

SOUTHEASTERN BANKING CORP
Form 10-K
March 31, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2004

Commission File Number 2-83157

SOUTHEASTERN BANKING CORPORATION

(Exact name of registrant as specified in its charter)

Georgia
(State or other jurisdiction of
incorporation or organization)

58-1423423
(IRS Employer
Identification No.)

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

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(Address of principal executive offices) (Zip Code)

(912) 437-4141

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value \$1.25 per share

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common equity held by non-affiliates of the Registrant as of June 30, 2004 was approximately \$56,026,943 (based on the average bid and asked price on that date as reported on the over-the-counter bulletin board).

As of March 7, 2005, the Registrant had 3,304,149 shares of common stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1990 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 are incorporated by reference in Part IV, Item 15.

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 11, 2005 are incorporated by reference in Part III.

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PART I

Item 1. Business.

1. History and Organization. Southeastern Banking Corporation (the Company) and its wholly-owned subsidiary, Southeastern Bank, provide a full line of commercial and retail services to meet the financial needs of individual, corporate, and government customers in southeast Georgia and northeast Florida. The Company's corporate offices are located at 1010 Northway Street, Darien, Georgia.

The Company was formed in 1980 to serve as the parent holding company of its then sole subsidiary bank, The Citizens Bank, Folkston, Georgia, which later changed its name to Southeastern Bank (SEB). In 1983, the Company acquired The Darien Bank, Darien, Georgia. Since 1983, the Company has acquired three additional financial institutions in the southeast Georgia market. These acquisitions were consummated by merging the acquired bank with SEB; the acquired banks were subsequently converted to branches of SEB. In this manner, the Company acquired The Camden County State Bank, Woodbine, Georgia, in 1984; the Jeff Davis Bank, Hazlehurst, Georgia, in 1986; and the Nicholls State Bank, Nicholls, Georgia, in 1988. In 1990, SEB merged with and into The Darien Bank, with The Darien Bank being the surviving bank in the merger operating under its 1888 Charter. Immediately, The Darien Bank changed its name to Southeastern Bank. SEB is a state banking association incorporated under the laws of the State of Georgia.

In 1991, the Company acquired the Folkston, St. Marys, and Douglas, Georgia, offices of First Georgia Savings Bank, a savings bank in Brunswick, Georgia. Offices located in St. Marys and Douglas are now operating as branches of SEB, but the First Georgia office in Folkston was closed and merged into the existing Folkston branch. In 1993, the Company acquired the Folkston and St. Marys offices of Bank South, N.A., Atlanta, Georgia. Both of the acquired offices were closed and merged into existing offices of the Company.

In 1996, the Company acquired the Callahan, Hilliard, and Yulee offices of Compass Bank in northeast Florida's Nassau County. Geographically, Nassau County borders Camden and Charlton Counties in southeast Georgia where the Company has other offices. In 2002, the Company acquired the Richmond Hill office of Valdosta, Georgia-based Park Avenue Bank. Certain loans, property and equipment, and other assets with fair values of approximately \$12,201,000 were acquired, while deposits and other liabilities totaling approximately \$4,270,000 were assumed. Cash balances applied towards the purchase approximated \$8,000,000. Richmond Hill is located approximately ten miles outside the greater Savannah area. All of these facilities are operated as branches of SEB.

In February 2003, the Company opened a loan production office in Brunswick, Georgia. In November 2004, a full service banking facility was opened in Brunswick, Georgia and the loan production office closed.

SBC Financial Services, the Company's subsidiary which formerly offered insurance agent and investment brokerage services, is now inactive. Insurance and investment services are now being offered directly by Southeastern Bank.

2. Business. SEB, the Company's commercial bank subsidiary, offers a wide range of services to meet the financial needs of its customer base through its branch and ATM network in southeast Georgia and northeast Florida. SEB's primary business comprises traditional deposit and credit services as well as official check services, wire transfers, and safe deposit box rentals. Deposit services offered include time certificates plus NOW, money market, savings, and individual retirement accounts. Credit services include commercial and installment loans, long-term mortgage originations, credit cards, and standby letters of credit. Commercial loans are made primarily to fund real estate construction and to

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meet the needs of customers engaged in the agriculture, timber, seafood, and other industries. Installment loans are made for both consumer and non-consumer purposes. Through an affiliation with Raymond James Financial Services, SEB also provides insurance agent and investment brokerage services. At December 31, 2004, SEB operated sixteen full-service banking offices with total assets exceeding \$400,000,000. A list of SEB offices is provided in Part I, Item 2.

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The Federal Reserve Bank of Atlanta is the principal correspondent of the bank subsidiary; virtually all checks and electronic payments are processed through the Federal Reserve. SEB also maintains accounts with other correspondent banks in Georgia, Florida, and Alabama.

At December 31, 2004, the Company and its subsidiaries had 153 full-time and 14 part-time employees.

3. Competition. The Company has direct competition with other commercial banks, savings and loan associations, and credit unions in each market area. Since mid-1998, intrastate branching restrictions in all of the Company's market areas have been lifted. The removal of intrastate branching restrictions has given the Company opportunities for growth but has also intensified competition as other banks branch into the Company's markets.

The Company faces increasingly aggressive competition from other domestic lending institutions and from numerous other providers of financial services. The ability of nonbanking financial institutions to provide services previously reserved for commercial banks has intensified competition. Because nonbanking financial institutions are not subject to the same regulatory restrictions as banks and bank holding companies, they can often operate with greater flexibility and lower cost structures. Recent abolishment of certain restrictions between banks, securities firms, and insurance companies will further intensify competition; refer to the Supervision and Regulation section of this Item for more details.

4. Supervision and Regulation. As a bank holding company, the Company is subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (Federal Reserve). SEB, an insured state non-member bank chartered by the Georgia Department of Banking and Finance (GDBF), is subject to supervision and regulation by the GDBF and the Federal Deposit Insurance Corporation (FDIC). SEB is subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be made and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Numerous consumer laws and regulations also affect the operations of SEB. In addition to the impact of regulation, the Company is also significantly affected by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy. The Company's nonbank subsidiary, although currently inactive, is regulated and supervised by applicable bank, insurance, and various other regulatory agencies.

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, bank holding companies from any state may acquire banks located in any other state, subject to certain conditions, including concentration limits. In addition, a bank may establish branches across state lines by merging with a bank in another state, subject to certain restrictions.

A number of obligations and restrictions imposed on bank holding companies and their bank subsidiaries by federal law and regulatory policy are designed to reduce potential loss exposure to bank depositors and to the FDIC insurance fund in the event of actual or possible default. For example, under Federal Reserve policy with respect to bank holding company operations, the Company is expected to serve as a source of financial strength to, and commit resources to support, its bank subsidiary where it might refuse absent such policy. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the applicable institution is well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized, as those terms are defined under regulations issued by each of the federal banking agencies. The Company and its bank subsidiary are considered well-capitalized by their respective federal banking regulators. The Company's capital position is delineated in Note 16 to the consolidated financial statements and in the Capital Adequacy section of Part II, Item 7.

There are various legal and regulatory limits on the amount of dividends and other funds the bank subsidiary may pay or otherwise supply the Company. Additionally, federal and state regulatory agencies have the authority to prevent a bank or bank holding company from engaging in

any activity that, in the opinion of the agency, would constitute an unsafe or unsound practice.

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On November 12, 1999, financial modernization legislation known as the Gramm-Leach-Bliley Act (the Act) was signed into law. Under the Act, a bank holding company which elects to become a financial holding company may engage in expanded financial activities, including insurance and securities underwriting, and may also acquire securities and insurance companies, subject in each case to certain conditions. Securities firms and insurance companies may also choose to establish or become financial holding companies and thereby acquire banks, also subject to certain conditions. The abolishment of certain restrictions between banks, securities firms, and insurance companies provides both challenges and opportunities to the Company. The Company has no present intention to change its status from a bank holding company to a financial holding company.

The Sarbanes-Oxley Act of 2002 and its impact on the Company is discussed in the Corporate Governance section of Part II, Item 7.

There have been a number of legislative and regulatory proposals that would have an impact on the operation of bank holding companies and their subsidiaries. It is impossible to predict whether or in what form these proposals may be adopted in the future and, if adopted, what their effect will be on the Company.

5. Securities Exchange Act Reports. Through its Internet website at www.southeasternbank.com, the Company provides a direct link to its Securities and Exchange Act filings. Reports accessible from this link include annual reports on Form 10-K, quarterly reports on 10-Q, and current reports on Form 8-K.

Item 2. Properties.

Company Property. The Company's executive offices are located in SEB's main banking office at 1010 Northway Street, Darien, Georgia.

Banking Facilities. Besides its main office in Darien, SEB has fifteen other banking offices in northeast Florida and southeast Georgia as shown in the table below:

Banking Offices

Florida	1948 S. Kings Road	1376 E. State Road 200
	Nassau County	Nassau County
	Callahan, Florida 32011	Yulee, Florida 32097
	7964 W. County Road 108	
	Nassau County	
	Hilliard, Florida 32046	
Georgia	620 S. Peterson Street	110 Bacon Street
	Coffee County	Brantley County

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Douglas, Georgia 31533

Highway 17

McIntosh County

Eulonia, Georgia 31331

Nahunta, Georgia 31553

910 Van Streat Highway

Coffee County

Nicholls, Georgia 31554

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Georgia	101 Love Street	2004 Highway 17
	Charlton County	Bryan County
	Folkston, Georgia 31537	Richmond Hill, Georgia 31324
	14 Hinson Street	2512 Osborne Road
	Jeff Davis County	Camden County
	Hazlehurst, Georgia 31539	St. Marys, Georgia 31558
	107 E. Main Street	Bedell Avenue & Highway 17
	Brantley County	Camden County
	Hoboken, Georgia 31542	Woodbine, Georgia 31569
	Highway 40 East	755 Scranton Road
	Camden County	Glynn County
	Kingsland, Georgia 31548	Brunswick, Georgia 31520

The Company owns all of its main office and branch facilities except for its Brunswick facility. The Brunswick facility is a temporary branch building leased from a third party. Additionally, general office space is leased in Brunswick from a third party. The annual lease expense for the Brunswick office space and branch building approximates \$72,000; the remaining term of the leases is less than one year. See Note 6 to the consolidated financial statements for further property information.

Item 3. Legal Proceedings.

The Company and its subsidiaries are parties to claims and lawsuits arising in the course of their normal business activities. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management and counsel that none of these matters, when resolved, will have a material effect on the Company's consolidated results of operations or financial position.

Item 4. Submission Of Matters to a Vote of Security Holders.

None

PART II

Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities.

The Company's stock trades publicly over-the-counter under the symbol SEBC. The high and low sales prices shown below are based on information being posted to electronic bulletin boards by market-makers in the Company's stock. These market prices may include dealer mark-up, markdown, and/or commission. Prices paid on treasury stock purchases are excluded from these results.

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The table below sets forth the high and low sales prices and the cash dividends declared on the Company's common stock during the periods indicated:

Market Sales Price & Dividends Declared	Quarter	Sales Price		Dividends
		High	Low	Declared
2004	4th	\$ 26.25	\$ 25.10	\$ 0.625
	3rd	27.25	25.10	0.125
	2nd	27.45	24.75	0.125
	1st	26.00	24.00	0.125
2003	4th	25.90	22.00	0.64
	3rd	22.00	20.50	0.12
	2nd	24.50	19.00	0.12
	1st	20.50	17.76	0.12
2002	4th	18.00	17.35	0.655
	3rd	19.50	16.16	0.115
	2nd	17.50	14.75	0.115
	1st	15.50	13.30	0.115

The Company had approximately 500 shareholders of record at December 31, 2004.

The Company has paid regular cash dividends on a quarterly basis every year since its inception. Additionally, in recent years, the Company has declared a special dividend in the fourth quarter of each year. Management anticipates that the Company will continue to pay regular and special cash dividends. See the Capital Adequacy section of Part II, Item 7 for particulars on an extraordinary cash dividend declared by the Company the last three years.

The Company is a legal entity separate and distinct from its subsidiaries, and its revenues depend primarily on the payment of dividends from its subsidiaries. State banking regulations limit the amount of dividends the Company's bank subsidiary may pay without prior approval of the regulatory agencies. The amount of cash dividends available from the bank subsidiary for payment in 2005 without such prior approval is approximately \$2,912,000.

The Company manages capital through dividends and share repurchases authorized by the Board of Directors. Capital needs are assessed based on expected growth and the current economic climate. In 2004, the Company repurchased 8,390 shares at an aggregate price of \$215,462 and in 2003, 20,600 shares at an aggregate price of \$475,904. As of December 31, 2004, the Company was authorized to purchase treasury shares valued at \$5,184,371 under current Board resolutions. There is no expiration date for the treasury authorization.

Treasury purchases made during 2004 are summarized in the table below:

Share Repurchases - 2004	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

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				or Programs
January - April				\$ 5,399,833
May	3,570	\$ 25.25	3,570	5,309,691
June-August				5,309,691
September	4,820	26.00	4,820	5,184,371
November-December				5,184,371
Total	8,390	\$ 25.68	8,390	

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Selected financial data for the last five years is provided in the table below:

Financial Data	2004	2003	2002	2001	2000
<i>(Dollars in thousands except per share data)</i>					
At December 31:					
Total assets	\$ 400,755	\$ 374,368	\$ 378,140	\$ 355,215	\$ 349,579
Loans, net of unearned income	218,505	205,680	174,981	163,348	173,802
Allowance for loan losses	4,134	3,833	3,601	3,135	3,160
Investment securities	117,884	131,759	153,323	157,620	145,055
Deposits	339,310	316,963	317,848	298,707	295,736
Long-term debt	5,000	5,000	5,000	5,000	5,000
Treasury stock	4,816	4,600	4,124	3,248	2,486
Realized stockholders' equity	48,881	46,599	45,193	44,656	44,710
For the Year:					
Net interest income	\$ 17,275	\$ 16,385	\$ 15,333	\$ 14,616	\$ 15,539
Provision for loan losses	807	968	1,074	1,200	1,200
Net income	5,803	5,201	4,759	4,097	4,935
Common dividends paid	3,361	3,383	3,430	1,842	1,654
Per Common Share:					
Basic earnings	\$ 1.75	\$ 1.56	\$ 1.42	\$ 1.21	\$ 1.42
Dividends declared	1.00	1.00	1.00	1.00	0.51
Book value	14.79	14.07	13.56	13.19	13.01
Financial Ratios:					
Return on average assets	1.53%	1.42%	1.30%	1.15%	1.41%
Return on beginning equity	12.45	11.51	10.66	9.16	11.21
Tier 1 capital ratio	18.92	19.06	20.76	23.45	23.05
Total capital ratio	20.17	20.32	22.01	24.71	24.30
Tier 1 leverage ratio	12.34	12.56	12.14	12.32	12.56

The book value per share and equity ratios exclude the effects of mark-to-market accounting for investment securities. In accordance with generally accepted accounting principles, prior period amounts have not been restated to reflect the treasury stock purchases made from 2000 - 2004.

Business Combinations and Divestitures/New Offices

The financial data in the table above reflects the following developments:

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In November 2004, the Company opened a full service branch facility in Brunswick, Georgia and closed its loan production office that was opened in 2003. For 2004, approximately \$12,250,000 of new loan production and a minor amount of new deposit activity was attributable to the Brunswick market.

In February 2003, the Company opened a loan production office in Brunswick, Georgia. Approximately 52% of the new loan production in 2003 was attributable to this office.

On January 31, 2002, the Company acquired the Richmond Hill office of Valdosta, Georgia-based Park Avenue Bank. The Company received certain loans, property and equipment, and other assets with fair values of approximately \$12,201,000, while assuming deposits and other liabilities totaling approximately \$4,270,000. Cash balances applied towards the purchase approximated \$8,000,000. A deposit premium of \$100,000 was recorded in conjunction with the transaction.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Analysis should be read in conjunction with the consolidated financial statements and related notes. The Company's accounting policies, which are described in Note 1 to the financial statements and in the Critical Accounting Policies section of this Analysis, 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 section entitled Forward-Looking Statements on the last page of this Analysis.

DESCRIPTION OF BUSINESS

Southeastern Banking Corporation (the Company), with assets exceeding \$400,000,000, is a financial services company with operations in southeast Georgia and northeast Florida. Southeastern Bank (SEB), the Company's principal subsidiary, offers a full line of commercial and retail services to meet the financial needs of its customer base through its sixteen 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.

ACQUISITION

On January 31, 2002, the Company acquired the Richmond Hill office of Valdosta, Georgia-based Park Avenue Bank. The Company received certain loans, property and equipment, and other assets with fair values of approximately \$12,201,000, while assuming deposits and other liabilities totaling \$4,270,000. Cash balances applied towards the purchase approximated \$8,000,000. A deposit premium of \$100,000 was recorded in conjunction with the transaction. Operating results for Richmond Hill are included from the date of acquisition.

FINANCIAL CONDITION

Consolidated assets totaled \$400,755,218 at year-end 2004, growing \$26,387,484 or 7.05% from December 31, 2003. Asset growth in 2004 was concentrated in federal funds sold and the loan portfolio. Specifically, federal funds sold grew \$20,664,000 and loans, \$12,522,727; investment securities declined \$13,875,015. Federal funds sold balances have declined since year-end 2004 and are expected to decline further during 2005 as funds are reallocated to other earning assets. As a percent of earning assets, loans totaled 59%, investment securities, 32%, and federal funds sold, 9%, at December 31, 2004 versus 59%, 38%, and 3% at year-end 2003. Overall, earning assets aggregated 92% of total assets at both December 31, 2004 and 2003. During the year-earlier period, total assets declined \$3,771,895 or 1.00%. A \$3,178,786 reduction in short-term borrowings and deposits, particularly interest-bearing balances, and shifts in earning assets were the major factors in the 2003 results. Refer to the Liquidity section of this Analysis for additional details on deposits and other funding sources.

Investment Securities

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The securities portfolio decreased in size during 2004, largely during the second half of the year, as cash flows were utilized in the loan portfolio. On a carrying value basis, investment securities declined \$13,875,015 or 10.53% at December 31, 2004 compared to 2003. Purchases of securities during 2004 approximated \$42,647,000, and sales and other redemptions, \$54,709,000. The Company recognized a net gain of \$124,094 on the sale of securities approximating \$10,075,000 in 2004; the sale of these securities, primarily corporates and Agencies, was prompted by favorable market conditions. The remaining redemptions were attributable to various issuers' exercise of call options and other prepayments as a result of the interest rate environment as well as maturities in the normal course of business. The effective repricing of called securities at lower rates impacts current and future earnings results; refer to the Interest Rate and Market Risk/Interest Rate Sensitivity and Operations sections of this Analysis for more details. In conjunction with asset/liability management, the Company continues to increase its proportionate holdings of mortgage-backed securities, corporates, and municipals when feasible to reduce its exposure to Agency securities with call features. At December 31, 2004, mortgage-backed securities, corporates, and municipals comprised 29%, 11%, and 31% of the portfolio and at December 31, 2003, 26%, 13%, and 28%. Overall, securities comprised 32% of earning assets at December 31, 2004, down 600 basis points from year-end 2003 levels. The portfolio yield approximated 4.87% in 2004, virtually unchanged from 2003.

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Management believes the credit quality of the investment portfolio remains sound, with 58% of the carrying value of debt securities being backed by the U.S. Treasury or other U.S. Government-sponsored agencies at December 31, 2004. All of the Company's corporate bonds were rated A or higher by at least one nationally recognized rating agency at December 31, 2004. The weighted average life of the portfolio was just over 3 years at year-end 2004. The amortized cost and estimated fair value of investment securities are delineated in the table below:

Investment Securities by Category	Amortized	Unrealized	Unrealized	Fair
December 31,	Cost	Gains	Losses	Value
<i>(In thousands)</i>				
Available-for-sale:				
U. S. Government agencies				
2004	\$ 34,381	\$ 54	\$ 72	\$ 34,363
2003	42,406	\$ 548	\$ 93	\$ 42,861
2002	56,147	1,438		57,585
Mortgage-backed securities				
2004	33,940	231	305	33,866
2003	33,996	388	139	34,245
2002	40,837	1,066	3	41,900
Corporate bonds				
2004	12,027	643	3	12,667
2003	16,173	1,064		17,237
2002	15,101	1,039		16,140
Total available-for-sale				
2004	80,348	928	380	80,896
2003	92,575	2,000	232	94,343
2002	112,085	3,543	3	115,625
Held-to-maturity:				
State and municipal securities				
2004	36,989	1,823	42	38,770
2003	37,416	2,296	35	39,677
2002	37,698	2,089	23	39,764
Total investment securities:				
2004	\$ 117,337	\$ 2,751	\$ 422	\$ 119,666
2003	129,991	4,296	267	134,020
2002	149,783	5,632	26	155,389

As shown, the carrying value of the investment portfolio reflected \$2,327,724 in net unrealized gains at December 31, 2004; refer to Note 3 of the consolidated financial statements and the Capital Adequacy section of this Analysis for more details on investment securities and related fair value. The Company does not have a concentration in the obligations of any issuer other than the U.S. Government and its agencies.

The distribution of maturities and the weighted average yields of investment securities at December 31, 2004 are shown in the table on the next page. Actual maturities may differ from contractual maturities because borrowers may, in many instances, have the right to call or prepay obligations.

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of Investment Securities	1 Year	1 5	5 10	After 10	Total
<i>December 31, 2004</i>	or Less	Years	Years	Years	Total
<i>(Dollars in thousands)</i>					
Distribution of maturities					
Amortized cost:					
U.S. Government agencies	\$ 6,518	\$ 22,155	\$ 5,708		\$ 34,381
Mortgage-backed securities ¹	681	31,193	2,066		33,940
Corporate bonds	3,817	7,047	1,163		12,027
States and municipal securities	1,561	7,624	16,403	\$ 11,401	36,989
Total investment securities	\$ 12,577	\$ 68,019	\$ 25,340	\$ 11,401	\$ 117,337
Fair value:					
U.S. Government agencies	\$ 6,549	\$ 22,116	\$ 5,698		\$ 34,363
Mortgage-backed securities ¹	675	31,121	2,070		33,866
Corporate bonds	3,852	7,655	1,160		12,667
States and municipal securities	1,574	7,973	17,317	\$ 11,906	38,770
Total investment securities	\$ 12,650	\$ 68,865	\$ 26,245	\$ 11,906	\$ 119,666
Weighted average yield:					
U.S. Government agencies	4.86%	3.17%	4.23%		3.67%
Mortgage-backed securities ¹	4.43%	4.02%	4.44%		4.06%
Corporate bonds	4.75%	6.34%	4.30%		5.64%
States and municipal securities ²	6.65%	6.55%	6.79%	6.58%	6.67%
Total investment securities	5.03%	4.27%	5.91%	6.58%	4.93%

¹ Distribution of maturities for mortgage-backed securities is based on expected average lives which may differ from the contractual terms.

² The weighted average yields for tax-exempt securities have been calculated 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 pertaining to tax-exempt income.

Loans

Loans, net of unearned income, grew 6.23% or \$12,824,124 since year-end 2003. The net loans to deposits ratio aggregated 64.40% at December 31, 2004 versus 64.89% and 55.05% at December 31, 2003 and 2002. A \$12,700,380 or 29.02% increase in real estate construction loans was the primary factor in the 2004 results. The majority of the growth within the construction portfolio was residential in nature. Most of the loans in the real estate-construction portfolio are preparatory to customers' attainment of permanent financing or developer's sale and are, by nature, short-term and somewhat cyclical; swings in these account balances are normal and to be expected. Although the Company, like peer institutions of similar size, originates permanent mortgages for new construction, it traditionally does not hold or service long-term mortgage loans for its own portfolio. Rather, permanent mortgages are typically brokered through a mortgage underwriter or government agency. The Company receives mortgage origination fees for its participation in these origination transactions; refer to the disclosures provided under Results of Operations for more details. Continuing 2003 gains, commercial loans increased \$1,706,116 or 1.98% at December 31, 2004 compared to 2003. Agricultural loans within the commercial portfolio grew \$7,100,931; nonfarm real estate, governmental, and other commercial/industrial loans fell \$3,708,266, \$86,910, and \$1,599,639. Real estate mortgage loans also grew \$2,161,864 or 3.95%; overall, these loans comprised 26.04% of the total portfolio at December 31, 2004. Balances in the consumer portfolio declined \$3,755,645 or 17.66% at year-end 2004.

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compared to 2003; reduced demand was the chief element in the 2004 results.

Despite economic uncertainties within the Company's markets, management is optimistic that loan volumes will continue to grow in 2005. Managerial strategies to increase loan production include continuing competitive pricing on loan products, development of additional loan relationships, and purchase of loan participations from correspondent banks, all without compromising portfolio quality. Additionally, the Brunswick office, which originally opened as a loan production office in February 2003, is expected to continue its strong origination volume. During the same period last year, net

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loans grew 17.54% or \$30,699,435. Approximately 52% of the 2003 improvement was attributable to the Brunswick office; the remaining increase resulted from loan origination at other SEB locations. Loans outstanding are presented by type in the table below:

Loans by Category

<u>December 31,</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<i>(In thousands)</i>					
Commercial, financial, and agricultural ¹	\$ 87,784	\$ 86,078	\$ 77,680	\$ 56,065	\$ 70,175
Real estate construction	56,471	43,770	17,371	6,959	7,750
Real estate residential mortgage ^{2,3}	56,944	54,782	55,614	70,361	61,257
Consumer, including credit cards	17,510	21,266	24,649	30,420	35,373
Loans, gross	218,709	205,896	175,314	163,805	174,555
Unearned income	204	216	333	457	753
Loans, net	\$ 218,505	\$ 205,680	\$ 174,981	\$ 163,348	\$ 173,802

¹ Includes obligations of states and political subdivisions.

² Typically have final maturities of 15 years or less.

³ To comply with recent regulatory guidelines, certain loans that formerly would have been classified as real estate-mortgage are now being coded as real estate - construction. Comparable loans from 2001 and prior periods have not been reclassified to reflect this change. The majority of real estate - construction loans are residential in nature.

The amount of commercial/financial/agricultural and real estate - construction loans outstanding at December 31, 2004, based on remaining contractual repayments of principal, are shown by maturity and interest rate sensitivity in the table below. The maturities shown are not necessarily indicative of future principal reductions or cash flow since each loan is evaluated at maturity and, in many instances, is renewed in part or total.

Loan Maturity and

<u>Interest Rate Sensitivity Selected Loans</u>	<u>Within</u>			
<u>December 31, 2004</u>	<u>Total</u>	<u>One Year</u>	<u>One-Five Years</u>	<u>After Five Years</u>
<i>(In thousands)</i>				
Loan maturity:				
Commercial, financial, and agricultural ¹	\$ 87,472	\$ 30,330	\$ 53,263	\$ 3,879
Real estate construction	56,438	41,825	13,996	617
Total	\$ 143,910	\$ 72,155	\$ 67,259	\$ 4,496
Interest rate sensitivity:				
Selected loans with:				
Predetermined interest rates			\$ 28,831	\$ 1,410
Floating or adjustable interest rates			38,428	3,086
Total			\$ 67,259	\$ 4,496

¹ Excludes nonaccrual loans totaling approximately \$312 and \$33.

The Company had no concentration of loans to borrowers engaged in any single industry that exceeded 10% of total loans for any of the periods presented. Although the Company's loan portfolio is diversified, significant portions of its loans are collateralized by real estate. At December 31, 2004, approximately 77% of the loan portfolio was comprised of loans with real estate as the principal collateral. As required by policy, real estate loans are collateralized based on certain loan-to-appraised value ratios. A geographic concentration in loans arises given the Company's operations within a regional area of southeast Georgia and northeast Florida. On an aggregate basis, commitments to extend credit and standby letters of credit approximated \$34,899,000 at year-end 2004; 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. The Company did not fund or incur any losses on letters of credit in 2004 or 2003.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, restructured loans, and foreclosed real estate and other assets. Overall,

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nonperforming assets approximated \$1,505,000 at year-end 2004, down \$91,000 or 5.70% from year-end 2003 and 37.13% from December 31, 2002. As a percent of total assets, nonperforming assets totaled 0.38% at year-end versus 0.43% and 0.63% at December 31, 2003 and 2002. Other than a \$191,000 reduction in a large nonaccrual loan due to borrower sale of underlying collateral and an \$86,000 charge-off on a separate commercial real estate loan, no material credits were transferred or removed from nonaccrual status during 2004. Industry or individual concentrations within nonaccrual balances at December 31, 2004 included:

- a) Industry concentrations: Approximately 33% or \$357,000 of nonaccrual balances at December 31, 2004 pertained to the shrimping industry; charge-offs on these particular loans approximated \$100,000 during 2004. Collateral held varies but includes real estate and commercial fishing vessels. Management considers the allowance sufficient to absorb any additional losses that may result from these loans.
- b) Individual concentrations: At December 31, 2004, nonaccrual balances also included loans to one other borrower totaling \$73,000. Due to the underlying collateral coverage, no significant losses, if any, are expected on this balance.

Refer to the subsection entitled Policy Note for criteria used by management in classifying loans as nonaccrual. The allowance for loan losses approximated 3.87X the nonperforming loans balance at December 31, 2004 versus 2.76X at year-end 2003 and 1.77X at year-end 2002. Significant activity within foreclosed real estate balances included foreclosure of a commercial real estate parcel valued at \$170,000 and sale of an unrelated \$98,000 parcel at a book gain of \$117,000. Management is actively marketing the \$170,000 parcel and is optimistic that it will be sold in 2005.

Loans past due 90 days or more approximated \$876,000, or less than 1% of net loans, at year-end 2004. Management is unaware of any material concentrations within these past due balances. The table below provides further information about nonperforming assets and loans past due 90 plus days:

Nonperforming Assets

<u>December 31,</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<i>(Dollars in thousands)</i>					
Nonaccrual loans:					
Commercial, financial, and agricultural	\$ 312	\$ 691	\$ 1,417	\$ 1,275	\$ 2,894
Real estate construction	33	60			
Real estate residential mortgage	556	560	517	588	189
Consumer, including credit cards	168	77	96	18	21
	<u>1,069</u>	<u>1,388</u>	<u>2,030</u>	<u>1,881</u>	<u>3,104</u>
Total nonaccrual loans	\$ 1,069	\$ 1,388	\$ 2,030	\$ 1,881	\$ 3,104
Restructured loans ¹					341
	<u>1,069</u>	<u>1,388</u>	<u>2,030</u>	<u>1,881</u>	<u>3,445</u>
Total nonperforming loans	\$ 1,069	\$ 1,388	\$ 2,030	\$ 1,881	\$ 3,445
Foreclosed real estate ²	409	197	273	317	397
Other repossessed assets	27	11	91	14	60
	<u>1,505</u>	<u>1,596</u>	<u>2,394</u>	<u>2,212</u>	<u>3,902</u>
Total nonperforming assets	\$ 1,505	\$ 1,596	\$ 2,394	\$ 2,212	\$ 3,902
	<u>876</u>	<u>961</u>	<u>1,448</u>	<u>1,528</u>	<u>1,191</u>
Accruing loans past due 90 days or more	\$ 876	\$ 961	\$ 1,448	\$ 1,528	\$ 1,191

Ratios:

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Nonperforming loans to net loans	0.49%	0.67%	1.16%	1.15%	1.98%
Nonperforming assets to net loans plus foreclosed/repossessed assets	0.69%	0.78%	1.37%	1.35%	2.24%

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

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

Nonperforming Assets 2003 compared to 2002 and 2001. The fluctuation in nonperforming asset balances at year-end 2003 versus 2002 resulted predominantly from agricultural-based loans. Specifically, nonaccrual balances in 2002 and 2001 included approximately \$600,000 pertaining to an impaired agricultural loan collateralized by timber and farmlands. In March 2003, this loan was paid off; interest income recognized upon settlement totaled \$112,000. Conversely, due to the decline in the shrimping industry, multiple loans to commercial fishermen totaling approximately \$334,000 were converted to nonaccrual status during 2003.

Nonperforming Assets 2001 compared to 2000. Foreclosed real estate balances at December 31, 2000 included \$2,300,000 pertaining to an impaired real estate loan. This loan, collateralized by a first lien on income-producing commercial real estate, was initially reduced by a \$400,000 charge to the allowance in December 2000 and prior to foreclosure in February 2001, an additional \$300,000. Impairment of the loan was based on the fair value of the underlying collateral, less estimated selling expenses, as determined by a third party appraisal. This property was sold to a third party in August 2001.

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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 for the loan is recognized on a cash basis due to deterioration in the financial condition of the borrower. Smaller balance consumer loans are generally not subject to the above-referenced guidelines and are normally placed on nonaccrual status or else charged-off when payments have been in default 90 days or more. Nonaccrual loans are reduced to the lower of the principal balance of the loan or the market value of the underlying real estate or other collateral net of selling costs. Any impairment in the principal balance is charged against the allowance for loan losses. Accrued interest on any loan placed on nonaccrual status is reversed. Interest income on nonaccrual loans, if subsequently recognized, is recorded on a cash basis. No interest is subsequently recognized on nonaccrual (or former nonaccrual) loans until all principal has been collected. Loans are classified as restructured when either interest or principal has been reduced or deferred because of deterioration in the borrower's financial position. Foreclosed real estate represents real property acquired by foreclosure or directly by title or deed transfer in settlement of debt. Provisions for subsequent devaluations of foreclosed real estate are charged to operations, while costs associated with improving the properties are generally capitalized. Refer to the footnotes accompanying the consolidated financial statements for more details on the Company's accounting and reporting policies on impaired loans and other real estate.

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 2004 provision for loan losses totaled \$807,483, which exceeded net charge-offs of \$506,086 by \$301,397. The comparable provision and charge-off amounts for 2003 were \$967,500 and \$735,682 and in 2002, \$1,074,000 and \$607,761. Net charge-offs represented 0.24% of average loans in 2004 compared to 0.39% in 2003 and 0.35% in 2002. Refer to the Nonperforming Assets section of this Analysis for details on specific charge-offs recognized the last few years. 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 following page.

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Table of Contents**Allowance for Loan Losses**

<i>Years Ended December 31,</i>	2004	2003	2002	2001	2000
<i>(Dollars in thousands)</i>					
Allowance for loan losses at beginning of year	\$ 3,833	\$ 3,601	\$ 3,135	\$ 3,160	\$ 3,223
Provision for loan losses	807	968	1,074	1,200	1,200
Charge-offs:					
Commercial, financial, and agricultural	339	391	146	698	557
Real estate construction	12	29	2		
Real estate residential mortgage	71	106	198	132	298
Consumer, including credit cards	335	450	528	720	817
Total charge-offs	757	976	874	1,550	1,672
Recoveries:					
Commercial, financial, and agricultural	11	31	21	38	46
Real estate construction		1			
Real estate residential mortgage	47	20	5	13	20
Consumer, including credit cards	193	188	240	274	343
Total recoveries	251	240	266	325	409
Net charge-offs	506	736	608	1,225	1,263
Allowance for loan losses at end of period	\$ 4,134	\$ 3,833	\$ 3,601	\$ 3,135	\$ 3,160
Net loans outstanding ¹ at end of period	\$ 218,505	\$ 205,680	\$ 174,981	\$ 163,348	\$ 173,802
Average net loans outstanding ¹ at end of period	\$ 210,477	\$ 187,789	\$ 173,663	\$ 164,402	\$ 172,768
Ratios:					
Allowance to net loans	1.89%	1.86%	2.06%	1.92%	1.82%
Net charge-offs to average loans	0.24%	0.39%	0.35%	0.75%	0.73%
Provision to average loans	0.38%	0.52%	0.62%	0.73%	0.69%
Recoveries to total charge-offs	33.16%	24.59%	30.43%	20.97%	24.46%

¹ Net of unearned income

The Company prepares a comprehensive analysis of the allowance for loan losses at least quarterly. SEB's Board of Directors is responsible for affirming the allowance methodology and assessing the general and specific allowance factors in relation to estimated and actual net charge-off trends. The allowance for loan losses consists of three elements: a) specific allowances for individual loans; b) general allowances for loan pools based on historical loan loss experience and current trends; and c) allowances based on economic conditions and other risk factors in the Company's markets. The specific allowance is based on a regular analysis of classified loans where the internal risk ratings are below a predetermined classification. The specific allowance established for these classified loans is based on a careful analysis of probable and potential sources of repayment, including cash flow, collateral value, and guarantor capacity. The general allowance is determined by the mix of loan products within the portfolio, an internal loan grading process, and associated allowance factors. These general allowance factors are updated at least annually and are based on a statistical loss analysis and current loan charge-off trends. The loss analysis examines loss experience for loan

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portfolio segments in relation to internal loan grades. Charge-off trends are analyzed for homogeneous loan categories (e.g., residential real estate, consumer loans, etc.). While formal loss and charge-off trend analyses are conducted annually, the Company continually monitors credit quality in all portfolio segments and revises the general allowance factors whenever necessary in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan category. The third element, comprised of economic conditions, concentrations, and other risk factors, is based on marketplace conditions and/or events that may affect loan repayment in the near-term. This element requires a high degree of managerial judgment to anticipate the impact that economic trends, legislative or governmental actions, or other unique market and/or portfolio issues will have on credit losses. Consideration of other risk factors typically includes such issues as recent loss experience in specific portfolio segments, trends in loan quality, changes in market focus, and concentrations of credit. These factors are based on the influence of current external variables on portfolio risk, so there will typically be some movement between this element and the specific allowance component during various stages of the economic cycle. Because of their subjective nature, these risk factors are carefully reviewed by management and revised as conditions indicate. The unallocated component of the allowance reflects the margin for imprecisions in data and analytics inherent in most estimation processes. Based on its analyses, management believes the allowance was adequate at December 31, 2004.

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The allowance is summarized by loan categories in the table below:

Allocation of Allowance for Loan Losses

<i>December 31,</i>	2004	2003	2002	2001	2000
<i>(Dollars in thousands)</i>					
Allocation of allowance by loan category:					
Commercial, financial, and agricultural	\$ 1,764	\$ 1,581	\$ 1,843	\$ 909	\$ 1,054
Real estate - construction	1,055	906	144	140	117
Real estate - residential mortgage	973	918	893	931	707
Consumer, including credit cards	323	385	449	841	755
Unallocated	19	43	272	314	527
Total	\$ 4,134	\$ 3,833	\$ 3,601	\$ 3,135	\$ 3,160
Allocation of allowance as a percent of total allowance:					
Commercial, financial, and agricultural	43%	41%	51%	29%	33%
Real estate - construction	26%	24%	4%	4%	4%
Real estate - residential mortgage	23%	24%	25%	30%	22%
Consumer, including credit cards	8%	10%	12%	27%	24%
Unallocated		1%	8%	10%	17%
Total	100%	100%	100%	100%	100%
Year-end loan categories as a percent of total loans:					
Commercial, financial, and agricultural	41%	42%	44%	34%	40%
Real estate - construction	25%	21%	10%	4%	5%
Real estate - residential mortgage	26%	27%	32%	43%	35%
Consumer, including credit cards	8%	10%	14%	19%	20%
Total	100%	100%	100%	100%	100%

As shown in the table above, growth in the allowance allocated to real estate - construction loans was primarily attributable to volume increases within that portfolio.

Other Commitments

Other than construction of a permanent branch building to replace the temporary banking facility in Brunswick, Georgia, and renovation of other SEB offices, the Company had no material plans or commitments for capital expenditures as of December 31, 2004. Planning for the permanent branch building has not been finalized and potential capital expenditures cannot yet be estimated.

LIQUIDITY

Liquidity is managed to ensure sufficient cash flow to satisfy demands for credit, deposit withdrawals, and other corporate needs. The Company's sources of funds include a large, stable deposit base and secured advances from the Federal Home Loan Bank. Additional liquidity is provided by payments and maturities, including both principal and interest, of the loan and investment securities portfolios. At December 31, 2004, loans¹ and investment securities with carrying values approximating \$143,900,000 and \$12,600,000 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.

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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 91% of the funding base at December 31, 2004, virtually unchanged from 2003 levels. Borrowed funds, which variously encompass U.S. Treasury demand notes, federal funds purchased, and FHLB advances, totaled \$6,431,211 at year-end 2004 versus \$5,733,936 at December 31, 2003. More specifically, the maximum amount of U.S. Treasury demand notes available to the Company at year-end 2004 totaled \$3,000,000, of which 48% was outstanding. Unused borrowings under unsecured federal funds lines of credit from other banks, each with varying terms and expiration dates, totaled \$22,000,000. Additionally, under a credit facility with the FHLB, the Company can borrow up to 16% of SEB's total assets; at year-end 2004, unused borrowings approximated \$59,000,000. 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 2005. Refer to the Capital Adequacy section of this Analysis for details on treasury stock purchases and intercompany dividend policy and the Financial Condition section of this Analysis for details on unfunded loan commitments.

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

Deposits

Deposits totaled \$339,309,890 at year-end 2004, an increase of \$22,346,398 or 7.05% from December 31, 2003. Interest-bearing deposits increased \$11,113,284 or 4.31%, and noninterest-bearing deposits, \$11,233,114 or 19.05%. Seasonal variation in local government balances, particularly NOW accounts, and solid growth in other demand deposits were the primary factors in the 2004 deposit increase. Notably, customers continue to utilize savings as an alternative to time certificates in the current rate environment; savings balances exceeded 35% of interest-bearing balances at December 31, 2004. Overall, interest-bearing deposits comprised 79.31%, and noninterest-bearing deposits, 20.69%, of total deposits at December 31, 2004 versus 81.40% and 18.60% at December 31, 2003. The distribution of interest-bearing balances at December 31, 2004, 2003, and 2002 is shown in the table below:

	2004		2003		2002	
	Balances	Percent of Total	Balances	Percent of Total	Balances	Percent of Total
Deposits						
<i>December 31,</i>						
<i>(Dollars in thousands)</i>						
Interest-bearing demand deposits ¹	\$ 98,352	36.55%	\$ 85,797	33.25%	\$ 77,432	29.77%
Savings	95,414	35.45%	94,189	36.51%	96,838	37.22%
Time certificates < \$100,000	45,256	16.82%	49,300	19.11%	56,399	21.68%
Time certificates >= \$100,000	30,101	11.18%	28,724	11.13%	29,485	11.33%
Total interest-bearing deposits	\$ 269,123	100.00%	\$ 258,010	100.00%	\$ 260,154	100.00%

¹ NOW and money market accounts.

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Deposits of one local governmental body comprised approximately \$36,468,000 and \$27,225,000 of the overall deposit base at December 31, 2004 and 2003. Brokered deposits totaled \$594,000 at both December 31, 2004 and 2003.

As shown in the table on the next page, approximately 84% of time certificates at December 31, 2004 were scheduled to mature within the next twelve months.

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	Balances		
	< \$100,000	>= \$100,000	Total
Maturities of Certificates of Deposit			
<i>December 31, 2004</i>			
<i>(In thousands)</i>			
Months to maturity:			
3 or less	\$ 12,015	\$ 12,222	\$ 24,237
Over 3 through 6	10,206	3,237	13,443
Over 6 through 12	14,541	11,442	25,983
Over 12	8,494	3,200	11,694
Total	\$ 45,256	\$ 30,101	\$ 75,357

The average balances table included in the Operations section of this Analysis provides detailed information about income/expense and rates paid on deposits for the last three years. The composition of average deposits for these same periods is shown below:

	2004		2003		2002	
	Balances	Percent of Total	Balances	Percent of Total	Balances	Percent of Total
Composition of Average Deposits						
<i>Years Ended December 31,</i>						
<i>(Dollars in thousands)</i>						
Noninterest-bearing deposits	\$ 67,526	20.74%	\$ 61,018	19.66%	\$ 59,672	19.21%
Interest-bearing demand deposits ¹	82,001	25.94%	71,315	22.98%	62,363	20.07%
Savings	96,303	29.56%	98,103	31.61%	95,086	30.61%
Time certificates	77,378	23.76%	79,917	25.75%	93,549	30.11%
Total	\$ 325,743	100.00%	\$ 310,353	100.00%	\$ 310,670	100.00%

¹ NOW and money market accounts.

FHLB Advances

Advances outstanding with the FHLB totaled \$5,000,000 at year-end 2004, unchanged from 2003. The outstanding advance, which matures March 17, 2010, accrues interest at an effective rate of 6.00%, payable quarterly. The advance is convertible into a three-month Libor-based floating rate anytime at the option of the FHLB. Interest expense on the advance approximated \$300,000 in 2004 and 2003. Mortgage-backed securities with an aggregate carrying value of \$5,197,000 were pledged to collateralize advances under this line of credit.

INTEREST RATE AND MARKET RISK/INTEREST RATE SENSITIVITY

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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 that follows provides a snapshot of the Company's interest rate sensitivity position at December 31, 2004.

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Interest Rate Sensitivity	Repricing Within				Total
	0 - 3 Months	4 - 12 Months	One - Five Years	After Five Years	
<i>December 31, 2004</i>					
<i>(Dollars in thousands)</i>					
Interest Rate Sensitive Assets					
Federal funds sold	\$ 31,118				\$ 31,118
Securities ¹	4,761	\$ 7,867	\$ 67,969	\$ 36,740	117,337
Loans, gross ²	123,212	19,585	69,009	5,834	217,640
Other assets	1,217				1,217
Total interest rate sensitive assets	160,308	27,452	136,978	42,574	367,312
Interest Rate Sensitive Liabilities					
Deposits ³	218,380	39,087	11,596	60	269,123
U.S. Treasury demand note	1,431				1,431
Federal Home Loan Bank advances				5,000	5,000
Total interest rate sensitive liabilities	219,811	39,087	11,596	5,060	275,554
Interest rate sensitivity gap	\$ (59,503)	\$ (11,635)	\$ 125,382	\$ 37,514	\$ 91,758
Cumulative gap	\$ (59,503)	\$ (71,138)	\$ 54,244	\$ 91,758	
Ratio of cumulative gap to total rate sensitive assets	(16.20)%	(19.37)%	14.77%	24.98%	
Ratio of cumulative rate sensitive assets to rate sensitive liabilities	72.93%	72.52%	120.05%	133.30%	
Cumulative gap at December 31, 2003	\$ (73,160)	\$ (89,804)	\$ 36,027	\$ 82,296	
Cumulative gap at December 31, 2002	\$ (85,437)	\$ (110,700)	\$ 20,813	\$ 78,783	

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.

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

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

As shown in the table above, the Company's gap position (\$ in thousands) remained negative through the short-term repricing intervals at year-end 2004. Excluding traditionally nonvolatile NOW and premium savings balances from the gap calculation, the cumulative gap at December 31, 2004 totaled \$104,646 at three months and \$93,014 at twelve months. Compared to 2003, the short-term gap position narrowed 18.66% at December 31, 2004. The narrowing of the short-term gap position at December 31, 2004 was primarily attributable to an increase in variable rate loans tied to prime and a significant increase in federal funds sold. The gap position is expected to widen moderately during 2005 as federal funds sold are reallocated to other earning assets and as seasonal deposits decline. 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 loans² and securities¹ will perform according to their contractual maturities when, in many cases, actual loan terms are much shorter than the original terms and securities are subject to early redemption.

In addition to gap analysis, the Company uses simulation modeling to test the interest rate sensitivity of net interest income and the balance sheet. Contractual maturity and repricing characteristics of loans are incorporated into the model, as are prepayment assumptions, maturity data, and call options within the investment portfolio. Non-maturity deposit accounts are modeled based on past experience. Simulation results quantify interest rate risks under various interest rate scenarios. In estimating the impact of these rate movements on the Company's net interest income, the following general assumptions were made: a) Spreads on all loans, investment securities, and deposit products remain constant; b) Interest rate movements occur gradually over an extended period versus rapidly; and c) Loans and deposits are projected to grow at constant speeds. Limitations inherent with these assumptions include: a) Certain deposit accounts, in particular, interest-bearing demand deposits, reprice infrequently and historically, have had limited impact on net interest income from a rate perspective; b) In a down rate environment, competitive and other factors constrain timing of rate cuts on other deposit products whereas loans tied to prime and other variable

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indexes reprice instantaneously and, as amply demonstrated the last few years, securities with call or other prepayment features are likely to be redeemed prior to stated maturity and replaced at lower rates (lag effect); c) Changes in balance sheet mix, for example, unscheduled pay-offs of large commercial loans, are oftentimes difficult to forecast; and d) Rapid and aggressive rate movements by the Federal Reserve can materially impact estimated results. Management is optimistic that initiatives taken to increase loan production and diversify the securities portfolio have reduced the interest rate sensitivity of net interest income and the balance sheet, and such actions will continue.

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

IMPACT OF INFLATION

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

CAPITAL ADEQUACY

Federal banking regulators have established certain capital adequacy standards required to be maintained by banks and bank holding companies. These regulations define capital as either Tier 1 (primarily 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 December 31, 2004, the Company's Tier 1, total capital, and Tier 1 leverage ratios totaled 18.92%, 20.17%, and 12.34%. The Company is committed to maintaining its well-capitalized status.

The Company's capital ratios for the most recent periods are presented in the table on the next page.

Table of Contents**Capital Ratios**

<u>December 31,</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<i>(Dollars in thousands)</i>					
Tier 1 capital:					
Realized shareholders' equity	\$ 48,881	\$ 46,599	\$ 45,193	\$ 44,656	\$ 44,710
Intangible assets and other adjustments	(623)	(703)	(853)	(905)	(1,117)
Total Tier 1 capital	48,258	45,896	44,340	43,751	43,593
Tier 2 capital:					
Portion of allowance for loan losses	3,201	3,020	2,681	2,342	2,374
Total Tier 2 capital	3,201	3,020	2,681	2,342	2,374
Total risk-based capital	\$ 51,459	\$ 48,916	\$ 47,021	\$ 46,093	\$ 45,967
Risk-weighted assets	\$ 255,110	\$ 240,749	\$ 213,596	\$ 186,565	\$ 189,139
Risk-based ratios:					
Tier 1 capital	18.92%	19.06%	20.76%	23.45%	23.05%
Total risk-based capital	20.17%	20.32%	22.01%	24.71%	24.30%
Tier 1 leverage ratio	12.34%	12.56%	12.14%	12.32%	12.56%
Realized shareholders' equity to assets	12.21%	12.51%	12.06%	12.60%	12.78%

¹ Assets adjusted to reflect available for sale securities at book value

Book value per share grew 5.12% or \$0.72 during 2004 to \$14.79 at year-end. Dividends declared totaled \$1.00, unchanged from 2003, 2002, and 2001, but up 96% or \$0.49 from 2000. The most significant factor affecting comparative results was an extraordinary dividend declared in the fourth quarters of 2004, 2003, 2002, and 2001; this dividend averaged \$0.53. Although the Company's continuing strong capital position enabled the payment of these dividends the last four years, management does not anticipate payment of extraordinary dividends on a permanent basis. For more specifics on the Company's dividend policy, refer to the subsection immediately following. Accumulated other comprehensive income, which measures net fluctuations in the fair values of investment securities, declined \$805,695 at year-end 2004 compared to year-end 2003. Movement in interest rates remained a dominant factor in the fair value results. Further details on investment securities and associated fair values are contained in the Financial Condition section of this Analysis.

Under existing authorization, the Company can purchase up to \$10,000,000 in treasury stock. From 2000-2003, the Company purchased 268,258 shares on the open market and through private transactions at an average price of \$17.15 per share. Cumulatively, the treasury stock program has reduced the Company's outstanding stock from 3,580,797 shares to 3,304,149 shares. The maximum consideration available for additional purchases, at prices to be determined in the future, is \$5,184,371. Any acquisition of additional shares will be dictated by market conditions. There is no expiration date for the treasury authorization. In accordance with generally accepted accounting principles, no prior period amounts have been restated to reflect the treasury stock purchases.

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

Dividend Policy

The Parent Company is a legal entity separate and distinct from its subsidiaries, and its revenues and liquidity position depend primarily on the payment of dividends from its subsidiaries. State banking regulations limit the amount of dividends SEB may pay without prior approval of the regulatory agencies. In 2004, SEB paid \$4,611,000 in dividends to the Company. A \$2,000,000 special dividend approved by the regulators enabled the Company, in turn, to pay the extraordinary dividend described in the preceding section. Cash dividends available from SEB for payment in 2005 without similar approval approximate \$2,912,000. The Company uses regular dividends paid by SEB in order to pay quarterly dividends to its own shareholders. Management anticipates that the Company will continue to pay cash dividends on a recurring basis.

Table of Contents**RESULTS OF OPERATIONS**

Net income exceeded \$5,800,000 in 2004, growing \$602,443 or 11.58% from 2003. On a per share basis, income for the year grew \$0.19 to \$1.75 in 2004 from \$1.56 in 2003. Likewise, the return on beginning equity¹ improved 94 basis points to 12.45% in 2004 from 11.51% in 2003. The return on average assets for the same periods totaled 1.53% and 1.42%. An \$889,681 or 5.43% increase in net interest income was the predominant factor in the 2004 results. Earnings increased \$442,229 or 9.29% in 2003 compared to 2002. A \$1,052,178 improvement in net interest income, offset by a 4.40% increase in noninterest expense, was the overriding factor in the 2003 results.

Selected ratios for the measurement of net income and equity are presented below:

Return on Equity and Assets

<u>Years Ended December 31,¹</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Return on average assets	1.53%	1.42%	1.30%	1.15%	1.41%
Return on average equity	11.89%	11.05%	10.37%	9.01%	11.18%
Dividend payout ratio ²	56.96%	63.83%	70.29%	82.71%	35.81%
Average equity to average assets ratio	12.87%	12.90%	12.54%	12.76%	12.57%

¹ These ratios exclude the effects of mark-to-market accounting for investment securities.

² Refer to the Capital Adequacy section of this Analysis for particulars on the Company's dividend policy and the 2001-2004 dividend payouts.

Net Interest Income

Net interest income increased \$889,681 or 5.43% in 2004 compared to 2003. The net interest margin approximated 5.13% in 2004 versus 5.06% a year ago; the interest rate spread, 4.78% versus 4.62%. Reductions in interest expense fueled the 2004 results, because interest income on all earning assets other than loans and federal funds sold declined from 2003 results. Specifically, interest earnings on taxable securities, tax-exempt securities, and other earning assets declined \$502,641, \$37,632, and \$3,694 from 2003 results while earnings on loans and federal funds sold increased \$436,591 and \$31,001. Overall declines in asset yields and, to a lesser extent, shifts in earning assets precipitated the 2004 results. On average, asset yields totaled 6.12% in 2004, down 25 basis points from 2003; see the interest differential table on page 24 for more details on changes in interest income attributable to volume and rates in 2004 versus 2003. Interest expense on deposits and other borrowed funds fell \$966,056 during 2004 versus 2003. Cost of funds dropped 41 basis points from 2003 levels, totaling 1.34% in 2004 versus 1.75% in 2003. Expected declines in yields on investment securities, as discussed in the Financial Condition section of this Analysis, and anticipated increases in deposit rates due to competition and the changing interest environment will exert pressure on net interest results in 2005. Reallocation of federal funds sold balances to other earning assets and anticipated loan growth in Brunswick and other markets are expected to alleviate declines in margins and spreads. Additionally, because most of the loans in the variable portfolio are tied to prime and similar indexes, the portfolio is positioned to take advantage of rate hikes promulgated by the Federal Reserve in 2005; variable loans comprised approximately 50% of total loans at year-end 2004. Net interest income increased \$1,052,178 or 6.86% in 2003 compared to 2002. Reductions in interest expense precipitated the 2003 results.

The intense competition for loans and deposits continued in 2004 and shows no sign of abating. The high number of new and existing financial institutions in the Company's market areas essentially guarantees downward pressure on net interest spreads and margins as all participants struggle to amass and grow market share. Volume of assets and deposits will become even more important as margins decline. Strategies implemented by management to increase average loans outstanding emphasize competitive pricing on loan products and development of

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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 three years are provided in the table on the next page.

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Average Balances ⁵	2004			2003			2002		
	Average	Income/	Yields/	Average	Income/	Yields/	Average	Income/	Yields/
<i>Years Ended December 31,</i>	<i>Balances</i>	<i>Expense</i>	<i>Rates</i>	<i>Balances</i>	<i>Expense</i>	<i>Rates</i>	<i>Balances</i>	<i>Expense</i>	<i>Rates</i>
(Dollars in thousands)									
Assets									
Cash and due from banks	\$ 17,806			\$ 15,256			\$ 14,442		
Interest-earning assets:									
Loans, net ^{1,2,3}	210,477	\$ 15,048	7.15%	187,789	\$ 14,653	7.80%	173,663	\$ 14,883	8.57%
Federal funds sold	10,947	147	1.34%	10,483	116	1.11%	17,246	278	1.61%
Taxable investment securities	95,493	4,016	4.21%	106,814	4,519	4.23%	116,161	6,054	5.21%
Tax-exempt investment securities ³	34,451	2,310	6.71%	34,616	2,364	6.83%	33,076	2,339	7.07%
Other interest-earning assets	1,005	38	3.78%	1,035	42	4.06%	1,099	59	5.37%
Total interest-earning assets	352,373	21,559	6.12%	340,737	21,694	6.37%	341,245	23,613	6.92%
Allowance for loan losses	(4,017)			(3,700)			(3,475)		
Premises and equipment, net	8,969			8,513			8,146		
Intangible and other assets	4,083			3,996			4,372		
Unrealized gains on investment securities	1,197			2,615			2,316		
Total Assets	\$ 380,411			\$ 367,417			\$ 367,046		
Liabilities and Shareholders Equity									
Noninterest-bearing deposits	\$ 67,526			\$ 61,018			\$ 59,672		
Interest-bearing liabilities:									
Interest-bearing demand deposits ⁴	82,001	\$ 789	.96%	71,315	\$ 874	1.23%	62,363	\$ 1,463	2.35%
Savings	96,303	857	.89%	98,103	1,195	1.22%	95,086	2,077	2.18%
Time deposits	77,378	1,542	1.99%	79,917	2,082	2.61%	93,549	3,602	3.85%
Federal funds purchased	99	2	2.12%	327	5	1.53%			
U.S. Treasury demand note	632	8	1.22%	787	8	0.96%	960	12	1.25%
Federal Home Loan Bank advances	5,000	300	6.00%	5,000					