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SOUTHEASTERN BANKING CORP

Form 10-Q

May 15, 2002

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, 2002

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 2-83157

SOUTHEASTERN BANKING CORPORATION

(Exact name of Registrant as specified in its charter)

GEORGIA

58-1423423

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification No.)

P.O. BOX 455, 1010 NORTHWAY STREET, 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

NO

As of April 30, 2002, 3,385,470 shares of the Registrant's common stock, par value \$1.25 per share, were outstanding.

Southeastern Banking Corporation

Consolidated Balance Sheets

(Unaudited)

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	March 31, 2002	December 31, 2001
<hr/>		
Assets		
Cash and due from banks	\$ 14,722,555	\$ 16,787,021
Federal funds sold	18,664,000	7,580,000
<hr/>		
Cash and cash equivalents	33,386,555	24,367,021
Investment securities		
Held-to-maturity (market value of approximately \$35,499,000 and \$35,451,000 at March 31, 2002 and December 31, 2001)	35,120,154	35,090,649
Available-for-sale, at market value	117,754,735	122,529,275
<hr/>		
Total investment securities	152,874,889	157,619,924
Loans, gross		
Unearned income	(397,493)	(457,087)
Allowance for loan losses	(3,402,954)	(3,134,594)
<hr/>		
Loans, net	171,309,861	160,213,731
Premises and equipment, net	8,338,282	6,675,354
Intangible assets	967,811	904,836
Other assets	5,433,069	5,433,949
<hr/>		
Total Assets	\$372,310,467	\$355,214,815
<hr/>		
Liabilities and Shareholders' Equity		
Liabilities		
Noninterest-bearing deposits	\$ 60,708,278	\$ 57,826,266
Interest-bearing deposits	256,155,848	240,880,561
<hr/>		
Total deposits	316,864,126	298,706,827
U. S. Treasury demand note	1,867,377	493,153
Federal Home Loan Bank advances	5,000,000	5,000,000
Other liabilities	2,908,804	5,417,508
<hr/>		
Total liabilities	326,640,307	309,617,488
<hr/>		
Shareholders' Equity		
Common stock (\$1.25 par value; 10,000,000 shares authorized; 3,580,797 shares issued; 3,385,470 shares outstanding)	4,475,996	4,475,996
Additional paid-in-capital	1,391,723	1,391,723
Retained earnings	42,733,835	42,035,982
Treasury stock, at cost (195,327 shares)	(3,247,718)	(3,247,718)
<hr/>		
Realized shareholders' equity	45,353,836	44,655,983
Accumulated other comprehensive income -- unrealized gains on available-for-sale securities, net of tax	316,324	941,344
<hr/>		
Total shareholders' equity	45,670,160	45,597,327
<hr/>		
Total Liabilities and Shareholders' Equity	\$372,310,467	\$355,214,815

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See accompanying notes to consolidated financial statements.

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Southeastern Banking Corporation
 Consolidated Statements of Income
 (Unaudited)

Three Months Ended March 31,	2002	2001
Interest income		
Loans, including fees	\$3,703,337	\$4,319,209
Federal funds sold	57,802	320,112
Investment securities		
Taxable	1,652,414	1,774,021
Tax-exempt	374,252	305,853
Other assets	15,505	19,337
Total interest income	5,803,310	6,738,532
Interest expense		
Deposits	1,975,794	2,936,513
U. S. Treasury demand note	4,218	10,365
Federal Home Loan Bank advances	74,000	74,000
Total interest expense	2,054,012	3,020,878
Net interest income	3,749,298	3,717,654
Provision for loan losses	300,000	300,000
Net interest income after provision for loan losses	3,449,298	3,417,654
Noninterest income		
Service charges on deposit accounts	566,936	582,688
Investment securities gains, net	2,000	-
Other operating income	369,544	291,384
Total noninterest income	938,480	874,072
Noninterest expense		
Salaries and employee benefits	1,645,498	1,567,805
Occupancy and equipment, net	534,219	528,731
Other operating expense	702,232	765,011
Total noninterest expense	2,881,949	2,861,547
Income before income taxes	1,505,829	1,430,179
Income tax expense	418,647	418,275

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Net income	\$1,087,182	\$1,011,904
=====		
Net income per average share - basic	\$ 0.32	\$ 0.30
=====		
Average common shares - basic	3,385,470	3,413,618

See accompanying notes to consolidated financial statements.

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Southeastern Banking Corporation
Consolidated Statements of Shareholders' Equity
(Unaudited)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Acco Compr

Balance, December 31, 2000	\$4,475,996	\$1,391,723	\$41,327,784	\$ (2,485,742)	\$
Comprehensive income:					
Net income	-	-	1,011,904	-	
Other comprehensive income, net of tax effect of \$429,880:					
Change in unrealized gains (losses) on available-for-sale securities	-	-	-	-	
Comprehensive income					
Cash dividends declared (\$0.11 per share)	-	-	(374,447)	-	
Acquisition of treasury stock	-	-	-	(488,208)	

Balance, March 31, 2001	\$4,475,996	\$1,391,723	\$41,965,241	\$ (2,973,950)	\$
=====					
Balance, December 31, 2001	\$4,475,996	\$1,391,723	\$42,035,982	\$ (3,247,718)	\$
Comprehensive income:					
Net income	-	-	1,087,182	-	
Other comprehensive income, net of tax effect of \$321,980:					
Change in unrealized gains (losses) on available-for-sale securities	-	-	-	-	
Comprehensive income					
Cash dividends declared (\$0.11 1/2 per share)	-	-	(389,329)	-	

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Balance, March 31, 2002 \$4,475,996 \$1,391,723 \$42,733,835 \$(3,247,718) \$

See accompanying notes to consolidated financial statements.

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Southeastern Banking Corporation
 Consolidated Statements of Cash Flows
 (Unaudited)

Three Months Ended March 31,	2002	2001
Operating activities		
Net income	\$ 1,087,182	\$ 1,087,182
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	300,000	300,000
Depreciation	201,024	201,024
Amortization and accretion, net	152,086	152,086
Investment securities gains, net	(2,000)	(2,000)
Net losses on other real estate	26,215	26,215
Changes in assets and liabilities:		
Decrease in other assets	346,927	346,927
(Decrease) increase in other liabilities	(635,460)	(635,460)
Net cash provided by operating activities	1,475,974	2,988,974
Investing activities		
Principal collections and maturities of investment securities:		
Held-to-maturity	1,262,000	1,262,000
Available-for-sale	13,243,162	13,243,162
Purchases of investment securities held-to-maturity	(1,311,111)	(1,311,111)
Purchases of investment securities available-for-sale	(9,509,076)	(9,509,076)
Net (increase) decrease in loans	(1,072,933)	(1,072,933)
Proceeds from sales of other real estate	41,429	41,429
Net funds paid in purchase of branch	(7,748,200)	(7,748,200)
Capital expenditures, net	(360,587)	(360,587)
Net cash (used in) provided by investing activities	(5,455,316)	24,166,316
Financing activities		
Net increase in deposits	13,892,917	13,892,917
Net increase (decrease) in U. S. Treasury demand note	1,374,224	1,374,224
Purchase of treasury stock	-	-
Dividends paid	(2,268,265)	(2,268,265)
Net cash provided by financing activities	12,998,876	11,998,876
Net increase in cash and cash equivalents	9,019,534	38,216,166
Cash and cash equivalents at beginning of year	24,367,021	19,050,855
Cash and cash equivalents at March 31	\$33,386,555	\$57,267,021

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Supplemental disclosure

Cash paid during the period		
Interest	\$ 2,416,494	\$ 2,3
Noncash investing and financing activities		
Real estate acquired through foreclosure	\$ 92,441	\$ 2,1
Loans made in connection with sales of foreclosed real estate	\$ 41,175	\$

See accompanying notes to consolidated financial statements.

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Southeastern Banking Corporation

Notes to Consolidated Financial Statements

(Unaudited)

1. Accounting and Reporting Policy for Interim Periods

The accompanying unaudited consolidated financial statements of Southeastern Banking Corporation (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 generally accepted accounting principles for complete financial statement presentation. In the opinion of management, all adjustments necessary for a fair presentation have been made. These adjustments, consisting of normal, recurring accruals, include estimates for various fringe benefits and other transactions normally determined or settled at year-end. Operating results for the quarter ended March 31, 2002 are not necessarily indicative of trends or results to be expected for the year ended December 31, 2002. For further information, refer to the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

2. Recent Accounting Pronouncements

Business Combinations/Goodwill and Other Intangible Assets

In July 2001, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination, and SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. These standards require all future business combinations to be accounted for using the purchase method of accounting. With the adoption of these standards, goodwill is no longer amortized but instead is subject to impairment tests at least annually. The Company adopted SFAS 141 and 142, in entirety, effective January 1, 2002. Adoption of these standards did not have a material impact on the Company's financial position or results of operations.

Accounting for the Impairment or Disposal of Long-Lived Assets

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In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This standard improves financial reporting by requiring one accounting model be used for long-lived assets to be disposed by sale and by broadening the presentation of discontinued operations to include more disposal transactions. The Company adopted SFAS 144 effective January 1, 2002. SFAS 144 did not have a material impact on the consolidated financial statements.

3. 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

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Southeastern Banking Corporation

Notes to Consolidated Financial Statements

(Unaudited)

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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Southeastern Banking Corporation

Management's Discussion and Analysis

This Analysis should be read in conjunction with the 2001 Annual Report on Form 10-K and the consolidated financial statements & related notes on pages 1 - 6 of this quarterly filing.

Description of Business

Southeastern Banking Corporation (the Company), with assets of \$372 million, 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 fifteen branch locations, including its new Richmond Hill office, 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. The Company's insurance subsidiary, SBC Financial Services, Inc. (SBCF), provides insurance agent and investment brokerage services with an emphasis on financial planning. In addition to traditional insurance, products offered include fixed and indexed annuities, mutual funds, retirement plans, and long-term care

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policies. SBCF had a nominal impact on the Company's financial condition and results of operations at March 31, 2002 and 2001.

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 \$12.2 million, while assuming deposits and other liabilities totaling approximately \$4.27 million. Cash balances applied towards the purchase approximated \$8 million. A deposit premium of \$100,000 was recorded in conjunction with the transaction. More details on the Richmond Hill acquisition are provided in later sections of this Analysis.

Financial Condition

Consolidated assets exceeded \$372 million at March 31, 2002, growing \$17,095,652 or 4.81% from year-end 2001 and \$9,328,082 or 2.57% from March 31, 2001. The acquisition of the Richmond Hill branch and deposit growth at other SEB locations were the primary factors in the year-to-date increase. Approximately \$11.1 million of the 2002 growth year-to-date occurred in the loan portfolio. Offsetting moderate reductions in investment securities, the remainder of the growth was concentrated in federal funds sold. Federal funds sold balances are expected to decline throughout 2002 as funds are reallocated to other earning assets. Loans comprised 51%, investment securities, 44%, and federal funds sold, 5%, of earning assets at March 31, 2002 versus 50%, 48%, and 2% at December 31, 2001. Overall, earning assets aggregated 92% of total assets at March 31, 2002 and year-end 2001. During the year-earlier period, total assets increased \$13,403,833 or 3.83%. Increased deposits funded the 2001 growth. Refer to the Liquidity section of this Analysis for additional details on deposits and other funding sources.

Investment Securities

On a carrying value basis, investment securities declined \$4,745,035 or 3.01% since December 31, 2001. Purchases of securities during the three month period approximated \$10,820,000, and redemptions, \$14,503,000. Approximately 60% of securities transactions year-to-date were attributable to various issuers' exercise of call options and other prepayments as a result of interest rate reductions during the last twelve months. The effective repricing of 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. Although no significant changes occurred in the investment securities mix during the first quarter of 2002, during the preceding twelve months the Company

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Southeastern Banking Corporation

Management's Discussion and Analysis

increased its holdings of mortgage-backed securities, corporates, and municipals to reduce its exposure to Agency securities with call features. At March 31, 2002, mortgage-backed securities, corporates, and municipals comprised 25%, 6%, and 23% of the portfolio. Overall, securities aggregated 44% of earning assets at March 31, 2002, down 400 basis points from year-end 2001 levels. The amortized cost and estimated fair value of investment securities are delineated

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in the table below:

Investment Securities by Category March 31, 2002	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
(In thousands)				
Available-for-sale:				
U. S. Government agencies	\$ 69,687	\$ 717	\$ 240	\$ 70,164
Mortgage-backed securities	37,843	226	209	37,860
Corporates	9,745	54	68	9,731
	117,275	997	517	117,755
Held-to-maturity:				
States and political subdivisions	35,120	611	232	35,499
Total investment securities	\$ 152,395	\$ 1,608	\$ 749	\$153,254

As shown, the market value of the securities portfolio exceeded the cost basis at December 31, 2001; refer to the Capital Adequacy section of this Analysis for more details on investment securities and related fair value. The Company does not have a concentration in the obligations of any issuer other than the U.S. Government and its agencies.

Loans

Loans, net of unearned income, grew 6.96% or \$11,364,490 since year-end 2001 to exceed \$174 million at March 31, 2002. As a percent of deposits, net loans aggregated 55.14% at March 31, 2002 versus 54.69% at December 31, 2001 and 52.42% at March 31, 2001. More than 90%, or \$10.3 million, of the 2002 improvement was attributable to the Richmond Hill acquisition. The remaining increase resulted from loan origination at other SEB locations. The commercial and consumer portfolios grew \$12,857,442 and \$940,955, offsetting overall declines of less than 3.23% in the real estate-construction and real estate-mortgage portfolios. Within the commercial portfolio, nonfarm real estate and agricultural loans grew \$7,759,000 and \$6,132,612; other commercial/industrial loans and governmental loans fell \$531,210 and \$502,960. Consumer loans increased 3.10% at March 31, 2002 compared to December 31, 2001. Consumer loans remain the Company's highest-yielding interest-earning asset, and the Company is committed to increasing balances in this portfolio. Real-estate construction balances fell \$640,311 during the first quarter of 2002 compared to year-end 2001. 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 residential mortgages for new construction, it traditionally does not hold or service long-term mortgage loans for its own portfolio. Rather, permanent residential 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. Real estate-mortgage balances fell \$1,853,190 or 2.63% in 2002 year-to-date. Although down from year-end 2001 levels, real estate-mortgage loans increased \$6,774,350 or 10.97% since March 31, 2001.

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Southeastern Banking Corporation

Management's Discussion and Analysis

Despite the current economic slowdown within our markets, management is optimistic that loan volumes will improve, albeit moderately, throughout 2002. Strategies implemented by management to increase loan production include continuing competitive pricing on loan products, development of additional loan relationships, and purchase of loan participations from correspondent banks, all without compromising portfolio quality. During the same period last year, net loans declined 6.95% or \$12,081,971. Declines in the commercial and real estate-construction portfolio were the primary factors in the 2001 results. Loans outstanding are presented by type in the table below:

Loans by Category	March 31, 2002	December 31, 2001	March 31, 2001
(In thousands)			
Commercial, financial, and agricultural/1/	\$ 68,923	\$ 56,065	\$ 60,357
Real estate - construction	6,318	6,959	6,926
Real estate - mortgage/2/	68,507	70,361	61,735
Consumer, including credit cards	31,362	30,420	33,356
Loans, gross	175,110	163,805	162,374
Unearned income	397	457	654
Loans, net	\$ 174,713	\$ 163,348	\$ 161,720

/1/ Includes obligations of states and political subdivisions.

/2/ Typically have final maturities of 15 years or less.

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 March 31, 2002 and December 31, 2001, gross loans secured by real estate approximated \$120,830,000 and \$109,842,000. 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. Commitments to extend credit and standby letters of credit approximated \$23,648,000 at March 31, 2002; because a substantial amount of these contracts expire without being drawn upon, total contractual amounts do not represent future credit exposure or liquidity requirements.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans, restructured loans, and foreclosed real estate balances. Overall, nonperforming assets approximated

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\$2,106,000 at March 31, 2002, down \$92,000 or 4.19% from year-end 2001 and more significantly, down 49.54% or \$2,068,000 from March 31, 2001. As a percent of total assets, nonperforming assets totaled 0.57% at March 31, 2002 versus 0.62% at December 31, 2001 and 1.15% at March 31, 2001. The fluctuation in nonperforming asset balances at March 31, 2002 versus 2001 resulted predominantly from a single commercial real estate loan. Specifically, foreclosed real estate balances at March 31, 2001 included \$1,975,000 pertaining to an impaired real estate loan. This loan, secured by a first lien on income-producing commercial real estate, was initially charged-off by \$400,000 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. Pending furtherance of various legal proceedings, management is optimistic that various costs associated with the property may ultimately be recovered.

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Southeastern Banking Corporation

Management's Discussion and Analysis

Included in nonaccrual balances for all periods presented is a single credit with principal balances aggregating \$615,000. This credit, secured by timber and farmlands with accompanying tobacco and peanut allotments, was not substantially past due, and its impairment could not be reasonably measured prior to 2001. Due to a loan-to-appraised value ratio of less than 55%, no loss, other than possibly foregone interest, is expected on these loans. Foreclosure of the real estate collateral was initially stalled by bankruptcy proceedings, but in March 2002, the bankruptcy court ordered the borrower to make cash payments and sell certain parcels of real estate; if not sold within the prescribed time, the real estate parcels will be auctioned. At March 31, 2002 and year-end 2001, nonaccrual balances also included loans to four other borrowers averaging \$222,000 each. Due to the underlying collateral coverage, no material losses, if any, are expected on these credits. No material loans have been transferred to nonaccrual status during 2002 year-to-date. Refer to the subsection entitled Policy Note for criteria used by management in classifying loans as nonaccrual. Exclusive of the credits specifically discussed in the preceding paragraphs, the allowance for loan losses approximated 12.89X the nonperforming loans balance at March 31, 2002 versus 8.29X at year-end 2001 and 2.87X a year ago.

Loans past due 90 or more days totaled \$1,644,000, or less than 1% of net loans, at March 31, 2002. The table below provides further information about nonperforming assets and loans past due 90 days or more:

Nonperforming Assets	March 31, 2002	December 31, 2001	March 31, 2001
----------------------	-------------------	----------------------	-------------------

(In thousands)

Nonaccrual loans:			
Commercial, financial, and agricultural	\$ 1,265	\$ 1,275	\$ 1,110
Real estate - construction	-	-	-
Real estate - mortgage	498	588	149
Consumer, including credit cards	4	18	20

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Total nonaccrual loans	1,767	1,881	1,279
Restructured loans/1/	-	-	331
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Total nonperforming loans	1,767	1,881	1,610
Foreclosed real estate/2/	339	317	2,564
<hr/>			
Total nonperforming assets	\$ 2,106	\$ 2,198	\$ 4,174
<hr/>			
Accruing loans past due 90 days or more	\$ 1,644	\$ 1,528	\$ 1,397
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/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.

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-secured and in the process of collection; b) collection of recorded interest or principal is not anticipated; or c) the income on the loan is recognized using the cash versus accrual basis of accounting 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 switched to nonaccrual status is reversed. Interest income on nonaccrual

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Southeastern Banking Corporation

Management's Discussion and Analysis

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 maintains an allowance for loan losses available to absorb inherent losses in the loan portfolio. At March 31, 2002, the Company's allowance totaled \$3,402,954, or 1.95% of period-end loans. Net charge-offs totaled \$31,640, down significantly, or \$568,976, from 2001's \$600,616, which was up \$499,655 from

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2000. Approximately one-half of the high charge-offs at March 31, 2001 were attributable to the large nonperforming loan discussed earlier. Long-term strategies implemented by management the last several years to reduce and minimize charge-off levels include: a) a revised loan grading system, b) periodic external loan review, c) formation of a full-time collection department, and d) managerial and staff changes at various locations. Activity in the allowance is presented in the table below:

Allowance for Loan Losses	2002	2001	2000
Three Months Ended March 31,			
(Dollars in thousands)			
Allowance for loan losses at beginning of year	\$ 3,135	\$ 3,160	\$ 3,160
Provision for loan losses	300	300	300
Charge-offs:			
Commercial, financial, and agricultural	6	433	433
Real estate - construction	-	-	-
Real estate - mortgage	-	68	68
Consumer, including credit cards	106	204	204
Total charge-offs	112	705	705
Recoveries:			
Commercial, financial, and agricultural	2	6	6
Real estate - construction	-	-	-
Real estate - mortgage	1	1	1
Consumer, including credit cards	77	97	97
Total recoveries	80	104	104
Net charge-offs	32	601	601
Allowance for loan losses at March 31	\$ 3,403	\$ 2,859	\$ 2,859
Net loans outstanding ^{/1/} at March 31	\$174,713	\$161,720	\$173,720
Average net loans outstanding ^{/1/} at March 31	\$172,556	\$168,255	\$166,255
Ratios:			
Allowance to net loans	1.95%	1.77%	1.77%
Net charge-offs to average loans	0.07%	1.45%	0.07%
Provision to average loans	0.70%	0.71%	0.71%

^{/1/}Net of unearned income

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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 migration analysis and current loan charge-off trends. The loss migration analysis examines loss experience for loan portfolio segments in relation to internal loan grades. Charge-off trends are analyzed for homogeneous loan categories (e.g., residential real estate, consumer loans, etc.). While formal loss migration and charge-off trend analyses are conducted annually, the Company continually monitors credit quality in all portfolio segments and may revise the general allowance factors whenever necessary in order to address improving or deteriorating credit quality trends or specific risks associated with a given loan category. The third element, comprised of economic conditions, concentrations, and other risk factors, is based on marketplace conditions and/or events that may affect loan repayment in the near-term. This element requires a high degree of managerial judgment to anticipate the impact that economic trends, legislative or governmental actions, or other unique market and/or portfolio issues will have on credit losses. Consideration of other risk factors typically includes such issues as recent loss experience in specific portfolio segments, trends in loan quality, changes in market focus, and concentrations of credit. These factors are based on the influence of current external variables on portfolio risk, so there will typically be some movement between this element and the specific allowance component during various stages of the economic cycle. Because of their subjective nature, these risk factors are carefully reviewed by management and revised as conditions indicate. Based on its analyses, management believes the allowance was adequate at March 31, 2002. The Richmond Hill acquisition did not materially affect the allowance for loan losses.

Other Commitments

Other than the pending purchase of various computer equipment approximating \$180,000 and renovation of the Darien office, the Company had no material plans or commitments for capital expenditures as of March 31, 2002.

Liquidity

Liquidity is managed to ensure sufficient cash flow to satisfy demands for credit, deposit withdrawals, and other corporate needs. The Company meets most of its daily liquidity needs through the management of cash and federal funds sold. Additional liquidity is provided by payments and maturities, including both principal and interest, of the loan and investment securities portfolios. At March 31, 2002, loans(1) and investment securities with carrying values exceeding \$64 million and \$7 million 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

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further strengthened by its access, on both a short- and long-term basis, to 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 89% of the funding base at March 31, 2002, virtually unchanged from 88% at December 31, 2001. Borrowed funds, which variously encompass U.S. Treasury demand notes, federal funds purchased, and FHLB advances, totaled \$6,867,377 at March 31, 2002 versus \$5,493,153 at year-end 2001. More specifically, the maximum amount of U.S. Treasury demand notes available to the Company at December 31, 2001 totaled \$3,000,000, of which \$1,867,377 was outstanding. Unused borrowings under unsecured federal funds lines of credit from other banks, each with varying terms and expiration dates, totaled \$24,000,000. Additionally, under a credit facility with the FHLB, the Company can borrow up to 16% of SEB's total assets; at March 31, 2002, unused borrowings approximated \$55 million. 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 2002. Refer to the Capital Adequacy section of this Analysis for details on treasury stock purchases and intercompany dividend policy.

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

Deposits

Deposits approximated \$317 million at March 31, 2002, up \$18,157,299 or 6.08% from December 31, 2001. The majority, or 84.13%, of the deposit growth at March 31, 2002 was attributable to interest-bearing balances. Notably, customers continue to utilize savings as an alternative to time certificates in the current low-rate environment; savings balances jumped \$10,036,000 or 11.93% since year-end 2001 and 22.25% since March 31, 2001. Overall, interest-bearing deposits comprised 80.84%, and noninterest-bearing deposits, 19.16%, of total deposits at March 31, 2002. The distribution of interest-bearing balances at March 31 and certain comparable quarter-end dates is shown in the table below:

	March 31, 2002		December 31, 2001		
	Balances	Percent of Total	Balances	Percent of Total	
(Dollars in thousands)					
Interest-bearing demand deposits/1/	\$ 64,366	25.13%	\$ 54,050	22.44%	\$
Savings	94,176	36.76%	84,140	34.93%	
Time certificates (less than) \$100,000	62,647	24.46%	66,145	27.46%	

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Time certificates >= \$100,000	34,967	13.65%	36,546	15.17%

Total interest-bearing deposits	\$256,156	100.00%	\$240,881	100.00%

/1/NOW and money market accounts.

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Approximately 82% of time certificates at March 31, 2002 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 \$5 million at March 31, 2002, unchanged from year-end 2001. The outstanding advance, which matures March 17, 2010, accrues interest at an effective rate of 6.00%, payable quarterly. The advance is convertible into a three-month Libor-based floating rate anytime at the option of the FHLB. Year-to-date, interest expense on the advance approximated \$74,000. Mortgage-backed securities with aggregate carrying values of approximately \$8.7 million were pledged to collateralize current and future advances under this line of credit.

Interest Rate and Market Risk/Interest Rate Sensitivity

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

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 on the next page provides a snapshot of the Company's interest rate sensitivity position at March 31, 2002.

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Interest Rate Sensitivity March 31, 2002	Repricing Within			
	0 - 3 Months	4 - 12 Months	One - Five Years	More Than Five Years
(Dollars in thousands)				
Interest Rate Sensitive Assets				
Federal funds sold	\$ 18,664			
Securities/1/	3,135	\$ 4,765	\$ 93,528	\$ 50,967
Loans, gross/2/	76,975	19,011	59,246	18,111
Total interest rate sensitive assets	98,774	23,776	152,774	69,078
Interest Rate Sensitive Liabilities				
Deposits/3/	182,117	55,998	17,981	60
U.S. Treasury demand note	1,867	-	-	-
Federal Home Loan Bank advances	-		-	5,000
Total interest rate sensitive liabilities	183,984	55,998	17,981	5,060
Interest rate sensitivity gap	\$(85,210)	\$(32,222)	\$ 134,793	\$ 64,018
Cumulative gap	\$(85,210)	\$(117,432)	\$ 17,361	\$ 81,379
Ratio of cumulative gap to total rate sensitive assets	(24.74)%	(34.10)%	5.04%	23.63%
Ratio of cumulative rate sensitive assets to rate sensitive liabilities	53.69%	51.07 %	106.73%	130.94%
Cumulative gap at December 31, 2001	\$(91,212)	\$(113,943)	\$ 11,932	\$ 79,324
Cumulative gap at March 31, 2001	\$(60,755)	\$(92,331)	\$ 21,870	\$ 78,285

- /1/ Distribution of maturities for available-for sale-securities is based on amortized cost. Additionally, distribution of maturities for mortgage-backed securities is based on expected average lives which may be different from the contractual terms. Equity securities, if any, are excluded.
- /2/ No cash flow assumptions other than final contractual maturities have been made for installment loans with fixed rates. Nonaccrual loans are excluded.
- /3/ NOW, money market, and savings account balances are included in the 0-3

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months repricing category.

As shown in the table above, the Company's gap position remained negative through the short-term repricing intervals at March 31, 2002, totaling \$(85,210) at three months and \$(117,432) through one-year. Excluding traditionally nonvolatile NOW and savings balances from the gap calculation, the cumulative gap at March 31, 2002 totaled \$44,894 at three months and \$12,672 at twelve months. The widening of the short-term gap position at March 31, 2002 versus 2001 was primarily attributable to federal funds sold. Although federal funds sold balances increased \$11,084,000 from year-end 2001, balances dropped more than 56% from March 31, 2001. The gap position is expected to widen further throughout 2002 as federal funds sold are reallocated to other earning assets. 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.

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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 200 basis points rise or decline in rates over the next twelve months would have an adverse impact of 5% or less on its net interest income for the period. 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, rarely reprice and therefore, have limited impact on net interest income from a rate perspective; b) In a down rate environment, competitive and other factors constrain timing of rate cuts on other deposit products whereas loans tied to prime and other variable indexes reprice instantaneously and, as amply demonstrated in both 2001 and 2002, 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, as in 2001, can materially impact estimated results. Management is optimistic that initiatives taken to improve loan production and diversify the securities portfolio will gradually reduce the interest rate sensitivity of net interest income and the balance sheet.

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.

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Impact of Inflation

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

Capital Adequacy

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

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not have any unrealized gains on equity securities includible in the risk-based capital calculations for any of the periods presented. The Company is committed to maintaining its well-capitalized status.

As expected, capital ratios have declined slightly since year-end 2001 due largely to the Richmond Hill acquisition. Capital ratios for the most recent periods are presented in the table below:

Capital Ratios	March 31, 2002	December 31, 2001	March 31, 2001
(Dollars in thousands)			
Tier 1 capital:			
Realized shareholders' equity	\$45,354	\$44,656	\$44,859
Intangible assets and other adjustments	(968)	(905)	(1,070)
Total Tier 1 capital	44,386	43,751	43,789
Tier 2 capital:			
Portion of allowance for loan losses	2,528	2,342	2,307
Allowable long-term debt	-	-	-
Total Tier 2 capital	2,528	2,342	2,307

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Total risk-based capital	\$46,914	\$46,093	\$46,096
Risk-weighted assets	\$201,389	\$186,565	\$184,023
Risk-based ratios:			
Tier 1 capital	22.04%	23.45%	23.80%
Total risk-based capital	23.30%	24.71%	25.05%
Tier 1 leverage ratio	12.15%	12.32%	12.38%
Realized shareholders' equity to assets	12.19%	12.60%	12.37%

Book value per share grew \$0.21 or 1.59% during the three month period to \$13.40 at March 31, 2002. Dividends declared totaled \$0.11 1/2, up 4.55% or \$0.005 from 2001, which was up 10.00% from 2000. 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 \$625,020 at March 31, 2002 compared to year-end 2001. 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.

On March 14, 2000, the Board of Directors authorized the purchase of up to \$7,000,000 in Company common stock. In 2000 and 2001, the Company purchased 195,327 shares on the open market and through private transactions at an average price of \$16.63 per share. No treasury stock purchases have been made in 2002 year-to-date. The maximum consideration available for additional treasury purchases, at prices to be determined in the future, is \$3,752,282. Any acquisition of additional shares will be dictated by market conditions. 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.

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Dividend Policy

The Parent Company is a legal entity separate and distinct from its subsidiaries, and its revenues and liquidity position depend primarily on the payment of dividends from its subsidiaries. State banking regulations limit the amount of dividends SEB may pay without prior approval of the regulatory agencies. Year-to-date, SEB has paid 25% or \$523,000 of the \$2,092,000 in cash dividends available to the Company in 2002 without such prior approval. The Company uses regular dividends paid by SEB in order to pay quarterly dividends to its own shareholders. Management anticipates that the Company will continue to pay cash dividends on a recurring basis.

Results of Operations

Net income for the 2002 first quarter totaled \$1,087,182, up \$75,278 or 7.44% from 2001. On a per share basis, quarterly earnings grew \$0.02 to \$0.32 at March

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31, 2002 from \$0.30 in 2001. Likewise, the return on beginning equity increased 69 basis points to 9.74% at March 31, 2002 from 9.05% a year ago. A \$64,408 improvement in noninterest income was the dominant factor in the 2002 results year-to-date. Variations in operating results are further discussed within the next two subsections of this Analysis.

Net Interest Income

Net interest income increased \$31,644, or less than 1%, during the first three months of 2002 compared to 2001. The net interest margin approximated 4.62% at March 31, 2002 versus 4.71% a year ago; the interest rate spread, 3.85% versus 3.59%. Interest income on all earning assets other than tax-exempt securities declined from 2001 results. Specifically, interest earnings on loans, taxable securities, federal funds sold, and other earning assets declined \$615,872, \$121,607, \$262,310, and \$3,832 from same period results in 2001 while earnings on tax-exempt securities increased \$68,399 or 22.36%. Overall declines in asset yields and, to a lesser extent, shifts in earning assets precipitated the 2002 results. On average, asset yields totaled 7.03% at March 31, 2002, down 134 basis points from 2001. Interest expense on deposits and other borrowed funds fell \$966,866 or 32.01% during the first quarter of 2002 versus 2001. Similarly, cost of funds declined 160 basis points to 3.18% at March 31, 2002 from 4.78% in 2001. Expected declines in yields on investment securities, as discussed in the Financial Condition section of this Analysis, will exert pressure on net interest results in 2002. Reallocation of federal funds sold balances to other earning assets, anticipated loan growth in Richmond Hill and other locations, as well as reduced pricing on deposits are expected to alleviate declines in securities yields. 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 any rate hikes promulgated by the Federal Reserve in 2002; variable loans comprised approximately 38% of total loans at March 31, 2002.

The intense competition for loans and deposits continues in 2002 and shows no sign of abating. The high number of new and existing financial institutions in the Company's market areas essentially guarantees downward pressure on net interest spreads and margins as all participants struggle to amass and grow market share. Volume of assets and deposits will become even more important as margins decline. Strategies implemented by management to increase average loans outstanding emphasize competitive pricing on loan products and development of additional loan relationships, all without compromising portfolio quality. Management's strategy for deposits is to reduce costs of funds and employ alternative sources of financing when feasible. Comparative details about average balances, income/expense, and average yields earned and rates paid on interest-earning assets and liabilities for the last two years are provided in the table on the next page.

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

2002

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Average Balances/6/ Three Months Ended March 31,	Average Balances	Income/ Expense	Yields/ Rates	Average Balances
(Dollars in thousands)				
Assets				
Interest-earning assets:				
Loans, net/1/,/2/,/4/	\$172,556	\$ 3,710	8.60%	\$168,255
Federal funds sold	14,130	58	1.70%	24,328
Taxable investment securities/3/	121,960	1,652	5.42%	112,053
Tax-exempt investment securities/3/,/4/	31,873	567	7.12%	24,375
Other assets	1,088	16	5.88%	1,088
Total interest-earning assets	\$341,607	\$ 6,003	7.03%	\$330,099
Liabilities				
Interest-bearing liabilities:				
Interest-bearing demand deposits/5/	\$62,186	\$ 377	2.42%	\$ 53,527
Savings	90,037	504	2.24%	75,318
Time deposits	99,951	1,095	4.38%	118,021
U. S. Treasury demand note	1,099	4	1.46%	783
Federal Home Loan Bank advances	5,000	74	6.00%	5,000
Total interest-bearing liabilities	\$258,273	\$ 2,054	3.18%	\$252,649
Excess of interest-earning assets over interest-bearing liabilities	\$83,334			\$ 77,450
Interest rate spread			3.85%	
Net interest income		\$ 3,949		
Net interest margin			4.62%	

/1/Average loans are shown net of unearned income. Nonperforming loans are included.

/2/Includes loan fees.

/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 adjustment has been made for any state tax benefits.

/5/NOW and money market accounts.

/6/Averages presented generally represent average daily balances.

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Noninterest Income and Expense

Noninterest income grew \$64,408, or 7.37%, at March 31, 2002 compared to 2001. A 26.82% or \$78,160 improvement in other operating income, partially offset by a 2.70% decline in service charges on deposit accounts, was the key factor in the three month results. Mortgage origination fees led the improvement in other operating income, growing an appreciative \$79,268 or 121.37% year-to-date. By type and amount, the chief components of other operating income at March 31, 2002 were mortgage origination fees, \$144,581; commissions on the sale of credit life insurance (generated by SEB), \$48,012; surcharge fees - atm, \$31,767; safe deposit box rentals, \$42,499; and income on sale of check products, \$16,388. Together, these five income items comprised 76.65% of other operating income at March 31, 2002. Salaries and employee benefits increased \$77,693 or 4.96% at March 31, 2002 compared to 2001. The vast majority, or 83%, of employee expenses remained concentrated in salaries and other direct compensation, including related payroll taxes, at March 31, 2002. Profit-sharing accruals and other fringe benefits constituted the remaining 7% and 10% of employee expenses. The division of employee expenses between compensation, profit-sharing, and other fringe benefits remained consistent with historical norms in 2002. When compared to the prior year, net occupancy and equipment expense increased a negligible \$5,488, or 1.04%, during the first three months of 2002 compared to 2001. Other operating expenses declined \$62,779 or 8.21% at March 31, 2002 compared to 2001. Operating costs associated with a major parcel of foreclosed commercial real estate, as discussed in earlier sections of this Analysis, accounted for the bulk of the 2002-2001 fluctuation. No individual component of other operating expenses aggregated or exceeded 10% of the total at March 31, 2002 or 2001.

Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination, and SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination whether acquired individually or with a group of other assets. These standards require all future business combinations to be accounted for using the purchase method of accounting. With the adoption of these standards, goodwill is no longer amortized but instead is subject to impairment tests at least annually. The Company adopted SFAS 141 and 142, in entirety, effective January 1, 2002. Adoption of these standards did not have a material impact on the Company's financial position or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," which previously governed impairment of long-lived assets, and APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," which addressed the disposal of a business segment. This standard improves financial reporting by requiring one accounting model be used for long-lived assets to be disposed by sale and by broadening the presentation of discontinued operations to include more disposal transactions. The Company adopted SFAS 144 effective January 1, 2002. SFAS 144 did not have a material impact on the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS No. 4, 44, 64, Amendment of SFAS No. 13, and Technical Corrections." SFAS No. 4, which was

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amended by SFAS No. 64, required all gains and losses from the extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Opinion 30 will now be used to classify those gains and losses. SFAS No. 13 was amended to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The adoption of SFAS No. 145 will not have a current impact on the Company's consolidated financial statements.

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Southeastern Banking Corporation Management's Discussion and Analysis

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

Forward-Looking Statements

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

Certain factors that could affect financial performance or cause actual results to vary significantly from estimates contained in or underlying forward-looking statements include:

- . Interest rate fluctuations and other market conditions.
- . Strength of the consumer and commercial credit sectors as well as real estate markets.
- . Changes in laws and regulations, including changes in accounting standards, monetary policies, and taxation requirements (including tax rate changes, new tax laws, and revised tax law interpretations).
- . Competitive pricing and other pressures on loans and deposits and the Company's ability to maintain market shares in its trade areas.
- . Management of costs associated with expansion of existing and

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- development of new distribution channels, and ability to realize increased revenues from these distribution channels.
- . The outcome of litigation which depends on judicial interpretations of law and findings of juries.
 - . Other risks and uncertainties as detailed from time to time in Company filings with the Securities and Exchange Commission.

The foregoing list of factors is not exclusive. This Analysis should be read in conjunction with the consolidated financial statements and related notes.

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Southeastern Banking Corporation

Signatures

- Item 1. Legal Proceedings
(Not Applicable)
- Item 2. Changes in Securities
(Not Applicable)
- Item 3. Defaults Upon Senior Securities
(Not Applicable)
- Item 4. Submission of Matters to a Vote of Security Holders
(Not Applicable)
- Item 5. Other Information
(Not Applicable)
- Item 6. Exhibits and Reports on Form 8-K
 - (a) Index to Exhibits - NONE
 - (b) Reports on Form 8-K - NONE

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Southeastern Banking Corporation

Signatures

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

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Alyson G. Beasley, Vice President

Date: May 15, 2002
