interest income and interest expense attributable to volume and rates during this period.

Interest Differential[1] *Three Months Ended March 31, (In thousands)*	**2009 Compared to 2008 Increase (Decrease) Due to**		
	Volume	**Rate**	**Net**
Interest income			
Loans[2,3]	**$ 318**	**$ (1,403)**	**$ (1,085)**
Federal funds sold	**(31)**	**(34)**	**(65)**
Taxable investment securities	**(61)**	**30**	**(31)**
Tax-exempt investment securities[3]	**(41)**	**10**	**(31)**
Other interest-earning assets	**5**	**(18)**	**(13)**
Total interest income	**190**	**(1,415)**	**(1,225)**
Interest expense			
Interest-bearing demand deposits[4]	**(94)**	**(251)**	**(345)**
Savings	**8**	**(91)**	**(83)**
Time certificates	**122**	**(470)**	**(348)**
Federal funds purchased	**14**	**(25)**	**(11)**
U.S. Treasury demand note		**(4)**	**(4)**
Federal Home Loan Bank advances	**79**	**(57)**	**22**
Total interest expense	**129**	**(898)**	**(769)**
Net change in net interest income	**$ 61**	**$ (517)**	**$ (456)**

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.

Noninterest Income and Expense

Noninterest income increased $169,429 or 16.35% during the first quarter of 2009 compared to 2008. Key elements in the quarterly results included:

a) Net gains on sales of investment securities available-for-sale: The Company recognized a net gain of $197,871 on the sale of corporate bonds, Agency securities, and municipals totaling $13,417,091 in the first quarter of 2009. These securities were sold to reduce certain sector concentrations and provide liquidity. No securities were sold during the first quarter of 2008. The Financial Condition section of this Analysis contains additional details on securities transactions.

b) Service charges on deposit accounts: Service charges on deposit accounts declined a slight $2,411 or 0.36% at March 31, 2009 compared to 2008. Lower volume of NSF fees was the main factor in the 2009 decline.

c) Other operating income: The other operating portion of noninterest income declined $26,031 at March 31, 2009 compared to 2008. A $22,973 decline in commissions on sales of insurance and investment products through the Raymond James affiliation was the largest variable in the comparative results. By type and amount, the chief components of other operating income at March 31, 2009 were surcharge fees ATM, $98,269; mortgage origination fees, $52,898; income on bank-owned life insurance, with a resultant yield above 7% on a federal taxable-equivalent basis, $60,782; income on sale of check products, $25,599; safe deposit box rentals,

$25,062; and commissions on the sale of credit life insurance (separate from Raymond James affiliation), $27,936. Together, these six income items comprised 84.61% of other operating income at March 31, 2009. In 2008, these same income components comprised 80.01% of other operating income. The Company has been expanding and revamping its mortgage origination department and is optimistic these initiatives will increase fee production and cross-sell opportunities long-term.

Noninterest expense declined $193,559 in 2009 year-to-date. The chief factors impacting quarterly results comprised:

a) Salaries and employee benefits: Personnel costs declined 8.32% or $172,406 year-to-date. Declines in officer salaries and incentive accruals accounted for virtually the entire variation. The 2009 drop in officer salaries resulted from open positions at various facilities; management expects to fill these vacancies eventually. Additionally, the Company has eliminated merit-based or other salary increases and bonuses for all employees, including officers, except in connection with a promotion. The vast majority, or 82%, of employee expenses remained concentrated in salaries and other direct compensation, including related payroll taxes, at March 31, 2009. Profit-sharing accruals and other fringe benefits constituted the remaining 6% and 12% of employee expenses. Overall, the division of employee expenses between compensation, profit sharing, and other fringe benefits remained consistent with historical norms in 2009.

b) Occupancy and equipment, net: When compared to the prior year, net occupancy and equipment expense fell $26,403 or 3.72% during the first three months of 2009 compared to 2008. Reductions in various equipment and other maintenance costs were primary variables. The Company did not incur any renovation expenses during the first quarter of 2009 or 2008. The estimated cost of the one renovation planned in 2009, which commenced in April, totals $60,000.

c) Other operating expense: Other operating expenses increased a nominal $5,250 or 0.74% at March 31, 2009 compared to 2008. A $42,104 reduction in courier expense due to changes in interoffice deliveries and a $32,079 improvement in dispositions of foreclosed real estate and other assets, which results tend to be cyclical, largely offset a $71,270 increase in regular FDIC assessment charges and also, other costs, year-to-date. Besides advertising expense, which approximated $86,000 in 2009 and $91,000 in 2008, and FDIC expense, which approximated $81,000 in 2009 and $10,000 in 2008, no individual component of other operating expenses aggregated or exceeded 10% of the total in 2009 or 2008.

As noted above, the FDIC has significantly increased regular assessment charges for deposit insurance coverage in 2009. Regular assessment charges are expected to increase in excess of $325,000 in 2009 compared to 2008. Additionally, the FDIC has proposed a special emergency assessment of twenty basis points based on June 30, 2009 deposits which must be accrued in the second quarter. If the emergency assessment for all banks is implemented as proposed, the Company s FDIC assessments will jump an additional $750,000 in 2009. These assessment expenses will significantly impact the Company s net income results in 2009.

Critical Accounting Policies

The Company s consolidated financial statements are prepared applying certain critical accounting policies. Critical accounting policies 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 financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and they conform to general practices in the banking industry. The Company applies its critical accounting policies consistently from period to period and intends that any change in methodology occur in an appropriate manner. Accounting policies currently deemed critical, including the a) allowance for loan losses; b) estimates of fair value pertinent to investment securities, other real estate, loans, intangibles, and other assets; and c) income taxes are further discussed in the 2008 Form 10-K. There have been no material changes in the Company s critical accounting policies since December 31, 2008.

Recent Accounting Pronouncements

The provisions of recent pronouncements and the related impact on the Company s Consolidated Financial Statements, if any, are discussed in Note 3.

Various other accounting proposals affecting the banking industry are pending with the FASB and other regulatory authorities. 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

Certain statements set forth in this Quarterly Report on Form 10-Q (the Report) or incorporated herein by reference, including, without limitation, matters discussed under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements within the meaning of federal securities laws, including, without limitation, statements regarding the Company s outlook on earnings, stock performance, asset quality, economic conditions, real estate markets, and projected growth, and are based upon management s beliefs as well as assumptions made based on data currently available. When words like anticipate , believe , intend , plan , may continue , project , would , expect , estimate , could , should , will , and similar expressions are used, they should be considered forward-statements. These forward-looking statements are not guarantees of future performance, and a variety of factors could cause actual results to differ materially from the anticipated or expected results expressed in these forward-looking statements. Many of these factors are beyond the Company s ability to control or predict, and readers are cautioned not to put undue reliance on such forward-looking statements. The following list, which is not intended to be all-encompassing, summarizes certain factors that could cause actual results to differ materially from those anticipated or expected in these forward-looking statements: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) changes in the interest rate environment may reduce margins or the volumes or values of loans made; (3) general economic conditions (both generally and in local markets) may continue to be less favorable than expected, resulting in, among other things, a further deterioration in credit quality and/or a reduction in demand for credit; (4) continued weakness in the real estate market may continue to adversely affect the Company; (5) legislative or regulatory changes, including changes in accounting standards and compliance requirements, may adversely affect the Company s business; (6) competitors may have greater financial resources and develop products that enable them to compete more successfully; (7) the Company s ability to attract and retain key personnel can be affected by increased competition for experienced employees in the banking industry; (8) adverse changes may occur in the bond markets, affecting portfolio valuation; (9) war or terrorist activities may cause further deterioration in the economy or cause instability in credit markets; (10) restrictions or conditions imposed by regulators on the Company s operations may make it more difficult for the Company to achieve its goals; (11) economic, governmental, or other factors may prevent growth in the Company s markets; (12) changes in consumer spending and savings habits could impede the Company s ability to grow its loan and deposit portfolios; (13) the Company may be unfavorably impacted by litigation, which depends on judicial interpretations of law and findings of juries; and (14) the risk factors discussed from time to time in the Company s Periodic Reports filed with the SEC, including but not limited to, this Report. The Company undertakes no obligation to, and does not intend to, update or revise these statements following the date of this filing, whether as a result of new information, future events or otherwise, except as may be required by law.

As noted, the foregoing list of factors is not exclusive. 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 4T. Controls and Procedures.

An evaluation of the Company s disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Act) as of March 31, 2009, was carried out under the supervision and with the participation of the Company s Chief Executive Officer (CEO), Chief Financial Officer (Treasurer), and other members of management. The CEO and Treasurer concluded that, as of March 31, 2009, the Company s disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company s management, including the CEO and the Treasurer, and (ii) recorded, processed, summarized, and reported in accordance with the SEC s rules and forms. There were no changes in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Act) that occurred during the quarter ended March 31, 2009 that has materially affected, or is likely to materially affect, such internal controls.

The Company does not expect that its disclosure controls and procedures will prevent all error and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies and procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

The Company intends to continually review and evaluate the design and effectiveness of its disclosure controls and procedures, to improve its controls and procedures over time, and to correct any deficiencies it may discover in the future. The goal is to ensure that management has timely access to all material financial and non-financial information concerning the Company s business. While the Company believes the present design of its disclosure controls and procedures is effective to achieve its goal, future events affecting its business may cause the Company to modify its disclosure controls and procedures.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that the Company evaluate and annually report on its system of internal control over financial reporting. For several years, the Company has used the widely accepted Committee of Sponsoring Organization of the Treadway Commission (COSO) framework for its evaluation of such internal controls. Going forward, the Company s independent accountants must report on management s evaluation. The Company is in the process of evaluating, documenting, and testing its system of internal control over financial reporting to provide the basis for its independent accountant s attestation report that is anticipated to be a required part of Form 10-K for the fiscal year ending December 31, 2009. Due to the ongoing evaluation and testing of internal controls, there can be no assurance that any control deficiencies identified will be remediated before the end of the 2009 fiscal year, or that there may not be significant deficiencies or material weaknesses that would be required to be reported. In addition, the Company expects the evaluation process and any required remediation, if applicable, to increase accounting, legal, and other costs and divert management resources from core business operations.

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 quarter of 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Treasury purchases made during the quarter ended March 31, 2009 are summarized in the table below:

Share Repurchases Three Months Ended March 31, 2009	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 February 28				$ 6,649,968
March 1 31	18,000	$ 12.56	18,000	6,423,882
Total	18,000	$ 12.56	18,000	

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1 On December 12, 2007, the Board of Directors increased the authorization for treasury stock purchases from $10,000,000 to $15,000,000. 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 May 13, 2009. At the Meeting, the following individuals were elected directors:

Directors	For	Withheld
Alyson G. Beasley	2,105,773	15,440

Leslie H. Blair	2,121,213	
David H. Bluestein	2,121,213	
Cornelius P. Holland, III	2,121,213	
Alva J. Hopkins, III	2,105,773	15,440
A. Wade Strickland	2,121,213	

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
2,001,315	35,758	84,140	

(b) The appointment of independent auditors by the Audit Committee for fiscal year 2009.

For	Against	Abstain	Broker Non-Votes
2,119,395		1,818	

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 4	Specimen Common Stock Certificate, incorporated by reference from Form 8-A filed April 30, 2001.
Exhibit 10	2006 Stock Option Plan, as amended and restated effective January 1, 2008, incorporated by reference from the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008.
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.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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
(Principal Accounting Officer)

Date: May 20, 2009