SOUTHEASTERN BANKING CORP
Form 10-K
April 29, 2011
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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, 2010

Commission File Number 000-32627

(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 North Way, Darien, Georgia 31305

(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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes [ ] No [X]

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company.)	Smaller reporting company [X]

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

The aggregate market value of common stock held by non-affiliates on June 30, 2010 was approximately $21,515,000 (based on a per share price of $10.50 on over-the-counter trades executed by broker-dealers). For purposes of this calculation, the Registrant has assumed that its directors, principal shareholders, and executive officers are affiliates.

As of April 15, 2011, the Registrant had 3,129,388 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Annual Report on Form 10-K for the year ended December 31, 1990 are incorporated by reference into Part IV, Item 15.

The Registrant s Specimen Common Stock Certificate filed on April 30, 2001 on Form 8-A is incorporated by reference into Part IV, Item 15.

Portions of the Registrant s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 are incorporated by reference into Part IV, Item 15.

Portions of the Registrant s definitive Proxy Statement for the 2010 Annual Meeting of Shareholders, which will be filed no later than April 29, 2011, are incorporated by reference into Part III, Items 10 - 14.

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PART I

Item 1. Business.

1. General. Southeastern Banking Corporation (the Company) and its wholly-owned subsidiary, Southeastern Bank (SEB or the Bank), offer a broad range of banking services to meet the financial needs of consumer and commercial customers in southeast Georgia and northeast Florida. The Company s corporate offices are located at 1010 North Way, 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. In 1983, the Company acquired The Darien Bank, Darien, Georgia. From 1983 - 1988, the Company acquired three additional financial institutions in the southeast Georgia market, which were converted to branches of SEB. 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. From 1991 2001, the Company acquired banking offices from other financial institutions, which were either consolidated with existing SEB offices or operated as stand-alone facilities. Six stand-alone facilities were acquired in this manner, most recently Richmond Hill. In February 2003, the Company opened a loan production office in Brunswick, Georgia. In November 2004, a full service banking facility was opened at 15 Trade Street in Brunswick, and the loan production office closed. On December 10, 2010, SEB closed its branch at 601 Palisade Drive in the Southport area of Brunswick, Georgia. The leased facility, which opened in January 2007, had nominal loan and deposit volume. SEB is a state banking association incorporated under the laws of the State of Georgia.

Unless the context indicates otherwise, all references to the Company in this Report refer to Southeastern Banking Corporation and its consolidated bank subsidiary.

2. Markets. SEB, the Company s commercial bank subsidiary, offers traditional banking products and services to commercial and individual customers in its markets. The Bank s product line includes loans to small- and medium-sized businesses, residential and commercial construction and development loans, commercial real estate loans, agricultural production loans, long-term mortgage originations, home equity loans, consumer loans, and a variety of commercial and consumer demand, savings, and time deposit products. SEB also offers internet banking, on-line cash management, electronic bill payment services, safe deposit box rentals, telephone banking, credit and debit card services, and access to a network of ATMs. In addition, through an affiliation with a third party broker-dealer, SEB also provides securities brokerage and investment advisory services. SEB s banking facilities are predominantly located in rural communities on or near the Atlantic coast with populations less than 50,000. The Company operates these sixteen full-service banking offices within one business segment, community banking. At December 31, 2010, SEB s total assets approximated $428,000,000.

The following table provides basic information and summary demographic data on the Company s markets. Further discussion regarding local real estate market conditions is provided in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Report. A list of SEB offices is provided in Part I, Item 2.

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Market/ County (Dollars in thousands)	Number of Offices	Total Deposits[1]	Market Share[2]	Population[3]	Population Growth[4]	Employment Growth[5]	Unemployment Rate[6]
Florida:							
Nassau	3	$ 68,083	6.81%	73,314	27.1%	0.1%	11.5%
State of Florida					17.6	(0.6)	11.7
Georgia:							
McIntosh	2	$ 60,189	71.76%	14,333	32.1%	(2.2)%	11.5%
Brantley	2	53,406	69.87	18,411	25.9	(2.2)	12.0
Bryan	1	7,624	1.93	30,233	29.1	0.8	8.3
Camden	3	66,725	17.90	50,513	15.7	(2.0)	9.9
Charlton	1	54,551	58.31	12,171	18.4	(3.4)	12.2
Coffee	2	20,469	3.21	42,356	13.2	(4.5)	16.5
Glynn	1	19,475	1.02	79,626	17.8	(2.2)	9.4
Jeff Davis	1	24,673	17.04	15,068	18.8	0.7	14.5
	13	$ 307,112					
	16	$ 375,195					
State of Georgia					18.3%	(0.5)%	10.2%
National Total					9.7%	0.7%	9.1%

[1] Dollar amounts at December 31, 2010.

[2] Based on the FDIC Summary of Deposits market share report as of June 30, 2010.

[3] April 1, 2010 population provided by the U.S. Census Bureau.

[4] Estimated percentage population change from 2000 2010 provided by the U.S. Census Bureau.

[5] Percentage change in employment growth (not seasonally adjusted) for the period December 2009 December 2010 based on preliminary figures from the Bureau of Labor Statistics.

[6] Unemployment rate (not seasonally adjusted) as of December 2010 provided by the Bureau of Labor Statistics.

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

3. Competition. The Company operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory, economic, and technological changes, as well as continued consolidation. In its markets, the Company faces direct competition from both larger regional banks as well as smaller community banks and credit unions in attracting and retaining commercial and consumer accounts. Competition is amplified in some smaller markets as more financial service providers compete for fewer customers. The Company also faces increasingly aggressive competition from other domestic lending institutions and 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. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions, potentially changing the competitive environment in which the Company conducts its business significantly. Certain of the Company s competitors have greater financial resources or face fewer regulatory constraints. As a result of these various sources of competition, the Company could lose business to competitors or be forced to price products and services on less advantageous terms to retain or attract customers, either of which would adversely affect the Company s profitability. Key factors in competing for customer accounts include interest rates, fee structures, range of products and services offered, convenience of office and ATM locations, and technological innovations.

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Although competition is fierce and ever-changing, the Company believes that its experience and strong community ties result in a higher level of service to small and medium-sized businesses and consumers. By being smaller and less bureaucratic than regional and national competitors, the Company can oftentimes operate with greater flexibility and provide more timely responses in meeting customer needs.

The Company s ability to expand remains subject to various federal and state laws and other regulatory restrictions that may exist now or in the future. See Government Supervision and Regulation below for a more detailed discussion of these laws and restrictions.

4. Government Supervision and Regulation. As a bank holding company, the Company is subject to the regulation and supervision 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), with branches in Georgia and Florida, is subject to regulation and supervision 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 cash 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 s financial position and results of operation are 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. Techniques used by the Federal Reserve include setting reserve requirements of financial institutions and establishing rates on borrowings.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was signed into law. The Dodd-Frank Act imposes new regulatory requirements and oversight over banks and other financial institutions in a number of ways, including: (i) creation of the Consumer Financial Protection Bureau to regulate consumer financial products and services; (ii) limitations on debit card interchange fees; (iii) adoption of certain shareholder rights and responsibilities, including a shareholder say-on-pay vote, with phase-in dependent on market capitalization under Securities and Exchange Commission (SEC) rules; (iv) expanded definition of higher-cost loans, new disclosures, and certain other revisions; (v) repeal of interest restriction on business checking accounts; and (vi) amendment of the Truth in Lending Act with respect to mortgage originations, including originator compensation, minimum repayment standards, and prepayment considerations. These changes have impacted the Company s policies and procedures and will likely continue to do so as the regulation is enacted.

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended by the Dodd-Frank Act, 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 outside its home state, provided the laws of the target state permit banks chartered in that state to branch within its borders. A bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank or merge or consolidate with another bank holding company without prior approval of the Federal Reserve. Under the recently enacted Dodd-Frank Act, a bank holding company may not acquire another bank or engage in new activities that are financial in nature unless the bank holding company is both well-capitalized and deemed by the Federal Reserve to be well-managed.

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, Federal Reserve policy requires a bank holding company to serve as a source of financial strength to, and commit resources to support, its bank subsidiaries 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 largely upon whether the applicable institution is well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitaliz as those terms are defined under regulations issued by each of the federal banking agencies.

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The Federal Reserve and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth. The Federal Reserve risk-based guidelines define a tier-based capital framework. Tier 1 capital includes common shareholders equity, minority interests, and qualifying preferred stock, less goodwill and other adjustments, as applicable. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, the allowance for loan losses up to a certain amount, and a portion of any unrealized gain on equity securities, also as applicable. The sum of Tier 1 and Tier 2 capital represents the Company s qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identifies five capital categories for insured depository institutions (well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management, and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. An undercapitalized bank must develop a capital restoration plan and its parent holding company must guarantee that bank s compliance with the plan. The liability of the parent holding company under any such guarantee is limited to the lesser of 5% percent of the bank s assets at the time it became undercapitalized or the amount needed to comply with the plan. Furthermore, in the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors. In addition, FDICIA requires the various regulatory agencies to prescribe certain non-capital standards for safety and soundness relating generally to operations and management, asset quality, and executive compensation and permits regulatory action against a financial institution that does not meet such standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital, and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well-capitalized institution must have a Tier 1 risk-based capital ratio of at least 6%, a total risk-based capital ratio of at least 10%, and a leverage ratio of at least 5% and not be subject to a capital directive order; adequate, or minimum, capital ratios are 4%, 8%, and 4%. The Company and SEB are currently considered well-capitalized by their respective federal banking regulators. The Company s capital position is delineated in Note 14 to the Consolidated Financial Statements and in the Capital Adequacy section of Part II, Item 7.

Regulators also must take into consideration: (a) concentrations of credit risk; (b) interest rate risk (when the interest rate sensitivity of an institution s assets does not match the sensitivity of its liabilities or its off-balance-sheet position); and (c) risks from non-traditional activities, as well as an institution s ability to manage those risks, when determining the adequacy of an institution s capital. This evaluation is made as part of an institution s regular safety and soundness examination. In addition, regulators may choose to examine other factors in order to evaluate the safety and soundness of financial institutions. For example, regulators have begun to focus on Tier 1 common equity, which is the proportion of Tier 1 capital that is common equity. As the Company s Tier 1 capital is comprised entirely of common equity, its Tier 1 capital and Tier 1 common equity are the same.

Capital Framework and Basel III

The Basel Committee on Banking Supervision has issued two consultative documents proposing reforms to bank capital and liquidity regulation. The Basel Committee s capital proposals, known as Basel III, revise the definition of Tier 1 capital to include Tier 1 common equity as the predominant equity and, once fully phased in on January 1, 2019, would require banks to maintain a minimum ratio of Tier 1 common equity to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer , effectively resulting in a minimum ratio of Tier 1 common equity to risk-weighted assets of 7%. Banks would also be required to maintain the following minimum ratios, which include the 2.5% capital conservation buffer, upon full implementation: a) Tier 1 capital to risk-weighted assets of 8.5% and b) total (i.e. Tier 1 plus Tier 2) capital to risk-weighted assets of 10.5%. As a newly adopted international standard, banks would also be required to maintain a minimum leverage ratio of 3%, calculated as the ratio of Tier 1 capital to average balance sheet plus certain off-balance sheet exposures calculated quarterly.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Tier 1 common equity to risk-weighted assets above the minimum but below the conservation buffer may face constraints on dividends, equity repurchases, and compensation.

Implementation of the Basel III framework will commence January 1, 2013 with new capital requirements phased-in over a six-year period concluding January 1, 2019. Federal banking agencies have indicated regulations implementing Basel III will be proposed in mid-2011 with final adoption of those regulations in mid-2012. The Company believes its current capital levels already exceed the Basel III requirements, including the capital conservation buffer. Note 14 of the Consolidated Financial Statements itemizes the Company s and SEB s capital ratios at December 31, 2010.

Liquidity Ratios under Basel III

In addition to the capital requirements, Basel III also requires banks and bank holding companies to measure their liquidity under specific tests. One test, termed the liquidity coverage ratio, is designed to ensure that the banking entity maintains a level of unencumbered high-quality liquid assets greater than or equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute stress scenario. The other test, known as the net stable funding ratio, is a longer-term liquidity test designed to promote more medium and long-term funding based on the liquidity features of the entity s assets and activities over a one-year time horizon. To comply with these tests, banks may increase their holdings of U.S. Treasury securities, seek longer-term funding sources, and adopt new business practices that could limit the provision of liquidity to customers. The liquidity coverage ratio would be applied effective January 1, 2015 and the net stable funding ratio, January 1, 2018. These new standards are subject to further rulemaking, and hence, their terms may change before implementation.

Other Regulation

There are various legal and regulatory limits on the amount of dividends and other funds SEB may pay or otherwise supply the Company and likewise, dividends the Company may pay its shareholders. Currently, neither the Company nor SEB can make dividend payments without prior regulatory approval; dividend guidance is further discussed in Part II, Item 5. Federal and state regulatory agencies have the authority not only to prevent a bank or bank holding company from paying a dividend but also to prevent participation in any activity that, in the agency s opinion, would constitute an unsafe or unsound practice. The Federal Deposit Insurance Act provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution (including the claims of the FDIC as subrogee of insured depositors) and certain claims for administrative expenses of the FDIC as a receiver will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, nondeposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

The FDIC maintains the Deposit Insurance Fund (DIF) by assessing depository institutions an insurance premium. The assessment is based upon statutory factors that include the balance of insured deposits as well as the degree of risk the institution poses to the insurance fund. Pursuant to the Dodd-Frank Act, the FDIC has revised its methodology for assessing insurance premiums and effective April 1, 2011, deposit insurance assessments will be based on an institution s average consolidated total assets less Tier 1 capital and not its deposits. The change in assessment base is expected to be beneficial to SEB, resulting in a $215,000 overhead reduction in 2011. The FDIC will continue to use a risk-based premium system that assesses higher rates on those institutions that pose greater risks to the DIF. Specifically, the FDIC places each institution in one of four risk categories using a two-step process based first on capital ratios (the capital group assignment) and then on other relevant information (the supervisory group assignment). Subsequently, the rate for each institution within a risk category may be adjusted depending upon different factors that either enhance or reduce the risk the institution poses to the DIF, including, as of April 1, 2011, unsecured debt, brokered deposits, and bank-issued corporate holdings applicable to each institution. Finally, certain risk multipliers may be applied to the adjusted assessment. In 2009 and 2010, the FDIC significantly increased its assessment charges on both a uniform and risk-adjusted basis for all banks. The increased assessments materially and adversely affected the Bank s profitability in 2010 and, notwithstanding the overhead reduction discussed above, will continue to do so in 2011 and beyond. The FDIC insures interest-bearing accounts up to $250,000, and until December 31, 2012, insures noninterest-bearing deposits on an unlimited basis. See Note 11 to the Consolidated Financial Statements for a comparison of assessment expenses in 2010, 2009, and 2008.

On November 12, 2009, the FDIC approved a rule requiring insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and all of 2010, 2011, and 2012. An insured institutions s risk-based deposit insurance assessments will continue to be calculated on a quarterly basis, but will be paid from the amount the institution prepaid until the later of the date that amount is exhausted or June 30, 2013, at which point any remaining funds would be returned to the insured institution. Consequently, the Company s prepayment of DIF premiums made on December 29, 2009 resulted in a prepaid asset of $1,825,119 at year-end 2009 and $1,125,000 at December 31, 2010.

FDIC regulations require that management report annually on its responsibility for preparing its institution s financial statements, establishing and maintaining an internal control structure and procedures for financial reporting, and compliance with designated laws and regulations concerning safety and soundness.

On November 12, 1999, financial modernization legislation known as the Gramm-Leach-Bliley Act (GLB Act) was signed into law. Under the GLB Act, a bank holding company which elects to become a financial holding company may engage in expanded securities activities, insurance sales, and underwriting activities, and other financial activities, and may also acquire securities firms 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 Company has no present intention to change its status from a bank holding company to a financial holding company.

Federal banking regulators, as required under the GLB Act, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the GLB Act affect how consumer information is transmitted through bank holding companies and conveyed to outside vendors.

Under the Community Reinvestment Act (CRA), SEB, as an FDIC insured institution, has a continuing and affirmative obligation to help meet the credit needs of the entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. CRA requires the appropriate federal regulator, in connection with its examination of an insured institution, to assess the institution s record of meeting the credit needs of its community and consider such record in its evaluation of certain applications, such as applications for a merger or establishment of a branch. An unsatisfactory rating may be used as the basis for denial of an application by the federal banking regulator. SEB received a satisfactory rating in its most recent CRA exam.

The USA Patriot Act of 2001 (Patriot Act) substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States; imposes compliance and due diligence obligations; creates crimes and penalties; compels the production of documents located both inside and outside the United States, as applicable; and clarifies the safe harbor from civil liability to customers. The United States Department of the Treasury has issued a number of regulations that further clarify the Patriot Act s requirements or provide more specific guidance on their application. The Patriot Act requires all financial institutions, as defined, to establish certain anti-money laundering compliance and due diligence programs. The Patriot Act requires financial institutions that maintain accounts for non-United States persons or their representatives to establish, appropriate, specific and, where necessary, enhanced due diligence policies, procedures, and controls that are reasonably designed to detect and report instances of money laundering through those accounts. Bank regulators review anti-money laundering compliance during their examinations, and the Company continues to enhance its anti-money laundering compliance programs, as applicable.

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

In 2009, the Federal Reserve adopted amendments to its Regulation E that restrict the Company s ability, effective July 2010, to charge overdraft fees on debit card and ATM transactions. Pursuant to the regulation, customers must opt-in to an overdraft service in order for SEB to collect overdraft fees. As overdraft fees have historically comprised a significant source of noninterest income, the new restrictions have adversely affected the Company s profitability. The Dodd-Frank Act created the Consumer Financial Protection Bureau, which has broad discretionary powers to protect consumers. In particular, such regulations may further restrict SEB s ability to collect overdraft fees even beyond the limits imposed by the 2009 amendments to Regulation E discussed above.

On June 21, 2010, the Federal Reserve and other regulators jointly published final guidance for structuring incentive compensation arrangements, which is applicable to all financial institutions. The guidance does not set forth any formulas or pay caps, but contains principles companies must follow in establishing compensation arrangements for employees and groups of employees that may expose the institution to material risk. The principles stress appropriate balancing of risk and incentives, compatibility with effective controls and risk management, and strong corporate governance. Regulators will monitor compliance with the guidance during the examination process.

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. Employees. At December 31, 2010, the Company and its subsidiary had 143 full-time and 8 part-time employees. The Company offers a competitive compensation and benefits package to its employees, and management considers its employee relations to be good.

6. Additional Information. Through its Internet website at www.southeasternbank.com, the Company provides a direct link to reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act). Reports accessible from this link include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and proxy materials. Copies of these filings may also be obtained free of charge directly from the SEC website at www.sec.gov. Additionally, the public may read and copy any materials the Company files with the SEC at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

The Company s annual report on Form 10-K is being distributed to shareholders in lieu of a separate annual report containing the Consolidated Financial Statements of the Company and SEB.

Item 1A. Risk Factors

Our business is subject to certain risks, including those described next. These risks are not the only risks we face. New risks may emerge at any time, and risks we presently deem immaterial may become material. We cannot predict such risks or estimate the extent to which they may affect our financial performance, business, and prospects. More detailed information concerning these and other risks is contained in other sections of this Form 10-K.

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Difficult market conditions have adversely affected our industry and business.

Dramatic declines in the housing market over the past several years, with falling home prices and increasing foreclosures, unemployment, and underemployment, have negatively impacted the credit performance of real estate-related loans and resulted in significant write-downs of asset values by financial institutions, including us. These write-downs have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility, and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has adversely affected our business, financial condition, and results of operations. Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for loan losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us.

As a result of the negative developments in the financial industry, new federal and state laws and regulations regarding lending, funding practices, liquidity standards, and other financial practices have been enacted; the Dodd-Frank Act, which is further discussed under Government Supervision and Regulation above, is a case in point. Additionally, bank regulatory agencies have been, and are expected to continue being, aggressive in responding to concerns and trends identified in examinations. Difficult market conditions and the impact of new legislation in response to these developments could restrict our business operations, including our ability to originate loans, and increase our cost of compliance, divert our resources, and adversely affect our profitability.

Deteriorating credit quality, particularly with respect to real estate loans, has adversely impacted us and may continue to adversely impact us, leading to higher charge-offs and/or an increase in our provision for loan losses.

Beginning in late 2007, the housing and real estate sectors in our markets experienced a severe economic downturn that accelerated through 2010 and continues in 2011. At December 31, 2010, approximately 83% of our total loans were collateralized by real estate, including $86,972,052 in construction and development loans. Our construction and development loans comprised 76.57% of nonaccrual loans, 15.34% of loans past due 90 days or more, and 17.99% of loans past 30 - 89 days at December 31, 2010. The vast majority of our construction and development loans as well as nonperforming assets are based in our coastal Georgia markets. Most of our residential builders construct houses in the $150,000 - $250,000 selling price range and carry inventories of lots for new construction. The supply of vacant, developed lots has increased as the number of new building permits and housing starts declined. Additionally, since August 2008, the FDIC has placed numerous Georgia and Florida-based financial institutions into receivership, including institutions in our geographic footprint. The sale of these financial institutions assets at depressed prices could negatively affect the value of our real estate collateral and other real estate. Aggressive discounting of foreclosed properties by larger banks will similarly affect asset values. We believe it may take more than three years for the market to fully absorb the existing lot inventories in some areas. If economic conditions continue to worsen or deteriorate, particularly within our geographic footprint, additional charge-offs and further increases to the allowance for loan losses will be necessary.

If our allowance for loan losses is not sufficient to cover actual loan losses, or if credit delinquencies increase, our earnings could decline significantly.

Our success depends, to a significant extent, on the quality of our assets, particularly loans. Like other financial institutions, we face the risk that our customers will not repay their loans, the collateral securing the payment of those loans may be insufficient to assure repayment, and we may be unsuccessful in recovering the remaining loan balances. The risk of loss varies with general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan, and the value of the real estate and other collateral, among other things. Management makes various assumptions and judgments about the collectibility of our loan portfolio after considering these and other factors. Based in part on those assumptions and judgments, we maintain an allowance for loan losses in an attempt to cover loan losses which may occur. In determining the size of the allowance, we also rely on an analysis of the portfolio based on historical loss experience, volume and types of loans, trends in classification, delinquencies and nonaccruals, national and local economic conditions, and other pertinent information, including the results of external loan reviews. The current stress on our local economies may be greater or last longer than expected resulting in additional deterioration in the credit quality of our loans or the value of collateral securing those loans. Market conditions could disproportionately affect our larger loans, exacerbating that stress even more. Our allowance may not be adequate to cover eventual loan losses, and future provisions for loan losses could have a material adverse effect on our financial condition and results of operations.

Additionally, in order to maximize collection of loan balances, we sometimes modify loan terms if such modification would allow our customer to continue servicing the debt. If such modifications are ultimately ineffective, we may incur loan losses in excess of any specific allowance associated with the modified loan. Such losses would result in additional charge-offs and higher provisions.

Federal and state regulators periodically review our allowance for loan losses and may require us to increase our allowance or recognize additional charge-offs, based on judgments different than those of management. Higher charge-off rates and an increase in our allowance may hurt our overall financial performance. In 2010, we recorded a $14,265,000 provision for loan losses compared to $5,890,000 in 2009 and $1,348,000 in 2008. The increase in both 2010 and 2009 was necessary to cover substantial increases in nonperforming loan volumes. We expect overall credit conditions and the performance of our loan portfolio to continue deteriorating in the near term. And, although we expect to continue provisioning for loan losses in 2011 and beyond, we can make no assurance that our allowance will prove sufficient. In the first quarter of 2011, the Company provisioned $660,000 for loan losses.

We will realize future losses if the proceeds we receive upon liquidation of nonperforming assets, particularly foreclosed real estate, are less than their carrying values.

Foreclosed real estate is carried on our books at estimated net realizable value upon disposition. Deteriorating market conditions could result in additional losses. In 2010, the Company recognized a $2,096,163 net loss on sales and other write-downs on foreclosed real estate versus $368,146 in 2009. Unless real estate markets stabilize and nonperforming levels moderate, the Company expects additional write-downs to be necessary in 2011. Write-downs of $161,127 were recorded in the first quarter of 2011.

We are subject to extensive regulation that could limit or restrict our activities and adversely affect our earnings.

We operate in a heavily regulated industry and are subject to examination, supervision, and comprehensive regulation by various federal and state agencies. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, and locations of offices. Our failure to comply with these requirements can lead to administrative enforcement actions, termination or suspension of our licenses, rights of rescission for borrowers, and litigation, among other remedies. Many of these regulations are intended to protect depositors, the public, and the FDIC rather than shareholders. The laws and regulations applicable to the banking industry are under continual review and revision by federal and state legislative and regulatory bodies, and we cannot predict the effects of these changes on our business and profitability. Legislative and regulatory changes could affect us in substantial and unpredictable ways, including limiting the types of financial services and products we offer and/or increasing the ability of non-banks to offer competing financial services and products. For example, on July 21, 2010, the Dodd-Frank Act was signed into law. This legislation, if enacted as proposed, could limit debit card interchange fees and collection of overdraft charges. Both of these changes would reduce our noninterest income.

Our net interest income could be negatively affected by the lower level of short-term interest rates, recent developments in the credit and real estate markets, and competition in our primary market area.

As a financial institution, our earnings are significantly dependent upon our net interest income, which is the difference between the interest income we earn on interest-earning assets, such as loans and investment securities, and the interest expense we pay on interest-bearing liabilities, such as deposits and borrowings. Changes in general market interest rates, including changes resulting from the Federal Reserve s fiscal and monetary policies, affect us more than non-financial institutions and can have a significant effect on our net interest income and total income.

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The Federal Reserve most recently reduced benchmark interest rates for federal funds on three separate occasions in 2007 by a total of 100 basis points, to 4.25%, and by another 400 basis points, to a 0% - 0.25% range, during 2008. No changes were made to the federal funds rates in 2009 and 2010. A significant portion of our loans, including residential construction and development loans and other commercial loans, bear interest at variable rates. The interest rates on these loans fall when the Federal Reserve reduces interest rates, while the interest we pay on deposits and other liabilities may not change in the same amount or at the same rates. Accordingly, declines in interest rates may reduce our net interest income. Conversely, an increase in interest rates may reduce demand for consumer and commercial credit. Increases in interest rates will reduce borrowers cash flow, which may adversely affect their ability to repay their loans.

Changes in the level of interest rates may also negatively affect our ability to originate real estate loans, the value of our assets, and our ability to realize gains from the sale of assets, all of which ultimately affect earnings. A decline in the market value of our assets, including loans and securities, may limit our ability to borrow funds on a secured basis. We could be required to sell loans and investment securities under adverse market conditions, upon terms that are not favorable to us, in order to maintain liquidity. If those sales are made at prices lower than the amortized costs of the investments, we will incur losses. Changes in Federal Reserve policies and laws are beyond our ability to predict or control.

Gross loans declined to $245,688,555 at December 31, 2010 from $275,828,915 at December 31, 2009. This decline, coupled with increased nonperforming loans and an overall decline in interest rates, reduced our net interest income substantially during both 2010 and 2009 and could cause continued pressure on net interest income in 2011 and future periods. This reduction in net interest income may also be exacerbated by the competition we face in our primary market area and the higher cash balances being carried currently. Any significant reduction in our net interest income will negatively affect our business and could have a material adverse impact on our capital, financial condition, and results of operations.

We face strong competition from other financial service providers.

We operate in a highly competitive market for the products and services we offer. The competition among financial services providers to attract and retain customers is strong. Customer loyalty can be easily influenced by a competitor s new products, especially offerings that could provide cost savings or a higher return to the customer. Some competitors may be better able to provide a wider range of products and services over a greater geographic area. We compete with commercial banks, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as super-regional and national financial institutions that operate offices in our market areas and elsewhere. Moreover, our highly competitive industry could become even more competitive as a result of the Dodd-Frank Act, and other legislative, regulatory, and technological changes, and continued consolidation. Many of our competitors have greater financial resources and/or fewer regulatory constraints and some have lower cost structures. While we believe we can and do successfully compete with these other financial institutions in our market areas, we may face a competitive disadvantage as a result of our smaller size, lack of geographic diversification, and inability to spread our marketing costs across a broader market. As a result of these various sources of competition, we could lose business to competitors or be forced to price products and services on less advantageous terms to keep or attract customers, either of which could adversely affect our profitability.

Additionally, customers could pursue alternatives to bank deposits and bank transactions, causing us to lose a relatively inexpensive source of funding and fee income. For example, customers may perceive other investments, such as the stock market, as providing superior returns. And, technology now allows consumers to completely bypass banks in paying bills, transferring funds, and completing other financial transactions. This process could result in loss of deposits and related fee income. Conversely, when customers move borrowing relationships to other parties, we lose interest income.

If problem asset levels and real estate concentrations are not reduced, we could face formal regulatory action and loss of liquidity sources.

If our problem asset levels and real estate concentrations are not reduced, we could face a formal regulatory order and loss of liquidity sources, including the Federal Reserve discount window. Our future lending activities and growth prospects could be significantly curtailed, we could be required to take significant write-downs on problem assets, and our deposit insurance assessments could increase substantially. Publication of an enforcement order could harm our reputation and result in loss of deposits and market share. Besides our financial condition and operating results, our stock price could be materially and adversely affected.

Our financial instruments carried at fair value expose us to certain market risks.

We maintain an available-for-sale securities portfolio, which includes various types of debt instruments and maturities. Instruments carried at fair value are exposed to market risks related to changes in interest rates, market liquidity, and default risks. Changes in the market values of these instruments could have a material adverse impact on our financial condition. Additionally, accounting regulations may require us to record other-than-temporary impairment losses as further disclosed in Notes 1 and 2 to the Consolidated Financial Statements. We may classify additional financial assets or liabilities at fair value in the future.

Diminished access to historical and alternative sources of liquidity could adversely affect our operating results, net interest margin, and our overall liquidity.

Deposits are our primary source of liquidity. In the current environment, customer confidence is a critical element in growing and retaining deposits, and heightened sensitivity to our asset quality could affect the stability of our deposit base. If our asset quality continues to deteriorate, our ability to grow and retain deposits could be curtailed, increasing our costs of funds and negatively impacting our overall liquidity and financial condition. We have historically had access to alternative sources of liquidity, including unsecured lines of credit from correspondent banks. Due to nonperforming assets and other trends, certain of these sources, including correspondent lines, are no longer available. The reduction in these alternative sources has increased our reliance on deposits.

Recapture of our deferred tax asset balance (i.e. reversal of the valuation allowance) is subject to considerable judgment.

In the fourth quarter of 2010, we recorded a $4,777,526 valuation allowance for deferred tax assets. The establishment of the valuation allowance significantly and adversely affected the Company s operating results and financial conditions, including regulatory capital ratios, in 2010. We expect to reverse the majority of the valuation allowance for deferred tax assets once we return to sustained profitability. Like other estimates, the reversal of the valuation allowance is subject to considerable judgment, and we cannot affirm with certainty when the deferred tax asset balance will be restored.

Issuance or sale of common stock or other equity securities resulting in an ownership change, as defined in the Internal Revenue Code, could impair our ability to fully utilize certain tax benefits.

Our ability to use realized net operating losses to offset future taxable income may be significantly limited if we experience an ownership change as defined by Section 382 of the Internal Revenue Code of 1986, as amended. An ownership change under Section 382 generally occurs when the aggregate percentage of stock held by 5% shareholders increases by more than 50% over a rolling three year period. In general, the rules of Section 382 allow post-change corporations to use pre-change net operating losses, but impose an annual limitation equal to the value of the corporation s stock immediately before the ownership change multiplied by the long-term tax-exempt rate, as defined by the Internal Revenue Code. Because a valuation allowance already exists for our entire deferred tax assets, no additional charge to earnings would result from an ownership change; however, such ownership change could adversely impact our ability to recover the deferred tax asset in the future.

Departures of our key personnel may harm our ability to operate successfully.

Our success has been and continues to be largely dependent on the services of our senior management team, including our senior loan officers, many of whom have significant relationships with our customers. Our continued success will depend, to a large extent, on the continued service of these key personnel.

Fluctuations in our expenses and other costs may hurt our financial results.

Our expenses and other costs, such as operating and marketing expenses, directly affect our earnings results. In light of the extremely competitive environment in which we operate, and because the size and scale of many competitors provides them with increased operational efficiencies, we must successfully manage such expenses. As our business develops, changes, or expands, additional expenses can arise.

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We must respond to rapid technological and other changes that may be more difficult or expensive than anticipated.

Our success depends, in part, on the ability to adapt products and services to evolving industry standards. Financial institutions face mounting pressure to provide products and services at lower prices which can significantly reduce profitability. This practice can reduce net interest income and noninterest income from fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial capital expenditures to modify or adapt existing products and services or develop new products and services. We may not be successful in introducing new products and services in response to industry trends or development in technology, or those new products may not achieve market acceptance. As a result, we could lose business, be forced to price products and services on less advantageous terms to retain or attract customers, or be subject to cost increases.

We rely on other companies to provide key components of our business infrastructure.

Third parties provide key components of our business infrastructure such as processing, internet connections, and network access. Any disruption in services provided by these third parties could adversely affect our ability to deliver products and services to customers and otherwise conduct business. Technological or financial difficulties of a third party service provider could adversely affect our business if those difficulties result in the interruption or discontinuation of services provided by that party. Our insurance coverage may be inadequate to cover losses resulting from system failures or other disruptions. Failures in our business infrastructure could increase the costs of doing business.

We rely on our systems, employees, and certain counterparties, and certain failures could materially and adversely affect our operations.

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and record-keeping errors, and computer/telecommunications malfunctions. Our business is dependent on our ability to process a large number of increasingly complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially and adversely affected. We are similarly dependent on our employees. We could be adversely affected if one of our employees causes a significant operational breakdown or failure of our operations or systems, either as a result of human error, sabotage, or fraudulent manipulation. Third parties with whom we do business could also be sources of operational risk to us due to breakdowns or failures of such parties own systems or employees. Any of these occurrences could diminish our ability to operate.

Disruptions of our operating systems from events wholly or partially beyond our control, including computer viruses, electrical or telecommunications outages, or natural or man-made disasters could occur. Such disruptions may interrupt our customer services and cause loss or liability to us. In addition, our controls and procedures as well as business continuity and data security systems could prove inadequate. For example, we could be susceptible to hacking or identity theft. Any such failure could require us to expend significant resources to correct the defect and expose us to litigation or losses not covered by insurance.

We depend on the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements and other data. We may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on independent auditors reports.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of clearing, counterparty, or other relationships. We have exposure to industries and counterparties, and we routinely execute transactions with other parties, including broker-dealers and other commercial banks. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or other institutions. Many of these transactions expose us to credit risk in the event of default of the other party or customer. Resultant losses could materially and adversely affect our results of operations.

Hurricanes and other natural or man-made disasters may adversely affect our loan portfolio and operations and increase the cost of doing business.

Large scale natural or man-made disasters may significantly affect our loan portfolio by damaging properties pledged as collateral and impairing the ability of certain borrowers to repay their loans. The nature and level of natural disasters cannot be predicted and may be intensified by global climate change. The ultimate impact of a natural disaster on future financial results is difficult to predict and will be affected by numerous factors, including the extent of damage to collateral, the extent to which damaged collateral is not covered by insurance, the extent to which unemployment and other economic conditions caused by the disaster affect borrowers ability to repay their loans, and the cost of collection, foreclosure moratoriums, loan forbearances, and other accommodations granted to borrowers and other customers.

Negative public opinion could damage our reputation and adversely impact business and revenues.

As a financial institution, our earnings and capital are subject to risks associated with negative public opinion. Negative public opinion could result from our actual or alleged conduct in any number of activities, including lending practices, the failure of any product or service sold by us to meet our customers expectations or applicable regulatory requirements, corporate governance, or from actions taken by regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep or attract customers and expose us to litigation and regulatory action.

Changes in accounting policies or standards could materially impact our financial statements.

Our accounting policies and processes are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board (FASB) and SEC change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes, which can be hard to predict, can materially impact how we record and report our financial condition and results of operations. Because of the uncertainty surrounding our judgments and estimates pertaining to our accounting policies, we cannot guarantee that we will not be required to adjust accounting policies or restate prior period financial statements. See the Critical Accounting Policies in Part II, Item 7, and Note 1 to the Consolidated Financial Statements for more information.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed in reports we file or submit to the SEC is accurately accumulated and communicated to management, and recorded, processed, summarized, and reported in accordance with the SEC s rules and forms. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, that alternative reasoned judgments can be drawn, or that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements due to error or fraud may occur and not be detected.

The costs and effects of litigation, investigations, or similar matters, or adverse facts and developments related thereto, could materially affect our business, operating results, and financial condition.

From time to time, we may be involved in litigation, investigations, or similar matters arising out of our business. Our insurance may not cover all claims asserted against us, and such claims, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation or investigation significantly exceed our insurance coverage, our business, financial condition, and results of operations will be impacted. In addition, we may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms, if at all.

Our directors and executive officers own a significant portion of our common stock.

Our directors and executive officers, as a group, beneficially owned approximately 29% of our outstanding common stock as of December 31, 2010. As a result of their ownership, the directors and executive officers will have the

ability, by voting their shares in concert, to significantly influence the outcome of all matters submitted to our shareholders for approval, including the election of directors.

The trading volume in our common stock has been low, and the sale of substantial amounts of our common stock in the public market could depress the price of our common stock.

The trading volume in our common stock has been relatively low. We cannot say with any certainty that a more active and liquid trading market for our common stock will develop. As a result, it may be more difficult for you to sell a large block of shares at the same price you could sell a smaller number of shares.

Sales of substantial amounts of common stock, or the potential for large amounts of sales, may cause the price of our common stock to decline or impair our future ability to raise capital through sales of stock.

Our stock price can be volatile.

The current market price of our common stock may not be indicative of future prices. Our stock price could fluctuate widely in response to a variety of factors including:

- Actual or anticipated variations in earnings;
- Legislation or actions by government regulators;
- Changes in dividends;
- Issuance of common stock or other equity securities in the future;
- Operating and stock performance of other companies deemed to be peers;
- Announcement of developments related to our business;
- New technology or services offered by traditional and non-traditional competitors;
- Changes in analysts recommendations or projections; and
- Cyclical fluctuations

We may be required to raise capital in the future.

If real estate conditions in the Company s markets do not moderate or continue to deteriorate over a protracted period, negatively affecting our net interest income and increasing provisions and write-downs associated with nonperforming assets, additional capital could be required in the future. Such capital may not be available on favorable terms and could significantly dilute the ownership of existing shareholders. The Company and SEB are currently deemed well-capitalized under regulatory guidelines. The Company s current capital position is disclosed in Note 14 to the Consolidated Financial Statements.

We have suspended dividend payments until our operating performance improves. Regulatory approval will be required prior to payment of a future dividend.

The Company has suspended dividends until operating performance improves and credit losses abate. As a result, common shareholders will not receive any current cash payouts. The dividend reduction could adversely affect the market price of our common stock.

Item 1B. Unresolved Staff Comments.

None

Item 2. Properties.

Company Property. The Company s executive offices are located in SEB s main banking office at 1010 North Way, 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 next table.

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Banking Offices

Florida	542238 US Highway 1 Nassau County **Callahan, Florida** 32011	463128 State Road 200 Nassau County **Yulee, Florida 32097**
	15885 County Road 108 Nassau County **Hilliard, Florida** 32046	
Georgia	15 Trade Street Glynn County **Brunswick, Georgia** 31525	1501 GA Highway 40 East Camden County **Kingsland, Georgia** 31548
	620 S. Peterson Avenue Coffee County **Douglas, Georgia** 31533	105 Bacon Street Brantley County **Nahunta, Georgia** 31553
	15039 Highway 17 McIntosh County **Eulonia, Georgia** 31331	910 Van Streat Highway Coffee County **Nicholls, Georgia** 31554
Georgia	4233 Second Street North Charlton County **Folkston, Georgia** 31537	2004 Highway 17 Bryan County **Richmond Hill, Georgia** 31324
	14 Hinson Street Jeff Davis County **Hazlehurst, Georgia** 31539	2512 Osborne Road Camden County **St. Marys, Georgia** 31558
	4604 Main Street East Brantley County **Hoboken, Georgia** 31542	414 Bedell Avenue Camden County **Woodbine, Georgia** 31569

The Company owns all of its main office and branch facilities. All properties except Eulonia have been renovated in the last seven years.

The Company also owns four parcels of land that are being held for future expansion; three parcels are located in Glynn County, in the St. Simons, Southport, and Sterling areas, and the fourth in Brantley County, near Waynesville.

See Note 4 to the Consolidated Financial Statements for further property information.

Item 3. Legal Proceedings.

The Company and its subsidiary 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 results of operations or financial position.

Item 4. (Removed and Reserved).

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PART II

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

The Company s stock, which is not listed on a national securities exchange, trades over-the-counter under the symbol SEBC. The high and low sales prices shown below are based on information being posted to automated quotation systems by broker-dealers. These market prices may include dealer mark-up, markdown, and/or commission. Prices paid on treasury stock purchases with non-brokers are excluded from these results.

The following table sets forth the high and low sales prices, the cash dividends declared, and earnings per share on the Company s common stock during the periods indicated.

Market Sales Price, Dividends Declared, & Earnings (Loss) Per Share	Quarter	Sales Price High	Sales Price Low	Dividends Declared	Basic & Diluted Earnings (Loss)
2010	**4 th**	**$ 9.00**	**$ 7.60**	**$ -**	**$(2.16)**
	3rd	**10.60**	**6.75**	**-**	**(0.85)**
	2nd	**11.00**	**10.50**	**0.06 1/2**	**(0.66)**
	1st	**11.01**	**10.00**	**0.06 1/2**	**(0.37)**
2009	4th	$ 11.75	$ 8.25	$ 0.06 1/2	$(0.09)
	3rd	13.00	11.00	0.06 1/2	0.09
	2nd	16.00	11.50	0.08 1/2	0.03
	1st	14.00	11.00	0.08 1/2	0.20
2008	4th	$ 19.00	$ 12.90	$ 0.12 1/2	$(0.02)
	3rd	20.75	16.25	0.25	0.36
	2nd	21.00	20.00	-	0.40
	1st	23.15	19.75	0.25	0.38

The Company had approximately 500 shareholders of record at December 31, 2010.

On July 21, 2010, the Company s Board of Directors voted to suspend dividends until operating performance improves and credit losses abate. The Company s ability to pay dividends in the future will be dependent on earnings, capital adequacy, the availability of liquid assets for distribution, and regulatory approval. The Company is a legal entity separate from its bank subsidiary, and its revenues depend primarily on the payment of dividends from SEB. Separate regulatory approval will be required before SEB can itself pay a dividend. See the Capital Adequacy section of Part II, Item 7 for more details on the Company s capital position. Refer to the Nonperforming Assets section of Part II, Item 7 for particulars on problem asset trends and their resultant effect on earnings.

The Company has also suspended its treasury stock program. Purchases made prior to the suspension are summarized in the table below:

Share Repurchases - 2010	**Total Number of Shares Purchased**	**Average Price Paid per Share**	**Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Dollar Value of Shares that May Yet be Purchased under the Plans or Programs**
January 1 March 31	**-**	**-**	**-**	**$6,196,969**
April 1- 30	**9,143**	**$10.00**	**9,143**	**6,105,539**
May 1 July 21	**-**	**-**	**-**	**6,105,539**
Total	**9,143**	**$10.00**	**9,143**	

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Shares of common stock available for issuance under the Company s Stock Option Plan are detailed in the next table.

Equity Compensation Plans ***December 31, 2010***	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights**	**Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans**
Equity Compensation Plans Approved by Shareholders[1]	**70,250**	**$15.23[2]**	**79,750**
Equity Compensation Plans Not Approved by Shareholders	-	-	-
Total	**70,250**	**$15.23[2]**	**79,750**

[1]Comprises the 2006 Stock Option Plan.

[2]The weighted average contractual term of the outstanding options is 7.35 years.

See Note 9 to the Consolidated Financial Statements for additional information on outstanding options.

Item 6. Selected Financial Data.

Selected financial data for the last five years is provided in the next table.

Financial Data *(Dollars in thousands except per share data)*	**2010**	2009	2008	2007	2006
Summary of Operations:					
Interest income	**$ 17,460**	$ 21,120	$ 24,798	$ 29,148	$ 26,513
Interest expense	**4,647**	5,833	8,093	9,905	6,869
Net interest income	**12,813**	15,287	16,705	19,243	19,644
Provision for loan losses	**14,265**	5,890	1,348	305	110
Noninterest income	**3,891**	4,450	3,570	5,153	3,728
Noninterest expense	**15,276**	13,626	14,048	13,708	13,577
Income before income tax expense (benefit)	**(12,837)**	221	4,879	10,383	9,685
Income tax expense (benefit)	**(192)**	(513)	1,329	3,352	3,110
Net income (loss)	**$ (12,645)**	$ 734	$ 3,550	$ 7,031	$ 6,575
Net interest income FTE[3]	**$ 13,355**	$ 15,887	$ 17,356	$ 19,982	$ 20,371
Selected Average Balances:					
Total assets	**$ 431,627**	$ 413,957	$ 429,152	$ 410,126	$ 388,869
Earning assets[4]	**392,338**	380,018	393,756	379,257	360,589
Loans, net of unearned income	**256,088**	282,946	270,133	268,445	236,120
Investment securities	**65,145**	89,642	118,486	106,369	117,055
Deposits	**367,966**	341,863	356,559	343,209	328,491
Shareholders equity	**54,856**	57,146	57,310	54,852	51,615
Selected Year-End Balances:					

Total assets	**$ 427,633**	$ 421,056	$ 434,987	$ 436,386	$ 410,302
Earning assets[4]	**393,759**	369,683	396,795	390,952	375,140
Loans, net of unearned income	**245,624**	275,726	279,757	269,477	247,765
Allowance for loan losses	**9,916**	7,170	4,929	4,510	4,240
Investment securities	**74,300**	74,626	115,480	120,460	126,286

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Financial Data, continued: *(Dollars in thousands except per share data)*	**2010**	2009	2008	2007	2006
Selected Year-End Balances:					
Deposits	**$ 375,195**	$ 351,771	$ 349,810	$ 362,056	$ 341,951
Long-term debt	**5,000**	5,000	5,000	5,000	5,000
Treasury stock	**8,894**	8,803	8,350	8,308	7,356
Shareholders equity	**44,806**	56,559	57,184	56,737	52,186
Per Share Ratios:					
Basic and diluted earnings (loss)	**$ (4.04)**	$ 0.23	$ 1.12	$ 2.19	$ 2.04
Dividends declared	**0.13**	0.30	0.62 1/2	0.67	1.02
Book value	**14.32**	18.02	18.00	17.85	16.24
Market price:					
High	**11.00**	16.00	23.15	30.00	30.00
Low	**6.75**	8.25	12.90	24.10	26.00
Common Share Data:					
Outstanding at end of year	**3,129,388**	3,138,531	3,176,331	3,178,331	3,213,600
Basic and diluted weighted average outstanding	**3,131,642**	3,155,757	3,177,101	3,204,024	3,223,104
Financial Ratios and Other Data:					
Profitability:					
Return on average assets	**(2.93)%**	0.18%	0.83%	1.71%	1.68%
Return on beginning equity	**(22.36)**	1.28	6.26	13.47	13.31
Return on average equity	**(23.05)**	1.28	6.19	12.82	12.74
Net interest margin FTE[2]	**3.40**	4.18	4.41	5.27	5.65
Liquidity:					
Net loans[1] to total deposits	**65.47**	78.38	79.97	74.43	72.46
Average loans[1] to average earnings assets	**65.27**	74.46	68.60	70.78	65.48
Noninterest-bearing deposits to total deposits	**14.76**	15.73	15.90	17.80	23.68
Asset Quality:					
Net charge-offs to average loans[1]	**4.50**	1.28	0.34	0.01	0.08
Nonperforming assets to net loans[1] plus foreclosed/repossessed assets	**20.35**	10.43	3.59	0.40	0.51
Allowance for loan losses to net loans[1]	**4.04**	2.60	1.76	1.67	1.71
Allowance to nonperforming loans	**0.24**	0.33	0.69	6.16	4.40
Capital Adequacy:					
Tier 1 capital ratio[3]	**15.88**	17.90	17.40	17.93	18.36
Total capital ratio	**17.16**	19.17	18.66	19.18	19.61
Tier 1 leverage ratio	**10.29**	14.00	13.61	13.60	13.05
Dividend payout ratio	**N/A**	129.11	55.94	30.45	49.90

[1] Net of unearned income
[2] Financial ratios marked FTE are presented on a federal taxable-equivalent basis, using a tax rate of 34%.
[3] The Company s Tier 1 common equity is the same as its Tier 1 capital ratio.
[4] Bank-owned life insurance is not included in the earning assets total.

In accordance with generally accepted accounting principles, prior period amounts have not been restated to reflect treasury stock purchases. The FTE adjustments, totaling approximately $542,000, $600,000, $651,000, $739,000, and $727,000 in 2010 - 2006, apply to interest earnings on tax-exempt loans and municipal securities.

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations (the 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 Consolidated 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 within this Analysis.

DESCRIPTION OF BUSINESS

Southeastern Banking Corporation, with assets exceeding $427,633,000, is a financial services company with operations in southeast Georgia and northeast Florida. Southeastern Bank, the Company s wholly-owned commercial bank subsidiary chartered in 1888, 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 a third party broker-dealer, provides insurance and investment brokerage services.

On December 10, 2010, the Company closed its branch at 601 Palisade Drive in the Southport area of Brunswick, Georgia. The leased facility, which opened in January 2007, had nominal loan and deposit volume.

FINANCIAL CONDITION

Consolidated assets totaled $427,633,057 at December 31, 2010, up $6,577,432 or 1.56% from December 31, 2009. A substantial increase in cash & cash equivalents offset by declines in net loans and investment securities was the primary factor in the 2010 results. Specifically, cash & cash equivalents, which include correspondent balances at the Federal Reserve and federal funds sold, increased $38,236,046, while other real estate grew $3,106,728; net loans declined $32,848,164, and investment securities dropped $326,227. A $23,423,778 increase in deposits precipitated the asset rise. Loans comprised approximately 62%, investment securities, 19%, and interest-bearing deposits in other banks, 18%, of earning assets at December 31, 2010 versus 75%, 20%, and 4%, at December 31, 2009. Overall, earning assets approximated 92% of total assets at December 31, 2010. During the year-earlier period, total assets declined $13,930,924 or 3.20%. Declines in investment securities and net loans were the predominant factors in the 2009 results. Refer to the Liquidity section of this Analysis for details on deposits and other funding sources as well as the higher cash balances being maintained currently.

Investment Securities

Overall, investment securities declined $326,227 or 0.44% at December 31, 2010 compared to 2009. Purchases of securities, all during the fourth quarter and primarily comprising short-term securities with original maturities of 90 days or less, approximated $40,084,000, and redemptions, $42,035,000. The short-term securities, mainly Agency discount notes and U.S. Treasury bills, were purchased primarily to collateralize public funds as required by law. Earlier in 2010 and also, 2009, participation in the FDIC Temporary Liquidity Guarantee Program reduced the need for securities collateral for public funds deposits. Effective December 31, 2010, the FDIC amended its deposit insurance program to eliminate insurance coverage above $250,000 on NOW accounts, which are the predominant account type used by public funds. The change in insurance coverage necessitated and will continue to necessitate the purchase of securities to collateralize affected public funds. Other purchase activity has been nominal as management sought to improve the Company s overall liquidity position by maintaining available cash in interest-bearing deposits in other banks.

Five securities were sold in 2010. Specifically, a municipal holding with a cost basis of $320,000 was sold at a $2,320 loss, and four corporate holdings of the same issuer were sold at a $141,088 loss. Proceeds from the corporate sales totaled $4,274,250. In 2009, securities totaling $15,431,591 were sold at a net gain of $160,014. Approximately $11,239,740 or 73% of the 2009 sales occurred in the corporate sector, 15% in the U.S. Government and federal agency sector, and 12% in the municipal sector. The remaining redemptions both years were largely

attributable to various issuers exercise of call options and prepayments in the normal course of business and also, the relatively low-rate interest environment. The effective repricing of redeemed securities impacts current and future earnings results; refer to the Interest Rate and Market Risk/Interest Rate Sensitivity and Operations sections of this Analysis for more details. At December 31, 2010, agency residential mortgage-backed securities, municipals, and corporates comprised 15%, 23%, and 11% of the portfolio; other agency and U.S. Government enterprise securities together comprised 51%. Overall, securities comprised 19% of earning assets at December 31, 2010, down from 20% at year-end 2009. The portfolio yield approximated 5.19% in 2010, down 12 basis points from 5.31% in 2009. Yields are expected to decline further during 2011 due largely to anticipated purchases, including short-term purchases, and year-over-year reductions in corporate securities; on a weighted average basis, these corporate securities had higher yields than many of the other holdings in the portfolio.

Management believes the credit quality of the investment portfolio remains fundamentally sound, with 66.45% of the carrying value of debt securities, including mortgage-backed securities, being backed by U.S. Government agency and U.S. Government-sponsored enterprises at December 31, 2010. The Company does not own any collateralized debt obligations, widely known as CDOs, secured by subprime residential mortgage-backed securities. Additionally, the Company does not own any private label mortgage-backed securities. The Company held $10,766,005 residential mortgage-backed securities issued by Fannie Mae (FNMA) and Freddie Mac (FHLMC) at December 31, 2010. Residential mortgage-backed securities issued by FNMA and FHLMC are collateralized foremost by the underlying mortgages and secondly, by FNMA and FHLMC themselves. Management continues to monitor the viability of both FNMA and FHLMC as going concerns: In 2010 and early 2011, the U.S. Treasury again reiterated its support of FNMA and FHLMC although changes in the FNMA and FHLMC business model are expected going forward. Besides FNMA and FHLMC, the Company also owned Ginnie Mae mortgage securities with a carrying value of $199,616 at December 31, 2010. U.S. Government and federal agency holdings comprised U.S. Small Business Administration obligations, and U.S. Government-sponsored enterprise holdings comprised Federal Home Loan Bank (FHLB), FHLMC, and Federal Farm Credit Bank obligations at December 31, 2010. Credit concern surrounding the FHLB system continues to be widespread. The FHLB obligations owned by the Company carry the highest rating available from Moody s and Standard and Poor s. Nonetheless, the Company reviewed its holdings of FHLB debt securities and stock and concluded that its bond and stock holdings are recoverable at par. The Company s ownership of FHLB stock, which totaled $1,173,700 at December 31, 2010, is included in other assets and recorded at cost.

At December 31, 2010 and also, year-end 2009, the entire corporate portfolio comprised issues of banks and bank holding companies domiciled in the southeastern United States. These corporate debt obligations were all rated B+ or higher by at least one nationally recognized rating agency at December 31, 2010 except for three non-rated trust preferred securities with an aggregate carrying value of $3,102,003 and unrealized loss of $372,391. The $774,787 net unrealized loss on the total corporate portfolio, down $2,489,498 or 76.26% from year-end 2009 and including the trust preferred holdings, is largely reflective of the illiquidity and risk premiums reflected in the market for bank-issued securities due to pervasive capital, asset quality, and other issues still affecting the banking industry. As discussed further above and in Note 2 to the Consolidated Financial Statements, the Company sold four B+ at a $141,088 loss in 2010 and also recorded a $45,059 other-than-temporary impairment charge; refer to the next paragraph for more details on the impairment charge. Except for seventeen non-rated issues with fair values aggregating $4,301,826, all securities in the municipal portfolio were rated, investment grade securities. In analyzing non-rated municipals, management considers debt service coverage and whether the bonds support essential services such as water/sewer systems and education.

Management evaluates investment securities for other-than-temporary impairment on a quarterly basis, and more frequently when conditions warrant. This analysis requires management to consider various factors, including the duration and magnitude of the decline in value; the financial condition of the issuer or issuers; structure of the security; and, notwithstanding classification of the portfolio as available-for-sale, the Company s intent to sell the security or whether it s more likely than not that the Company would be required to sell the security before the anticipated recovery in market value. At December 31, 2010, management reviewed securities with an unrealized loss and concluded that no material individual securities were other-than-temporarily impaired. In 2010, the Company recognized a $45,059 impairment loss on one holding; this security was subsequently sold also in 2010 - at no additional loss. The Company still holds a security from the same issuer; this residual holding had a carrying value of $452,500 and unrealized loss of $39,338 at December 31, 2010. In 2009, no impairment charge was recorded. Additional impairment charges on the Company s holdings could become necessary in the future if the economic crisis facing the banking industry does not abate and various issuers financial condition continues to weaken.

The weighted average life of the portfolio approximated 2.60 years at year-end 2010; management does not expect any material extension in duration during 2011. The amortized cost and estimated fair value of investment securities are delineated in the following table.

		Gross	Gross	
Investment Securities by Category	Amortized	Unrealized	Unrealized	Fair
December 31,	Cost	Gains	Losses	Value
(Dollars in thousands)				
Available-for-sale:				
Debt securities:				
U.S. Government and federal agency securities				
2010	**$ 4,551**	**$ 188**	**$ -**	**$ 4,739**
2009	4,243	161	-	4,404
2008	7,457	259	-	7,716
U.S. Government-sponsored enterprise securities				
2010	**33,550**	**118**	**-**	**33,668**
2009	19,538	395	1	19,932
2008	28,643	660	-	29,303
Agency residential mortgage-backed securities				
2010	**10,323**	**642**	**-**	**10,965**
2009	16,872	694	-	17,566
2008	26,185	403	36	26,552
Obligations of states and political subdivisions				
2010	**16,588**	**370**	**137**	**16,821**
2009	22,263	510	126	22,647
Corporate debt obligations				
2010	**8,881**	**21**	**795**	**8,107**
2009	13,341	-	3,264	10,077
2008	24,598	191	3,106	21,683
Total available-for-sale				
2010	**73,893**	**1,339**	**932**	**74,300**
2009	76,257	1,760	3,391	74,626
2008	86,883	1,513	3,142	85,254
Held-to-maturity:[1]				
Debt securities:				
Obligations of states and political subdivisions				
2010	**-**	**-**	**-**	**-**
2009	-	-	-	-
2008	30,226	418	345	30,299
Total investment securities:				
2010	**$ 73,893**	**$1,339**	**$ 932**	**$74,300**
2009	76,257	1,760	3,391	74,626
2008	117,109	1,931	3,487	115,553

[1]All investment securities classified as held-to-maturity were transferred to the available-for-sale category on February 2, 2009.

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At December 31, 2010, the market value of the investment portfolio reflected $932,192 in gross unrealized losses, mostly in the corporate portfolio. Management continues to monitor these market values closely and hopes for an eventual recovery as issues facing banks and their affiliates are fully addressed. Capital raises and other strategic initiatives enacted by these organizations have been positive developments for these corporate holdings; nonetheless, ratings downgrades and additional losses have occurred and may continue. For more details on investment securities and related fair value, refer to the Capital Adequacy section of this Analysis.

The Company did not have a concentration in the obligations of any issuer at December 31, 2010 other than U.S. Government agencies, U.S. Government enterprises, and certain corporate holdings. At December 31, 2010, the Company held $5,380,199 in corporate securities issued by two separate regional bank holding companies; these holdings comprised 7.24% of the total securities portfolio and 66.37% of the corporate portfolio. These particular securities remained in the corporate portfolio at March 31, 2011.

The distribution of maturities and the weighted average yields of debt securities at December 31, 2010 are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may, in many instances, have the right to call or prepay obligations.

Maturity Distribution of Investment Securities *December 31, 2010* *(Dollars in thousands)*	**1 Year or Less**	**1 5 Years**	**5 10 Years**	**After 10 Years**	**Total**
Distribution of maturities					
Amortized cost:					
U.S. Government and federal agency securities	**$ -**	**$ 1,325**	**$ 2,191**	**$ 1,035**	**$ 4,551**
U.S. Government-sponsored enterprise securities	**28,709**	**2,841**	**-**	**2,000**	**33,550**
Agency residential mortgage-backed securities[1]	**996**	**8,346**	**128**	**853**	**10,323**
Obligations of states and political subdivisions[2]	**1,240**	**7,894**	**5,591**	**1,863**	**16,588**
Corporate debt obligations	**-**	**492**	**1,476**	**6,913**	**8,881**
Total investment securities	**$ 30,945**	**$ 20,898**	**$ 9,386**	**$ 12,664**	**$ 73,893**
Fair value:					
U.S. Government and federal agency securities	**$ -**	**$ 1,378**	**$ 2,326**	**$ 1,035**	**$ 4,739**
U.S. Government-sponsored enterprise securities	**28,724**	**2,855**	**-**	**2,089**	**33,668**
Agency residential mortgage-backed securities[1]	**1,016**	**8,899**	**142**	**908**	**10,965**
Obligations of states and political subdivisions[2]	**1,244**	**8,131**	**5,684**	**1,762**	**16,821**
Corporate debt obligations	**-**	**453**	**1,497**	**6,157**	**8,107**
Total investment securities	**$ 30,984**	**$ 21,716**	**$ 9,649**	**$ 11,951**	**$ 74,300**
Weighted average yield:					
U.S. Government and federal agency securities	**-**	**4.70%**	**5.47%**	**1.17%**	**4.27%**
U.S. Government-sponsored enterprise securities	**0.73%**	**2.18%**	**-**	**5.05%**	**1.11%**
Agency residential mortgage-backed securities[1]	**3.98%**	**4.93%**	**6.57%**	**5.06%**	**4.87%**
Obligations of states and political subdivisions[2]	**7.14%**	**6.34%**	**6.55%**	**6.40%**	**6.48%**
Corporate debt obligations	**-**	**5.70%**	**6.00%**	**7.25%**	**6.95%**
Total investment securities	**1.09%**	**5.09%**	**6.21%**	**6.13%**	**3.74%**

[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.

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Loans

Loans, net of unearned income, fell 10.92% or $30,102,308 since year-end 2009. The net loans to deposits ratio aggregated 65.47% at December 31, 2010 versus 78.38% and 79.97% at December 31, 2009 and 2008, respectively. The loan categorization table below reflects declines of $24,130,689 in real estate - construction balances, $3,478,467 in real estate residential mortgage balances, $743,632 in the commercial portfolio, and $1,787,572 in consumer loans at year-end 2010 compared to 2009. The $24,130,689 or 21.72% decline in real estate - construction balances resulted from multiple factors, including pay-downs, and as further discussed in the next two subsections, significant charge-offs and foreclosures. These loans, widely known as acquisition and development loans, continued to be predominantly residential in nature and concentrated in the Company s coastal markets at December 31, 2010. These type loans are typically short-term and somewhat cyclical; swings in these account balances are normal and to be expected. Due to the current slowdown in real estate activity, overall duration of these particular loans increased during the last year and is expected to increase further in 2011. The escalation in nonperforming assets attributable to these loans is also expected to continue into 2011. With the exception of existing commitments, the Company is originating new acquisition and development loans only to customers with extraordinary equity injections, outside financial strength, or other performance metrics with low dependence on the underlying collateral. Although the Company, comparable to peer institutions of similar size, originates permanent mortgages for new construction, it historically has not held or serviced long-term mortgage loans of any volume in 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. Overall, the commercial portfolio declined $743,632 or 0.75% from year-end 2009 to 2010. Nonfarm real estate loans, agricultural loans, and other commercial/industrial loans within this portfolio declined $472,259, $1,200,013, and $2,788,770; tax-free government loans grew $3,717,410. The tax-free loans serve as a bridge for local government bodies anticipating property tax collections and are intended to be short-term. Tighter credit policies and less demand throughout SEB s branches both contributed to the 13.25% and 6.67% declines in consumer and real estate residential mortgage loans in 2010.

Due to economic uncertainties within the Company s markets, particularly in the real estate sector, and resultant concerns regarding credit opportunities, management expects loan volumes to flatten or decline further in 2011. Additionally, as further discussed in the next subsection of this Analysis, management expects problem asset volumes to remain elevated given the Company s significant real estate portfolio. During the same period in 2009, net loans declined 1.44% or $4,030,839. The real estate portfolio contributed most of the 2009 decline. Loans outstanding are presented by type in the following table.

Loans by Category

December 31, *(Dollars in thousands)*	**2010**	2009	2008	2007	2006
Commercial, financial, and agricultural[1]	**$ 98,329**	$ 99,073	$ 96,492	$ 88,844	$ 87,255
Real estate construction[3]	**86,972**	111,103	121,194	123,095	104,212
Real estate residential mortgage[2,3]	**48,687**	52,165	47,239	39,988	39,340
Consumer, including credit cards	**11,701**	13,488	14,961	17,686	17,071
Loans, gross	**245,689**	275,829	279,886	269,613	247,878
Unearned income	**(65)**	(103)	(129)	(136)	(112)
Loans, net	**$ 245,624**	$ 275,726	$ 279,757	$ 269,477	$ 247,766

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 - mortgages are now being coded as real estate - construction. Comparable loans from prior periods have not been reclassified to reflect this change. The majority of real estate loans are residential in nature.

The amount of commercial and real estate - construction loans outstanding at December 31, 2010, based on remaining contractual repayments of principal, are shown by maturity and interest rate sensitivity in the following table. The maturities shown are not necessarily indicative of future principal reductions or cash flow since borrowers may prepay balances, and additionally, loans may be renewed in part or total at maturity.

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Loan Maturity and Interest Rate Sensitivity Selected Loans *December 31, 2010* *(Dollars in thousands)*	**Total**	**Within One Year**	**One-Five Years**	**After Five Years**
Loan maturity:				
Commercial, financial, and agricultural[1]	**$ 96,527**	**$46,663**	**$ 43,900**	**$5,964**
Real estate construction[1]	**65,132**	**50,053**	**14,691**	**388**
Total	**$161,659**	**$96,716**	**$ 58,591**	**$6,352**
Interest rate sensitivity:				
Selected loans with:				