CADENCE FINANCIAL CORP
Form S-1
June 30, 2009
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As filed with the Securities and Exchange Commission on June 30, 2009

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Cadence Financial Corporation

(Exact name of registrant as specified in its charter)

Mississippi	**6021**	**64-0694775**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

301 East Main Street

Starkville, Mississippi 39759

(662) 323-1341

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Lewis F. Mallory, Jr.

Chairman and Chief Executive Officer

Cadence Financial Corporation

301 East Main Street

Starkville, Mississippi 39759

Telephone: (662) 323-1341

Facsimile: (662) 323-4748

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

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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 x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Common Stock, par value $1.00 per share	$1,000,000	$55.80

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o).

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission acting pursuant to said Section 8(a), may determine.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JUNE 30, 2009

PROSPECTUS

shares of

Common Stock

We are offering shares of our common stock, par value $1.00 per share. The public offering price is $ per share. Our common stock is quoted on The NASDAQ Global Select Market under the symbol CADE. The last reported sale price of our common stock on June 29, 2009 was $2.47 per share.

You should read this prospectus carefully before you invest.

Investing in our common stock involves significant risks that are described in the Risk Factors section beginning on page 10 of this prospectus.

	Per Share	Total
Price to public	$	$
Underwriting discount		
Proceeds to us, before expenses		

Up to ____________ shares being sold by us are being reserved for sale to our officers and directors at the public offering price.

We have granted the underwriters an option to purchase additional shares of common stock at the same price, and on the same terms, solely to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

These securities are not savings accounts, deposits or other obligations of any bank and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The underwriters are expected to deliver the common stock to purchasers on , 2009.

Sole Book-Running Manager

FBR CAPITAL MARKETS

The date of this prospectus is , 2009.

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You should rely only on the information contained in this prospectus or any free writing prospectus prepared by or on behalf of us. We have not, and the underwriters have not, authorized any other person to provide you with different information. We are not, and the underwriters are not, making an offer to sell our common stock in any jurisdiction in which the offer or sale is not permitted.

This prospectus does not offer to sell, or ask for offers to buy, any shares of our common stock in any state or jurisdiction where it would not be lawful or where the person making the offer is not qualified to do so.

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SUMMARY

This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider in making your investment decision. Before making an investment decision, we urge you to read the entire prospectus carefully, including the consolidated financial statements and the related notes and the information set forth in the section of this prospectus entitled Risk Factors.

Our Company

Cadence Financial Corporation (the Corporation) is a $2.1 billion bank holding company, organized under the laws of the State of Mississippi in 1984. Its assets consist primarily of its investment in Cadence Bank, N.A. (the Bank), a national banking corporation with over 120 years of operating history dating back to 1887, and its primary activities are conducted through the Bank. As used in this prospectus, the terms we, us, and our mean the Corporation and its subsidiaries (including the Bank) and predecessors, unless the context indicates otherwise.

We are engaged in general banking business and activities closely related to banking, as permitted by the banking laws and regulations of the United States. We provide a competitive set of financial services that includes commercial and consumer banking, trust and investment management, mortgage loan products and retail investment sales. Our client base is diverse and consists of business, agricultural, governmental, and educational entities as well as individual consumer clients in the states of Alabama, Florida, Georgia, Mississippi and Tennessee. We have experienced significant organic growth and, in the last 37 years, expanded through strategic acquisitions.

Market Areas

Our banking franchise consists of 38 banking offices across five states. Specifically, we operate in eastern Mississippi; Brentwood and Franklin, Tennessee (Middle Tennessee); Memphis, Tennessee; Tuscaloosa, Birmingham and Hoover, Alabama; Sarasota and Bradenton, Florida; and Blairsville and Blue Ridge, Georgia. According to the most recent FDIC report as of June 30, 2008, we have deposit market shares of 48%, 26% and 26%, respectively, in Oktibbeha County, Mississippi where our headquarters are located, and in the neighboring Clay and Lowndes Counties.

Alabama. We serve the Tuscaloosa, Birmingham and Hoover, Alabama areas with seven banking facilities.

Florida. We serve the Sarasota and Bradenton, Florida areas with three banking facilities.

Georgia. We serve the Blairsville and Blue Ridge, Georgia areas with two banking facilities.

Mississippi. We are the largest commercial bank domiciled in the eastern, Golden Triangle, area of Mississippi. The Golden Triangle includes the third largest airport in Mississippi, Mississippi State University, the state s largest university, Columbus Air Force Base, Severstal Columbus, one of the largest steel mills in the United States, several other large government contractors, and several large industrial and research facilities. We have a total of 19 banking facilities that serve the communities of six Mississippi counties within a 65 mile radius of our main office in Starkville.

Tennessee. We have five banking facilities in the Memphis, Tennessee area, and two banking facilities in the Brentwood and Franklin, Tennessee areas near Nashville.

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The following table reflects, as of March 31, 2009, the distribution of total assets, loans, deposits and branches in the states in which we conduct our business:

State	Assets	Loans	Deposits	Branches
Alabama	11%	16%	12%	18%
Florida	7	11	8	8
Georgia	2	3	2	5
Mississippi	52	28	61	53
Tennessee	28	42	17	16
	100%	100%	100%	100%

Although we operate in several distinct markets, we employ a community banking model that uses centralized supervision and operational support, as we believe it adds consistency to our operations. We strive to provide high quality service to clients in our communities to establish profitable long-term banking relationships. We focus not only on operating our bank efficiently, but also on being an active participant in the communities we serve. During the current recession, we have undertaken strategic initiatives to improve our credit underwriting and monitoring so that we can continue to serve our clients effectively.

Market Opportunity and Our Business Strategy

We believe that upon the successful completion of this offering, we will be able to take advantage of key opportunities that exist in each of our markets, especially given the distress that has weakened many of our competitors. We believe the success of this offering will give us a competitive advantage over these competitors and allow us to benefit more rapidly from improving economic conditions.

We believe that given the current operating environment and the capital from this offering, we will have the following opportunities to increase our net interest margin and strengthen our franchise:

Take Advantage of Opportunities with Economic Recovery. We believe that the proceeds of this offering will leave us well positioned to take advantage of opportunities that may arise as the economy recovers. We expect to grow our franchise in our existing markets and may selectively expand our presence in new markets.

Optimize Loan Mix. Due to the current economic cycle and its effect on the Bank, we have not been actively seeking new banking relationships. We intend to modify this policy following this offering by pursuing and establishing new client relationships. We believe this change in strategy will allow us to grow our portfolio of assets, as well as diversify our loan mix and client base. We believe there are opportunities to originate loans with strict underwriting guidelines throughout our markets, primarily in commercial and industrial lending and 1-4 family first lien mortgages, as well as selective commercial real estate and farm loans, while continuing to reduce our exposure to construction and development loans.

Reinvest Excess Liquidity. During the first quarter of 2009, we intentionally accumulated excess liquidity in anticipation of an adverse public response to the announcement of our first quarter loss and other negative news. That anticipated response did not occur. Additional capital will allow us to invest this liquidity in higher income-earning assets, which should improve our income as well as our net interest margin.

Recruit and Retain Trained and Experienced Bankers. Because many of our competitors have been significantly weakened by the current recession, we believe that after this offering we will be viewed by banking professionals to be in a position of strength. We believe this perception will help us attract and retain talented professionals.

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Further Develop Our Core Deposit Franchise. We believe that our current footprint offers the opportunity for continued core deposit growth. We intend to leverage the market disruption created by the current recession to further strengthen our core deposit market share in each of our regions of operation. We plan to maintain our deposit share in the markets where we are leaders and grow our core deposits in the remainder of our markets using the strategies with which we have achieved success throughout our over 120-year operating history.

Opportunistically Participate in FDIC Assisted Transactions. Since January 1, 2009, 45 banks and thrifts have failed in the United States. Twelve of these failures have taken place in states in which we operate. We intend to participate in FDIC assisted transactions as requested and approved by our regulators if we believe those transactions will add value to our franchise. We will consider both whole bank or deposit only transactions.

Leverage Our Existing Infrastructure. We have made significant investments in our offices, technology and human capital. Our improvements to technology include enhancements made to our existing credit risk management and monitoring systems and commercial account and treasury services. We strive to maximize the potential of our infrastructure and develop our business with relatively small incremental investment.

Maintain Dedication to Customer Service. We use a relationship approach in managing and pricing our clients. We synchronize our product design, advertising, promotion and personal selling to more effectively meet the loan, deposit and electronic banking needs of our clients. Currently, our clients use, on average, 2.6 of our products per household. Our checking attrition rate is 15%, well below industry averages.

Loan Portfolio

During the current recession, our earnings have been materially affected by required provisions for loan losses stemming from deterioration in our construction and development portfolio. We entered into the Memphis, Birmingham and Hoover, and Middle Tennessee markets late in the most recent real estate boom cycle. Consequently, our build-up in our construction and development portfolio and the subsequent lack of demand for residential real estate caused our loan quality to deteriorate. In mid-2008, we established a moratorium on residential construction and development lending. As of March 31, 2009, we have reduced our exposure in total construction and development loans by more than $134 million, or 30.1%, from March 31, 2008. We are currently comfortable with the performance in our traditional commercial and farm loans, our commercial and industrial loans and our consumer loans. As noted above, we expect to originate new commercial and industrial loans and 1-4 family first lien mortgages, as well as opportunistically originate carefully underwritten, selective commercial real estate and farm loans, while continuing to reduce our exposure to construction and development loans. Due to the current economic cycle and its effect on the Bank we have not been actively seeking new banking relationships. We believe we have a strong presence in our markets and have the opportunity to capitalize on new lending relationships, along with their corresponding deposits, when we inject new capital into the Bank. Additionally, we believe our new capitalization coupled with our markets will allow us to selectively hire loan officers with targeted expertise.

We have endeavored to deal aggressively with problem assets across our loan portfolio. In the third quarter of 2008, we expanded our loan review program to include the addition of an independent asset quality review firm that provides specialized and targeted loan reviews by type. We believe our enhanced credit risk management process positions us to deal effectively with reducing our credit risk profile and maintaining a high quality loan portfolio on an ongoing basis. Additionally, in the future we intend to create a more balanced real estate portfolio by reducing our concentration of higher risk construction and development loans.

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The following table presents the concentration and balances in our loan portfolio for the Bank as of March 31, 2009, reflecting the internal categories that our management uses to obtain a more detailed view of our loan portfolio:

Loan Type	Number of Loans	Principal Amount Outstanding	Percent of Loan Portfolio	Percent of Total Assets
		(Dollars in thousands)		
Commercial Real Estate and Farm Loans	1,138	$ 421,446	32.59%	20.31%
Construction and Development Loans	860	312,052	24.13	15.04
Commercial and Industrial Loans	2,595	226,819	17.54	10.93
Closed End First Lien 1-4 Family	2,079	164,125	12.69	7.91
Home Equity Line of Credit	1,600	68,590	5.30	3.31
Multi-Family Loans	44	27,951	2.16	1.35
Consumer Loans	4,861	19,057	1.47	0.92
Closed-End Junior Lien 1-4 Family	304	13,447	1.04	0.65
Other	4,259	39,532	3.08	1.90
Total	17,740	$ 1,293,019	100.00%	62.32%

As of March 31, 2009, our non-performing loans were $44 million, or 3.4% of total loans outstanding. Our allowance for loan losses was 3.0% of total loans and provided for 88.5% coverage of our non-performing loans.

Management Team

We believe that the substantial experience and continuity of our management team will aid us in executing our business plan and continuing our growth.

Name	Title	Number of Years of Service
Lewis F. Mallory, Jr.	Chairman and Chief Executive Officer	44
Mark A. Abernathy	President and Chief Operating Officer	14
Richard T. Haston	Executive Vice President, Chief Financial Officer, and Secretary	12

Recent Developments

Agreement with the Office of the Comptroller of the Currency

On April 17, 2009, the Bank entered into a written agreement with the Office of the Comptroller of the Currency (the OCC), our primary federal regulator, to improve the Bank s performance. The agreement seeks to enhance the Bank s existing practices and procedures in several areas, including compliance, strategic planning, credit risk management, other real estate owned (OREO), criticized assets, internal loan review, internal audit, commercial real estate concentration risk management, brokered deposits, and financial subsidiaries. While the Bank is under this agreement, it is subject to additional oversight and restrictions in terms of growth and capital. The Bank believes it has made progress in complying with the agreement.

The OCC has required the Bank to achieve by September 30, 2009, and maintain on an ongoing basis, a Tier 1 leverage ratio of 8.0% and a total risk-based capital ratio of 12.0%. These ratios are higher than the regulatory capital ratios required to meet well-capitalized standards. As of March 31, 2009, the Bank had a Tier 1 leverage ratio of 7.2% and a total risk-based capital ratio of 11.7%. This offering of common stock is intended to allow the Bank to achieve the required capital levels and to provide additional capital to support the Bank s growth. If the Bank fails to comply with these required capital levels, the Bank may be subject to further administrative actions or sanctions.

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Participation in Capital Purchase Program

In January 2009, we sold 44,000 shares of non-voting preferred stock, for an aggregate purchase price of $44.0 million, and issued a warrant to purchase up to 1,145,833 shares of our common stock to the U.S. Department of the Treasury (the U.S. Treasury) under the Troubled Asset Relief Program (TARP) Capital Purchase Program (the CPP).

Corporate Information

Our principal executive offices are located at 301 East Main Street, Starkville, Mississippi 39759, and our telephone number is (622) 323-1341. We maintain a website at *http://www.cadencebanking.com.* Information on the website is not incorporated by reference and is not part of this prospectus.

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THE OFFERING

Common stock offered	shares (shares if the underwriters exercise their over-allotment option in full).
Common stock outstanding after the offering[1]	shares (shares if the underwriters exercise their over-allotment option in full).
Net proceeds	The net proceeds of this offering to us will be approximately $ million (after deducting underwriting discounts and commissions and the offering expenses payable by us) based on the public offering price of $ per share. The amount of net proceeds will be higher if the underwriters exercise their over-allotment option.
Use of proceeds	The net proceeds of this offering will qualify as Tier 1 capital for regulatory purposes and become part of our general funds. We expect to use the net proceeds of this offering to fund the Bank, to support continued growth in our loans and deposits and for general corporate purposes.
Dividends	On May 5, 2009, our board of directors voted to suspend paying cash dividends until further notice. Furthermore, our ability to pay dividends is restricted by banking policies and regulations and our participation in the CPP. We cannot give you any assurance when we will resume paying dividends or regarding the amount of any potential future dividends.
Risk factors	You should carefully read and consider the information set forth under Risk Factors beginning on page 10 before deciding to invest in shares of our common stock.
The NASDAQ Global Select Market symbol	CADE

(1) The number of shares outstanding after this offering is based on 11,912,564 shares outstanding as of June 26, 2009.

Unless expressly stated or the context otherwise requires, all information in this prospectus assumes that the underwriters over-allotment option will not be exercised. For more information regarding the over-allotment option, see Underwriting.

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SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA

The following table provides summary historical consolidated financial data for the periods and as of the dates indicated. You should read this information in conjunction with our audited consolidated financial statements, including the related notes, and with Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this prospectus. Except for the data under Selected Financial Ratios, Selected Performance Ratios, Asset Quality Ratios and Capital Ratios, the summary historical consolidated financial data for the years ended December 31, 2008, December 31, 2007 and December 31, 2006, and the summary historical consolidated financial data as of December 31, 2008 and December 31, 2007, are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The summary historical consolidated financial data for the years ended December 31, 2005 and December 31, 2004 and the selected financial data as of December 31, 2006, December 31, 2005 and December 31, 2004 are derived from audited consolidated financial statements that are not included in this prospectus. The summary historical consolidated financial data as of March 31, 2009 and for the three months ended March 31, 2009 and March 31, 2008 are derived from our unaudited interim consolidated financial statements, which are included elsewhere in this prospectus. The summary historical consolidated financial data as of March 31, 2008 (balance sheet) are derived from unaudited interim consolidated financial statements that are not included in this prospectus. We have prepared our unaudited consolidated financial statements on the same basis as our audited financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the unaudited periods. The financial information presented in the table below is not necessarily indicative of our financial condition, results of operations or cash flows of any other period.

	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)		(audited)				
	(Dollars in thousands, except ratios and per share data)						
Summary of Operations:							
Total interest income	$ 21,706	$ 28,609	$ 102,857	$ 122,113	$ 96,994	$ 73,184	$ 62,384
Total interest expense	9,353	14,090	47,330	64,845	46,512	27,970	21,186
Net interest income	12,353	14,519	55,527	57,268	50,482	45,214	41,198
Provision for loan losses	32,761	3,000	28,599	8,130	1,656	2,128	3,522
Net interest (loss) income after provision for loan losses	(20,408)	11,519	26,928	49,138	48,826	43,086	37,676
Securities gains (losses), net	63	203	390	(17)	66	159	223
Total other income	5,807	6,003	22,992	17,485	19,993	19,935	20,107
Noninterest expense	81,543[1]	13,831	58,295	54,042	49,682	44,745	41,727
(Loss) income before income taxes	(96,144)	3,691	(8,375)	12,581	19,137	18,276	16,056
Income taxes (benefit) expense	(11,983)	930	(5,019)	2,788	4,984	4,522	3,757
Net (loss) income	(84,161)	2,761	(3,356)	9,793	14,153	13,754	12,299
Per Share Data:							
Net (loss) income basic	$ (7.06)	$ 0.23	$ (0.28)	$ 0.82	$ 1.37	$ 1.68	$ 1.51
Net (loss) income diluted	(7.06)	0.23	(0.28)	0.82	1.37	1.68	1.50
Net (loss) income per share applicable to common shareholders basic	(7.09)	0.23	(0.28)	0.82	1.37	1.68	1.51
Net (loss) income per share applicable to common shareholders diluted	(7.09)	0.23	(0.28)	0.82	1.37	1.68	1.50
Dividends	0.05	0.25	0.60	1.00	1.00	0.98	0.96
Book value per common share	8.75	16.56	15.57	16.33	16.09	12.17	11.94
Tangible book value per common share	8.60	10.73	9.80	10.47	10.09	8.04	7.71

(1) We recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009, eliminating all goodwill from our balance sheet.

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	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)				(audited)		
	(Dollars in thousands, except for ratios)						
Financial Condition Data:							
Total assets[(1)]	$ 2,074,926	$ 2,009,850	$ 1,979,269	$ 1,984,155	$ 1,899,948	$ 1,446,117	$ 1,439,573
Net loans	1,253,961	1,348,778	1,307,599	1,322,921	1,210,710	851,332	817,649
Total deposits	1,602,032	1,396,539	1,461,159	1,425,566	1,460,523	1,121,684	1,116,373
Long-term obligations[(2)]	200,193	161,807	181,431	94,284	110,832	126,779	121,991
Total shareholders equity	146,073	197,157	185,565	194,370	191,265	116,984	114,766
Tangible shareholders equity	144,252	127,695	116,716	124,632	119,923	77,330	74,107
Selected Financial Ratios:							
Net interest margin[(3)]	2.73%	3.23%	3.07%	3.28%	3.46%	3.55%	3.37%
Selected Performance Ratios:							
Return on average assets	N/A[(4)]%	0.60%	N/A[(4)]%	0.50%	0.90%	1.00%	1.00%
Return on average equity	N/A[(4)]	5.60	N/A[(4)]	5.10	9.00	11.80	11.00
Return on average tangible equity	N/A[(4)]	8.80	N/A[(4)]	8.10	13.30	18.00	13.70
Dividend payout ratio		108.70		122.00	73.00	58.30	63.60
Average equity to average asset ratio	8.18	9.80	9.60	9.90	9.60	8.20	8.70
Efficiency ratio[(5)]	449.03	67.40	74.20	72.30	70.50	68.70	68.10
Asset Quality Ratios[(6)]:							
Ratio of nonperforming assets to total assets	3.05%	1.36%	2.54%	1.00%	0.38%	0.53%	0.62%
Ratio of nonperforming loans to total loans	3.41	1.00	2.38	0.68	0.22	0.30	0.56
Ratio of allowance for loan losses to nonperforming loans	88.47	109.91	65.51	163.36	447.88	356.24	241.79
Ratio of allowance for loan losses to total loans	3.02	1.10	1.56	1.12	1.00	1.08	1.32
Capital Ratios:							
Tier 1 leverage ratio[(7)]	8.39%	8.05%	7.70%	8.00%	9.20%	8.70%	8.20%
Tier 1 risk-based capital	12.26	10.31	10.10	10.20	11.70	12.50	12.20
Total risk-based capital	13.52	11.30	11.40	11.20	12.50	13.40	13.40

(1) We recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009, eliminating all goodwill from our balance sheet.

(2) Long-term obligations are defined as those obligations with maturities in excess of one year. The Corporation s long-term obligations consist of certain term repurchase agreements (included in the Federal funds purchased and securities sold under agreements to repurchase caption on our consolidated balance sheets), subordinated debentures, and certain FHLB borrowings (included in the Other borrowed funds caption on our consolidated balance sheets).

(3) Net interest margin is net interest income divided by average earning assets.

(4) These percentages are negative and therefore not meaningful.

(5) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income (excluding taxes and the provision for loan losses).

(6) Nonperforming loans include loans 90 or more days past due, nonaccrual loans and restructured loans.

(7) Tier 1 leverage ratio is defined as Tier 1 capital (pursuant to risk-based capital guidelines) as a percentage of adjusted average assets.

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GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial data included in our summary consolidated financial data are not measures of financial performance recognized by generally accepted accounting principles in the United States (GAAP). These non-GAAP financial measures are tangible book value per share, tangible shareholders equity, and return on average tangible equity. Our management uses these non-GAAP measures in its analysis of our performance.

Tangible book value per share is defined as total equity reduced by recorded goodwill and other intangible assets divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing total book value while not increasing the tangible assets of a company. For companies such as ours that have engaged in business combinations, purchase accounting can result in the recording of significant amounts of goodwill related to those transactions.

Tangible shareholders equity is shareholders equity less goodwill and other intangible assets.

Return on average tangible equity is defined as annualized earnings for the period divided by average equity reduced by average goodwill and other intangible assets.

You should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP performance measures that other companies use. The following reconciliation table provides a more detailed analysis of these non-GAAP performance measures:

	As of March 31,		As of December 31,				
	2009	2008	2008	2007	2006	2005	2004
Book value per common share	$ 8.75	$ 16.56	$ 15.57	$ 16.33	$ 16.09	$ 12.16	$ 11.94
Effect of intangible assets per share	(0.15)	(5.83)	(5.77)	(5.86)	(6.00)	(4.12)	(4.23)
Tangible book value per share	8.60	10.73	9.80	10.47	10.09	8.04	7.71
Return on average equity	N/A[(1)]%	5.6%	N/A[(1)]%	5.1%	9.0%	11.8%	11.0%
Effect of intangible assets	N/A[(1)]	3.2	N/A[(1)]	3.0	4.3	6.2	2.7
Return on average tangible equity	N/A[(1)]	8.8	N/A[(1)]	8.1	13.3	18.0	13.7

(1) These percentages are negative and therefore not meaningful.

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RISK FACTORS

There are many risks and uncertainties related to our business and operations and an investment in shares of our common stock. Before making an investment decision, you should read carefully and consider the risk factors below relating to this offering. You should carefully consider the risks and uncertainties described below together with all other information contained in this prospectus, including our financial statements and the related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may adversely affect our business, financial condition and operations. Any of the following risks could negatively affect our business, financial condition and results of operations. The risks discussed below also include forward-looking statements, and actual results may differ substantially from those discussed. See Forward-Looking Statements.

Risks Related to Our Business

The current economic environment poses significant challenges for us and our industry and could adversely affect our financial condition and results of operations.

We are operating in a challenging and uncertain economic environment, including generally uncertain national and local conditions. Financial institutions like us continue to be affected by sharp declines in the real estate market and constrained financial markets. Dramatic declines in the housing market over the past year, including falling home prices and increasing delinquencies, foreclosures and unemployment, have resulted in significant write-downs of asset values by many financial institutions, including us. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their clients and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of client confidence, increased market volatility and widespread reduction in general business activity. Many financial institutions have experienced decreased access to deposits and borrowings. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition and results of operations.

Continued economic uncertainty, declines in real estate values, constrained financial markets, housing market decline and financial stress on borrowers as a result of the uncertain economic environment could continue to have an adverse effect on our borrowers or their clients, adversely affecting our financial condition and results of operations. For example, a deepening national economic recession or further deterioration in local economic conditions in the Southeastern United States could cause losses that exceed our allowance for loan losses. We cannot predict when economic conditions are likely to improve. We may also face additional risks in connection with the current economic environment, including the following:

- Economic conditions that negatively affect housing prices and the job market have caused, and may continue to cause, the credit quality of our loan portfolios to deteriorate, and that deterioration in credit quality has had, and could continue to have, a negative effect on our business.

- Market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates on loans and other credit facilities.

- The processes we use to estimate our allowance for loan losses and reserves may no longer be reliable because market conditions can change rapidly.

- The value of our securities portfolio may decline.

- We face increased regulation of our industry, and compliance with that regulation has increased our costs and increased compliance challenges and may continue to do so.

As these conditions or similar ones continue to exist or worsen, we could experience continuing or increased adverse effects on our financial condition and results of operations.

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We are heavily regulated, and that regulation could limit or restrict our activities and adversely affect our earnings.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various federal and state agencies, including the OCC, the Board of Governors of the Federal Reserve System (the Federal Reserve), the Federal Deposit Insurance Corporation (the FDIC), and to a limited degree, the regulators in the states in which our branches are located. Our compliance with these regulations is costly and may restrict some of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates and locations of offices. As further discussed below, we are also subject to capitalization guidelines established by our regulators, which require us to maintain certain levels of capital to support our business.

In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. In recent months, the U.S. financial regulators responding to directives of the Obama Administration and Congress have intervened on an unprecedented scale. New legislative proposals continue to be introduced in the U.S. Congress that could further substantially increase regulation of the financial services industry and impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including with respect to compensation, interest rates and the effect of bankruptcy proceedings on consumer real property mortgages. Further, federal and state regulatory agencies may adopt changes to their regulations and/or change the manner in which existing regulations are applied. We cannot predict the substance or effect of pending or future legislation or regulation or the application of laws and regulation to us. Compliance with current and potential regulation and scrutiny may significantly increase our costs, impede the efficiency of our internal business processes, require us to increase our regulatory capital and limit our ability to pursue business opportunities in an efficient manner by requiring us to expend significant time, effort and resources to ensure compliance. Additionally, evolving regulations concerning executive compensation may impose limitations on us that affect our ability to compete successfully for executive and management talent.

The Obama Administration recently proposed a white paper, Financial Regulatory Reform A New Foundation: Rebuilding Financial Supervision and Regulation, that provides recommendations for overhauling the nation s financial regulatory system in the wake of the global financial crisis. The plan urges Congress and regulators to adopt sweeping changes to financial sector regulation and oversight, dramatically increasing the federal government s role in nearly every aspect of the financial markets. The administration proposes both new substantive authorities and practices in government regulation and supervision, and a restructuring of the regulatory system, including the creation of new federal agencies, offices and councils. If this proposal or some other similar proposal is adopted, it may result in additional restrictions, oversight or costs that may have an adverse effect on our business, results of operations or the price of our common stock.

In addition, given the current economic and financial environment, our regulators may elect to alter standards or the interpretation of the standards used to measure regulatory compliance or to determine the adequacy of liquidity, certain risk management or other operational practices for financial services companies in a manner that impacts our ability to implement our strategy and could affect us in substantial and unpredictable ways and could have an adverse effect on our business, financial condition and results of operations. Furthermore, the regulatory agencies have extremely broad discretion in their interpretation of the regulations and laws and their interpretation of the quality of our loan portfolio, securities portfolio and other assets. If any regulatory agency s assessment of the quality of our assets differs from our assessment, we may be required to take additional charges that would have the effect of materially reducing our earnings, capital ratios and stock price.

We have entered into a formal written agreement with the OCC that requires us to take specified actions.

The OCC, our primary governmental regulator, reviews us annually. In this examination, the OCC reviews our business, including credit and other risks, accounting issues, operational matters, internal controls and

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management systems. Those reviews have required us to enhance our operational, risk management and internal control practices, planning processes, procedures and policies, among other things.

Following our most recent OCC review, we entered into an agreement with the OCC on April 17, 2009. In this agreement, we committed to enhance the Bank s existing practices and procedures in several areas, including the following: strategic planning, credit risk management, other real estate owned, criticized assets, internal loan review, internal audit, commercial real estate concentration risk management, brokered deposits, and financial subsidiaries. As a result of entering into a written agreement with the OCC, we are deemed to be in a troubled condition under applicable banking laws. Consequently, we will not be eligible for expedited processing of branch applications and other regulatory approvals, and we will be required to obtain OCC or FDIC approval before making severance payments to departing executives, adding new directors or senior executives, and making any change in the responsibilities of any current senior executive officer who is proposing to assume a different senior officer position. The Bank s regulators have considerable discretion in whether to grant required approvals, and we may not be able to obtain approvals if requested.

If we fail to comply with the terms of our written agreement with the OCC, the OCC has broad authority to take additional actions against the Bank, including assessing civil fines and penalties, imposing cease and desist orders, removing officers and directors and taking control of the Bank.

We are required to maintain high capital levels.

The OCC has required the Bank to achieve by September 30, 2009, and maintain on an ongoing basis, a Tier 1 leverage ratio of 8.0% and a total risk-based capital ratio of 12.0%. These capital ratios are higher than the regulatory capital ratios required to meet well-capitalized standards. We will substantially exceed the required capital ratios upon the completion of this offering. If we do not maintain these required capital levels, the OCC has broad authority to take additional actions against the Bank, including assessing civil fines and penalties, imposing cease and desist orders, removing officers and directors and taking control of the Bank.

Our loan portfolio is highly concentrated in commercial real estate in certain geographic areas.

Commercial real estate and farm loans totaled $421.4 million as of March 31, 2009. Additionally, construction and development loans totaled $312.1 million as of March 31, 2009. Our construction and development loan portfolio includes residential and non-residential construction and development loans. Our residential construction and development portfolio consists mainly of loans for the construction, development, and improvement of residential lots, homes, and subdivisions. Our non-residential construction and development portfolio consists mainly of loans for the construction and development of office buildings, hotels, and other non-residential commercial properties. Our commercial real estate and farm loan portfolio consists primarily of loans secured by office buildings, retail centers, warehouses, farm land and other commercial properties. As of March 31, 2009, 42.0% of our loans were originated in Tennessee and 28.0% of our loans were originated in Mississippi.

Commercial real estate loans are typically larger than residential real estate loans and consumer loans and depend on sales, in the case of construction and development loans, and cash flows, in the case of other commercial real estate loans, from the property to service the debt. Sales and cash flows have been and may continue to be affected significantly by general economic conditions, and a further deterioration in the markets where our collateral is located could increase the likelihood of default. Because our loan portfolio contains a significant number of commercial real estate loans with relatively large balances, the deterioration of a few of these loans has caused and could continue to cause a significant percentage increase in our non-performing loan balances. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses and an increase in charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

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The level of our commercial real estate loan portfolio has subjected us to additional regulatory scrutiny.

The concentration of residential construction and development in our commercial real estate loan portfolio is a primary factor that led to our agreement with the OCC. The FDIC, the Federal Reserve and the OCC have promulgated joint guidance on sound risk management practices for financial institutions like the Bank with concentrations in commercial real estate lending. Under the guidance, management should employ heightened risk management practices including board and management oversight and strategic planning, enhancement of underwriting standards, risk assessment and monitoring through market analysis and stress testing. While we believe we have implemented and are continuing to implement policies and procedures with respect to our commercial real estate loan portfolio consistent with this guidance and with the requirements of the OCC agreement, the OCC could require us to implement additional policies and procedures consistent with their interpretation of the guidance that could result in additional costs to us or restrict our business in a manner that could have a material adverse effect on our results of operations.

Our allowance for loan losses may not be adequate to cover actual losses.

If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease. Management maintains an allowance for loan losses based upon, among other things:

- historical experience;
- an evaluation of local, regional and national economic conditions;
- regular reviews of delinquencies and loan portfolio quality;
- collateral evaluations;
- current trends regarding the volume and severity of past due and problem loans;
- the existence and effect of concentrations of credit;
- results of regulatory examinations; and
- from time to time, the advice of consultants.

Based on those factors, management makes various assumptions and judgments about the ultimate collectibility of the respective loan portfolios. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires management to make significant estimates of current credit risks and future trends, all of which may undergo material changes. In addition, our board of directors and the OCC periodically reviews our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs. The OCC judgments may differ from those of our management. The amount of future loan losses is susceptible to changes in economic, operating and other conditions, which may be beyond our control, including changes in interest rates, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. While we believe that the allowance for loan losses is adequate to cover current losses, we cannot provide assurances that we will not need to increase our allowance for loan losses or that regulators will not require an increase in our allowance. Either of these occurrences could materially and adversely affect our financial condition and results of operations.

We have incurred significant losses and may incur additional losses.

We incurred a net loss of $84.2 million, or $7.06 per share, for the quarter ended March 31, 2009 (including a $66.8 million impairment loss on goodwill) and a net loss of $3.4 million, or $0.28 per share, for the year ended December 31, 2008. These losses, excluding the impact of the impairment loss on goodwill in the first quarter of 2009, have resulted primarily from losses in our loan portfolio and we may suffer additional losses in the future.

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We are subject to restrictions on executive compensation as a result of our participation in the CPP.

Under the terms of the CPP, the U.S. Treasury has imposed specified standards for executive compensation and corporate governance for the period during which the U.S. Treasury holds any equity or warrants issued pursuant to the CPP. These standards generally apply to our chief executive officer, chief financial officer, chief operating officer, and the two next most highly compensated senior executive officers. The standards include:

- ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten our value;

- required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate;

- prohibition on making golden parachute payments to senior executives; and

- agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive.

Under the American Recovery and Reinvestment Act of 2009 (the ARRA), further compensation restrictions, including significant limitations on incentive compensation, have been imposed on our senior executive officers and most highly compensated employees. Those restrictions, and any future restrictions on executive compensation that may be adopted, could adversely affect our ability to hire and retain senior executive officers.

Competition in the banking industry is intense and may adversely affect our profitability.

The banking business is highly competitive, and we experience competition from many other financial institutions in our markets. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other regional, super-regional, national and international financial institutions that operate offices in our markets and elsewhere. Moreover, this highly competitive industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Many of our competitors have fewer regulatory constraints, and some have lower cost structures.

We compete with these institutions both in attracting deposits and in making loans. Price competition for loans might result in us originating fewer loans, or earning less on our loans, and price competition for deposits might result in a decrease in our total deposits or higher rates on our deposits. We have to attract our client base from other existing financial institutions and from new residents. Many of our competitors are well-established, larger financial institutions. We may face a competitive disadvantage as a result of our smaller size and inability to spread our marketing costs across a broader market. Although we compete by concentrating our marketing efforts in our communities with local advertisements, personal contacts, and greater flexibility and responsiveness in working with local clients, we can give no assurance that this strategy will be successful.

Further deterioration of local economic conditions where we operate could have a continuing negative effect on us.

Our success depends significantly on the general economic conditions of the geographic markets we serve in the states of Alabama, Florida, Georgia, Mississippi and Tennessee. The local economic conditions in these areas have a significant impact on our commercial, real estate and construction loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. As a consequence of the difficult economic environment, we experienced losses, resulting primarily from significant provisions for loan losses. There can be no assurance that the economic conditions that have adversely affected the financial services industry, and the capital, credit and real estate markets generally, will improve in the near term, in which case we could continue to experience losses and write-downs of assets, and could face capital and liquidity constraints or other business challenges. Adverse changes in, and further deterioration of, the economic conditions of the Southeastern United

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States in general or any one or more of our local markets could negatively affect our financial condition, results of operations and our profitability. A continuing deterioration in economic conditions could result in the following consequences, any of which could have a material adverse effect on our business:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline; and
- collateral for loans we make, especially real estate, may decline in value, in turn reducing a client s borrowing power, and reducing the value of assets and collateral associated with our loans.

Future growth or operating results may require us to raise additional capital, but that capital may not be available or may be dilutive.

Although we expect to raise approximately $ million in this offering, to the extent that our future operating results erode capital, we are required to maintain higher capital levels, or we elect to expand through loan growth, we may be required to raise additional capital. Our ability to raise capital will depend on conditions in the capital markets, which are outside of our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise capital when needed or on favorable terms. If we cannot raise additional capital when needed, we will be subject to increased regulatory supervision and the imposition of restrictions on our growth and business. These restrictions could negatively affect our ability to operate or further expand our operations through loan growth, acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on our financial condition and results of operations. In addition, the issuance of additional shares of our common stock, including the exercise of the warrants that we issued to the U.S. Treasury or otherwise, will dilute the ownership interest of our common shareholders.

Liquidity needs could adversely affect our results of operations and financial condition.

The Bank s primary sources of funds are client deposits, maturing or called securities and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors outside of our control, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to clients on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Those sources include Federal Home Loan Bank (FHLB) advances, brokered deposits and federal funds lines of credit from correspondent banks. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we grow and experience increasing loan demand or if regulatory decisions should limit their availability. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should those sources not be adequate.

The financial services industry faces substantial litigation and legal liability risks.

We have been named, from time to time, as a defendant in various legal actions, including arbitrations and other litigation arising in connection with our activities. Threatened legal actions could include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. We are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Any substantial legal liability resulting from litigation could materially and adversely affect our business, financial condition or results of operations.

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Actions of the U.S. Treasury, the Federal Reserve and other governmental and regulatory bodies for the purpose of stabilizing the financial markets may not achieve the intended effect.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (the Emergency Economic Stabilization Act) in response to the current crisis in the financial sector and on February 17, 2009, President Obama signed into law the ARRA. The U.S. Treasury and banking regulators have implemented a number of programs under this legislation to address capital and liquidity issues in the banking system. There can be no assurance, however, as to the actual impact that the Emergency Economic Stabilization Act or the ARRA will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of the Emergency Economic Stabilization Act or the ARRA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could have a material adverse effect on our business, financial condition, results of operations, access to credit or the value of our securities.

These programs and measures also subject participating financial institutions, like us, to additional restrictions, oversight and costs that may have an adverse effect on our business, financial condition, results of operations or the price of our common stock. In particular, the ARRA amended the executive compensation provisions of the Emergency Economic Stabilization Act, under which TARP was established. These amendments apply not only to future participants under TARP, but also apply retroactively to companies like us that are current TARP participants. The full scope and effect of these amendments is uncertain and difficult to predict. The ARRA directs the Secretary of the U.S. Treasury to adopt standards that implement the amended provisions of the Emergency Economic Stabilization Act and directs the SEC to issue rules in connection with some of the amended provisions. While the U.S. Treasury has adopted interim final rules, the full scope and effect of the new standards and rules is not fully known.

Changes in monetary policy and interest rates could adversely affect our profitability.

Our results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. Our profitability depends to a significant extent on our net interest income. Net interest income is the difference between income generated from interest-earning assets and interest expense on funding those assets. Our net interest income has declined in recent periods due to a decline in interest rates. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the interest we pay on deposits and borrowings, but those changes could also affect our ability to originate loans and obtain deposits, and the average duration of our mortgage-backed securities portfolio.

Our net interest income will be adversely affected if market interest rates change such that the interest we pay on deposits and borrowings increases faster than the interest earned on loans and investments. Changes in interest rates could also adversely affect the income of some of our noninterest income sources. For example, if mortgage interest rates increase, the demand for residential mortgage loans will likely decrease, which will have an adverse effect on our mortgage loan fee income. Declines in security values could further reduce our trust and investment income.

In light of changing conditions in the national economy and in the financial markets, particularly the uncertain economic environment, the continuing threat of terrorist acts and the current military operations in the Middle East, we cannot predict possible future changes in interest rates, which may negatively affect our deposit levels, our loan demand and our business and earnings. Furthermore, the actions of the United States and other governments in response to ongoing economic crisis may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

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We may be required to pay significantly higher FDIC premiums in the future.

Recent insured institution failures, as well as deterioration in banking and economic conditions, have significantly increased the loss provisions of the FDIC, resulting in a decline in the designated reserve ratio to historical lows. The FDIC expects a higher rate of insured institution failures in the next few years compared to recent years. Therefore, the reserve ratio may continue to decline. Additionally, the Emergency Economic Stabilization Act temporarily increased the limit on FDIC coverage to $250,000 through December 31, 2009, which was extended to December 13, 2013 on May 20, 2009. These developments will cause the premiums assessed on us by the FDIC to increase and materially increase other expenses. Presently, we anticipate our FDIC insurance related costs (assuming the 5 basis point special emergency assessment on June 30, 2009, payable September 30, 2009, is the only special assessment in 2009) to increase to $4.4 million in 2009 from $923,000 in 2008 and $248,000 in 2007, and we are unable to predict the effect in future periods if the economic crisis continues.

We are a bank holding company and depend on our subsidiaries for dividends, distributions and other payments.

The Corporation is a company separate and apart from the Bank, and we must provide for our own liquidity. Substantially all of our revenues are obtained from dividends declared and paid by the Bank. The Bank s ability to declare and pay dividends is limited by its obligations to maintain sufficient capital and by other general restrictions on its dividends that are applicable to our subsidiaries that are regulated by various regulatory authorities. Under regulations controlling national banks, the payment of dividends by a bank without prior approval from the OCC is limited in amount to the current year s net profit and the retained net earnings of the two preceding years. At December 31, 2008 and March 31, 2009, without approval from the OCC, the Bank does not have the ability to pay dividends to the Corporation. The Federal Reserve has issued policy statements generally requiring insured banks and bank holding companies to pay dividends only out of current operating earnings.

In addition, if any of the Corporation s subsidiaries become insolvent, the direct creditors will have a prior and superior claim on its assets. The Corporation s rights and the rights of the Corporation s creditors will be subordinate to such direct creditor s claims. Additionally, if the Bank becomes subject to federal conservatorship or receivership, the Corporation would probably suffer a complete loss of the value of our ownership interest in the Bank, and we subsequently may be exposed to significant claims by the FDIC and the OCC.

Our inability to hire or retain key professionals, management and staff could adversely affect our revenues and net income.

We rely on key personnel to manage and operate our business, including major revenue generating functions such as the loan and deposit portfolios. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in our net income.

The ARRA has imposed significant limitations on executive compensation for recipients, like us, of funds under the CPP, which may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of our key executives, including our chairman and chief executive officer, our president and chief operating officer and chief financial officer.

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An interruption or breach in security with respect to our information systems, as well as information systems of our outsourced service providers, could have a material adverse effect on our financial condition and results of operations.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security with respect to our information system, as well as information systems of our outsourced service providers, could damage our reputation, result in a loss of client business, subject us to additional regulatory scrutiny, or expose us to civil litigation, any of which could result in failures or disruptions in our client relationship management, general ledger, deposit, loan and other systems resulting in a material adverse effect on our financial condition and results of operations.

Hurricanes and other natural disasters may adversely affect loan portfolios and operations and increase the cost of doing business.

We operate and make loans in the State of Florida, which is viewed as a hurricane-prone area. Hurricanes destroy collateral and the service businesses that support the area, and may affect the demand for houses and services in a hurricane-prone area. Our results could be adversely affected if we suffered higher than expected losses on our loans due to weather events.

We may face risks with respect to future de novo branch expansion and acquisitions or mergers such as substantial costs, timing and difficulty.

Although we are presently unable to engage in de novo branch expansion, acquisitions or mergers without OCC approval, we may obtain that approval and engage in those activities in the future after we raise the capital in this offering and improve our operating results. We may also consider and enter into new lines of business or offer new products or services. De novo branch expansion involves a number of risks, including:

- the time it takes for de novo branches to become profitable;
- the time and attention demands of senior management to execute de novo branching;
- the dependence of de novo branching upon local banking management;
- the time and costs associated with hiring experienced local banking management and opening the branch; and
- the entry into new areas where we lack experience.

Acquisitions and mergers involve a number of risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions and merger partners;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;

our ability to finance an acquisition and possible dilution to our existing shareholders;

the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;

the entry into new markets where we lack experience;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

the risk of loss of key employees and clients.

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There can be no assurance that integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities, including common stock and securities convertible into shares of our common stock, in connection with future acquisitions, which could cause ownership and economic dilution to our shareholders. There is no assurance that, following any future mergers or acquisition, our integration efforts will be successful or that, after giving effect to an acquisition, we will achieve profits comparable to or better than our historical experience.

We have a significant deferred tax asset and cannot assure that it will be fully realized.

We had net deferred tax assets of $11.9 million as of March 31, 2009. We did not establish a valuation allowance against our federal net deferred tax assets as of March 31, 2009 because we believe that it is more likely than not that all of these assets will be realized. In evaluating the need for a valuation allowance, we estimated future taxable income based on management approved forecasts. This process required significant judgment by management about matters that are by nature uncertain. If future events differ significantly from our current forecasts, we may need to establish a valuation allowance, which would have a material adverse effect on our results of operations and financial condition at the Bank.

Risks Related to Investing in Our Common Stock

The trading volume in our common stock has been low, and the sale of a substantial number of shares in the public market could depress the price of our stock and make it difficult for you to sell your shares.

Although our common stock is listed on The NASDAQ Global Select Market, it is thinly traded. Thinly-traded stock can be more volatile than stock trading in an active public market. We cannot predict the extent to which an active public market for our common stock will develop or be sustained after this offering. In recent years, the stock market has experienced a high level of price and volume volatility, and market prices for the stock of many companies have experienced wide price fluctuations that have not necessarily been related to operating performance.

We cannot predict the effect of future sales of our common stock in the market, or the availability of shares of our common stock for sale in the market, on the market price of our common stock. Therefore, we cannot assure you that sales of substantial amounts of our common stock in the market, or the potential for large amounts of market sales, would not cause the price of our common stock to decline or impair our ability to raise capital. Following this offering, we expect to have approximately shares of common stock outstanding (or shares of common stock outstanding if the underwriters exercise their over-allotment option in full) based upon 11,912,564 shares of common stock outstanding as of June 26, 2009.

If our stock price fluctuates after this offering, you could lose a significant part of your investment.

The market price of our stock may be influenced by many factors, some of which are beyond our control, including those described above in Risk Factors Risks Related to Our Business and the following:

- general economic and stock market conditions;
- risks related to our business and our industry, including those discussed above;
- changes in conditions or trends in our industry, markets or clients;
- strategic actions by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;

variations in our quarterly operating results and those of our competitors;

future sales of our common stock or other securities;

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- investor perceptions of the investment opportunity associated with our common stock relative to other investment alternatives; and
- continuing threats of terrorist acts.

As a result of these factors, investors in our common stock may not be able to resell their shares at or above the offering price or may not be able to resell them at all. These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low.

The market price of our common stock may decline after the stock offering.

We are currently offering for sale shares of our common stock (shares if the underwriters exercise their over-allotment option in full). The possibility that substantial amounts of shares of our common stock may be sold in the public market may cause prevailing market prices for our common stock to decrease. Additionally, because stock prices generally fluctuate over time, there is no assurance purchasers of common stock in the offering will be able to sell shares after the offering at a price equal to or greater than the actual purchase price. Purchasers should consider these possibilities in determining whether to purchase shares of common stock and the timing of any sale of shares of common stock.

The common stock is equity and therefore is subordinate to our and our subsidiaries indebtedness and preferred stock, and our ability to declare dividends on our common stock is limited.

Shares of the common stock are equity interests in the Corporation and do not constitute indebtedness. As such, shares of the common stock will rank junior to all current and future indebtedness and other non-equity claims on the Corporation with respect to assets available to satisfy claims on the Corporation, including in a liquidation of the Corporation. The Corporation may, and the Bank and our other subsidiaries may also, incur additional indebtedness from time to time and may increase our aggregate level of outstanding indebtedness. The ability of the Corporation to pay dividends is also limited by regulatory restrictions and the need to maintain sufficient consolidated capital. In addition, the ability of the Bank to pay dividends to the Corporation is limited by the Bank s obligations to maintain sufficient capital and by other general restrictions on dividends that are applicable to national banks regulated by the OCC.

Additionally, holders of our common stock are subject to the prior dividend and liquidation rights of any holders of our preferred stock then outstanding. Under the terms of the CPP, for so long as any preferred stock issued under the CPP remains outstanding, we are prohibited from increasing dividends on our common stock, and from making some repurchases of equity securities, including our common stock, without the U.S. Treasury s prior consent until the third anniversary of the U.S. Treasury s investment or until the preferred stock has been redeemed in whole or the U.S. Treasury has transferred all of the preferred stock it purchased under the CPP to third parties. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to some equity securities, including our common stock, are prohibited until all accrued and unpaid dividends are paid on the preferred stock, subject to limited exceptions.

In addition to the preferred stock we issued to the U.S. Treasury, our board of directors is authorized to cause us to issue additional classes or series of preferred stock without any action on the part of the shareholders. If we issue preferred shares in the future that have a preference over our common stock with respect to the payment of dividends or upon liquidation, or if we issue preferred shares with voting rights that dilute the voting power of the common stock, then the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Holders of our common stock are only entitled to receive the dividends that our board of directors may declare out of funds legally available for those payments. Although we have historically paid cash dividends on

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our common stock, we are not required to do so. On May 5, 2009, our board of directors voted to suspend paying cash dividends until further notice. We cannot assure you that we will resume paying dividends in the future. This could adversely affect the market price of our common stock. Also, as discussed above, we are a bank holding company and our ability to declare and pay dividends depends in part on federal regulatory considerations, including the guidelines of the Federal Reserve regarding capital adequacy and dividends.

An entity holding as little as a 5% interest in our outstanding common stock could, under certain circumstances, be subject to regulation as a bank holding company.

Any entity, including a group composed of natural persons, owning or controlling with the power to vote 25% or more of our outstanding common stock, or 5% or more if the holder otherwise exercises a controlling influence over us, may be subject to regulation as a bank holding company in accordance with the Bank Holding Company Act of 1956, as amended (the BHC Act). In addition, (a) any bank holding company or foreign bank with a U.S. presence may be required to obtain the approval of the Federal Reserve under the BHC Act to acquire or retain 5% or more of our outstanding common stock and (b) any person not otherwise defined as a company by the BHC Act and its implementing regulations may be required to obtain the approval of the Federal Reserve under the Change in Bank Control Act to acquire or retain 10% or more of our outstanding common stock. Becoming a bank holding company imposes statutory and regulatory restrictions and obligations, such as providing managerial and financial strength for its bank subsidiaries. Regulation as a bank holding company could require the holder to divest all or a portion of the holder s investment in our common stock or those nonbanking investments that may be deemed impermissible or incompatible with bank holding company status, such as a material investment in a company unrelated to banking.

Anti-takeover provisions in our charter documents could discourage, delay or prevent a change of control of our company and diminish the value of our common stock.

Some of the provisions of our restated articles of incorporation and restated bylaws could make it difficult for our shareholders to change the composition of our board of directors, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that our shareholders may consider favorable. See Description of Capital Stock. These provisions include:

- authorizing our board of directors to issue preferred shares without shareholder approval;
- prohibiting cumulative voting in the election of directors; and
- requiring the approval of 75% of our shareholders to approve any merger or sale of assets not recommended by the board of directors of the Corporation.

These anti-takeover provisions could impede the ability of our common shareholders to benefit from a change of control and, as a result, could have a material adverse effect the market price of our common stock and your ability to realize any potential change-in-control premium.

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FORWARD-LOOKING STATEMENTS

Certain information included in this prospectus and written or oral statements made by or on our behalf may contain forward-looking statements and information that are based on management s beliefs, expectations and conclusions or drawn from certain assumptions and information currently available. The Private Securities Litigation Act of 1995 encourages the disclosure of forward-looking information by management by providing a safe harbor for that information. This prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities and Exchange Act of 1934, as amended (the Exchange Act). Although we believe that the expectations and conclusions reflected in those forward-looking statements are reasonable, they are based on numerous assumptions, some of which may prove to be incorrect, and are subject to risks and uncertainties, which could cause the actual results to differ materially from our expectations. The words anticipate, believe, estimate, expect, objective, project, forecast, goal and sim expressions contained in this prospectus.

In addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements include, among others, regulatory factors, economic conditions, changing interest rates, changing market conditions, availability or cost of capital, increased competition, changes in accounting standards and practices, employee workforce factors, ability to achieve cost savings and enhance revenues, the assimilation of acquired operations and establishing credit practices and efficiencies therein, acts of war or acts of terrorism or geopolitical instability and other effects of legal and administrative proceedings, changes in federal, state or local laws and regulations and other factors identified and described in Risk Factors and other sections of this prospectus, including Business and Management s Discussion and Analysis of Financial Condition and Results of Operations. Readers are cautioned not to place undue reliance on any forward-looking statements made by or on behalf of us. You should read these forward-looking statements carefully because they discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other forward-looking information.

All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the applicable cautionary statements. We cannot guarantee any future results, levels of activity, performance or achievements. Except as required by law, we undertake no obligation to update any of the forward-looking statements in this prospectus after the date of this prospectus.

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USE OF PROCEEDS

Assuming a public offering price of $ (based on the closing price of our common stock on The NASDAQ Global Select Market on , 2009), the following table shows the calculation of the estimated net proceeds we will receive from the sale of shares of our common stock in this offering.

Gross proceeds from offering	$
Less: Underwriting discounts and commissions	
Estimated expenses of offering	
Net proceeds to us	$

If the underwriters over-allotment option is exercised in full, we estimate that the net proceeds to us will be approximately $ million.

The net proceeds of this offering will qualify as Tier 1 capital for regulatory purposes and become part of our general funds. We expect to use the net proceeds of this offering to fund the Bank, to support continued growth in our loans and deposits and for general corporate purposes.

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CAPITALIZATION

The following table describes the capitalization of the Corporation and certain capital ratios as of March 31, 2009. The Corporation s capitalization is presented:

on an actual basis; and

on an as adjusted basis to reflect the sale of shares of our common stock at a public offering price of $ per share (based on the closing price of our common stock on The NASDAQ Global Select Market on , 2009) and our receipt of $ estimated net proceeds from this offering, after deducting underwriting discounts and commissions and estimated expenses of this offering.

	As of March 31, 2009	
	Actual[2]	As adjusted[3] [4]
	(Dollars in thousands, except per share data)	
Long-term Debt:		
Subordinated debentures[1]	$ 30,928	
Shareholders Equity:		
Preferred Stock, par value $10.00; 10,000,000 shares authorized; issued 44,000 shares	41,791	
Common Stock, par value $1.00; 50,000,000 shares authorized; issued 11,914,814 shares	11,915	
Surplus	95,800	
Retained earnings (accumulated deficit)	(5,104)	
Accumulated other comprehensive income (loss)	1,671	
Total shareholders equity	146,073	
Total capitalization	177,001	
Book value per common share	8.75	
Tangible book value per common share	8.60	
Capital Ratios[5]:		
Tangible equity to tangible assets	6.96%	
Tier 1 leverage ratio	8.39	
Tier 1 risk-based capital[6]	12.26	
Total risk-based capital[6]	13.52	

(1) Consists of debt issued in connection with our trust preferred securities.

(2) Reflects 11,914,814 shares outstanding as of March 31, 2009.

(3) As adjusted, reflects shares outstanding after the completion of this offering. If the underwriters over-allotment option is exercised in full, common stock, additional paid-in capital and total shareholders equity would be $, $ and $, respectively.

(4) Before issuance of up to shares of common stock pursuant to the underwriters over-allotment option.

(5) These capital ratios reflect the Corporation s ratios. The Bank s capital ratios are disclosed under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Capital.

(6) Assumes the net proceeds from this offering will be invested in short-term securities with a 0.0% risk-weighting.

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PRICE RANGE OF OUR COMMON STOCK AND DIVIDEND INFORMATION

AND RELATED SHAREHOLDER MATTERS

Price Range of Our Common Stock

Our common stock is listed on The NASDAQ Global Select Market and is traded under the symbol CADE. Registrar and Transfer Company acts as our transfer agent. The following table provides, for the periods indicated, the range of closing prices of our common stock as reported on The NASDAQ Global Select Market for the period indicated and the dividends declared per share on our common stock for each period.

	High	Low	Cash Dividends Per Share
2009:			
Second quarter (through June 29, 2009)	$ 5.29	$ 1.94	$
First quarter	5.56	3.05	0.05
2008:			
First quarter	$ 16.99	$ 13.88	$ 0.25
Second quarter	16.87	10.50	0.25
Third quarter	12.30	8.27	0.05
Fourth quarter	10.39	4.10	0.05
2007:			
First quarter	$ 23.00	$ 19.88	$ 0.25
Second quarter	20.48	18.92	0.25
Third quarter	20.35	16.62	0.25
Fourth quarter	20.48	14.25	0.25

On June 29, 2009, the last reported sales price for our common stock on The NASDAQ Global Select Market was $2.47 per share. On June 29, 2009, there were 2,399 record holders of our common stock.

Dividends

Holders of our common stock are entitled to receive dividends when, as and if declared by our board of directors out of funds legally available for dividends. Historically, we have paid quarterly cash dividends on our common stock. On May 5, 2009, however, our board of directors voted to suspend paying cash dividends until further notice. We cannot give you any assurance that we will resume paying dividends or regarding the amount of any potential future dividends. Our ability to pay dividends to our shareholders in the future will depend on our earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, our ability to service any equity or debt obligations senior to our common stock, including our outstanding preferred stock and our outstanding trust preferred securities and accompanying junior subordinated debentures, and other factors our board of directors deems relevant. To pay dividends to shareholders, we must receive cash dividends from the Bank. As a result, our ability to pay future dividends will also depend on the earnings of the Bank, its financial condition and its need for funds.

Moreover, a number of federal and state banking policies and regulations restrict the Bank s ability to pay dividends. In particular, because the Bank is a depository institution and its deposits are insured by the FDIC, the Bank may not pay dividends or distribute capital assets if it is in default on any assessment due to the FDIC. Also, the Bank is subject to regulations, which impose certain minimum capital requirements that affect the amount of cash available for distribution to us. Lastly, under Federal Reserve policy, we are required to maintain adequate regulatory capital and are expected to serve as a source of financial strength to the Bank and to commit resources to support the Bank. These policies and regulations may have the effect of reducing or eliminating the amount of dividends that we can declare and pay to our shareholders in the future.

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Finally, under the terms of the CPP, until the earliest to occur of: (a) the third anniversary of the U.S. Treasury s investment in the Corporation; (b) the preferred stock has been redeemed in whole; or (c) the U.S. Treasury has transferred all of the preferred stock it purchased under the CPP to third parties, we are prohibited from increasing dividends on our common stock without the U.S. Treasury s prior consent. Furthermore, as long as the preferred stock issued to the U.S. Treasury is outstanding, dividend payments and repurchases or redemptions relating to some equity securities, including our common stock, are prohibited until all accrued and unpaid dividends are paid on the preferred stock, subject to limited exceptions.

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SELECTED HISTORICAL OPERATING AND FINANCIAL DATA

The following tables provide our selected historical operating and financial data for the periods and as of the dates indicated below. The selected historical income data for the years ended December 31, 2005 and December 31, 2004 and the selected financial data as of December 31, 2006, December 31, 2005 and December 31, 2004, are derived from audited consolidated financial statements that are not included in this prospectus. The selected historical income data for each of the three years ended December 31, 2008, December 31, 2007 and December 31, 2006, and the selected financial data as of December 31, 2008 and December 31, 2007, are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus.

The selected historical income data for the three months ended March 31, 2009 and 2008 and the selected financial data as of March 31, 2009 are derived from our unaudited consolidated financial statements, which are included elsewhere in this prospectus. The selected financial data as of March 31, 2008 (balance sheet) is derived from unaudited consolidated financial statements that are not included in this prospectus. We have prepared our unaudited consolidated financial statements on the same basis as our audited financial statements and have included all adjustments, consisting of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the unaudited periods. The selected historical income and financial data as of and for the three months ended March 31, 2009 are not necessarily indicative of the results that may be obtained for a full year.

	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)		(audited)				
	(Dollars in thousands, except ratios and per share data)						
Summary of Operations:							
Total interest income	$ 21,706	$ 28,609	$ 102,857	$ 122,113	$ 96,994	$ 73,184	$ 62,384
Total interest expense	9,353	14,090	47,330	64,845	46,512	27,970	21,186
Net interest income	12,353	14,519	55,527	57,268	50,482	45,214	41,198
Provision for loan losses	32,761	3,000	28,599	8,130	1,656	2,128	3,522
Net interest (loss) income after provision for loan losses	(20,408)	11,519	26,928	49,138	48,826	43,086	37,676
Securities gains (losses), net	63	203	390	(17)	66	159	223
Total other income	5,807	6,003	22,992	17,485	19,993	19,935	20,107
Noninterest expense	81,543(1)	13,831	58,295	54,042	49,682	44,745	41,727
(Loss) income before income taxes	(96,144)	3,691	(8,375)	12,581	19,137	18,276	16,056
Income taxes (benefit) expense	(11,983)	930	(5,019)	2,788	4,984	4,522	3,757
Net (loss) income	(84,161)	2,761	(3,356)	9,793	14,153	13,754	12,299
Per Share Data:							
Net (loss) income basic	$ (7.06)	$ 0.23	$ (0.28)	$ 0.82	$ 1.37	$ 1.68	$ 1.51
Net (loss) income diluted	(7.06)	0.23	(0.28)	0.82	1.37	1.68	1.50
Net (loss) income per share applicable to common shareholders basic	(7.09)	0.23	(0.28)	0.82	1.37	1.68	1.51
Net (loss) income per share applicable to common shareholders diluted	(7.09)	0.23	(0.28)	0.82	1.37	1.68	1.50
Dividends	0.05	0.25	0.60	1.00	1.00	0.98	0.96
Book value per common share	8.75	16.56	15.57	16.33	16.09	12.17	11.94
Tangible book value per common share	8.60	10.73	9.80	10.47	10.09	8.04	7.71

(1) We recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009, eliminating all goodwill from our balance sheet.

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	As of and for the Three Months Ended March 31,		As of and for the Year Ended December 31,				
	2009	2008	2008	2007	2006	2005	2004
	(unaudited)				(audited)		
			(Dollars in thousands, except for ratios)				
Financial Condition Data:							
Total assets(1)	$ 2,074,926	$ 2,009,850	$ 1,979,269	$ 1,984,155	$ 1,899,948	$ 1,446,117	$ 1,439,573
Net loans	1,253,961	1,348,778	1,307,599	1,322,921	1,210,710	851,332	817,649
Total deposits	1,602,032	1,396,539	1,461,159	1,425,566	1,460,523	1,121,684	1,116,373
Long-term obligations(2)	200,193	161,807	181,437	94,284	110,832	126,779	121,991
Total shareholders equity	146,073	197,157	185,565	194,370	191,265	116,984	114,766
Tangible shareholders equity	144,252	127,695	116,716	124,632	119,923	77,330	74,107
Selected Financial Ratios:							
Net interest margin(3)	2.73%	3.23%	3.07%	3.28%	3.46%	3.55%	3.37%
Selected Performance Ratios:							
Return on average assets	N/A(4)%	0.60%	N/A(4)%	0.50%	0.90%	1.00%	1.00%
Return on average equity	N/A(4)	5.60	N/A(4)	5.10	9.00	11.80	11.00
Return on average tangible equity	N/A(4)	8.80	N/A(4)	8.10	13.30	18.00	13.70
Dividend payout ratio		108.70		122.00	73.00	58.30	63.60
Average equity to average asset ratio	8.18	9.80	9.60	9.90	9.60	8.20	8.70
Efficiency ratio(5)	449.03	67.40	74.20	72.30	70.50	68.70	68.10
Asset Quality Ratios(6) :							
Ratio of nonperforming assets to total assets	3.05%	1.36%	2.54%	1.00%	0.38%	0.53%	0.62%
Ratio of nonperforming loans to total loans	3.41	1.00	2.38	0.68	0.22	0.30	0.56
Ratio of allowance for loan losses to nonperforming loans	88.47	109.91	65.51	163.36	447.88	356.24	241.79
Ratio of allowance for loan losses to total loans	3.02	1.10	1.56	1.12	1.00	1.08	1.32
Capital Ratios:							
Tier 1 leverage ratio(7)	8.39%	8.05%	7.70%	8.00%	9.20%	8.70%	8.20%
Tier 1 risk-based capital	12.26	10.31	10.10	10.20	11.70	12.50	12.20
Total risk-based capital	13.52	11.30	11.40	11.20	12.50	13.40	13.40

(1) We recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009, eliminating all goodwill from our balance sheet.

(2) Long-term obligations are defined as those obligations with maturities in excess of one year. The Corporation s long-term obligations consist of certain term repurchase agreements (included in the Federal funds purchased and securities sold under agreements to repurchase caption on our consolidated balance sheets), subordinated debentures, and certain FHLB borrowings (included in the Other borrowed funds caption on our consolidated balance sheets).

(3) Net interest margin is net interest income divided by average earning assets.

(4) These percentages are negative and therefore not meaningful.

(5) Efficiency ratio is noninterest expense divided by the sum of net interest income and noninterest income (excluding taxes and the provision for loan losses).

(6) Nonperforming loans include loans 90 or more days past due, nonaccrual loans and restructured loans.

(7) Tier 1 leverage ratio is defined as Tier 1 capital (pursuant to risk-based capital guidelines) as a percentage of adjusted average assets.

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GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Some of the financial data included in our summary consolidated financial data are not measures of financial performance recognized by GAAP. These non-GAAP financial measures are tangible book value per share, tangible shareholders equity, and return on average tangible equity. Our management uses these non-GAAP measures in its analysis of our performance.

Tangible book value per share is defined as total equity reduced by recorded goodwill and other intangible assets divided by total common shares outstanding. This measure is important to investors interested in changes from period-to-period in book value per share exclusive of changes in intangible assets. Goodwill, an intangible asset that is recorded in a purchase business combination, has the effect of increasing total book value while not increasing the tangible assets of a company. For companies such as ours that have engaged in business combinations, purchase accounting can result in the recording of significant amounts of goodwill related to those transactions.

Tangible shareholders equity is shareholders equity less goodwill and other intangible assets.

Return on average tangible equity is defined as annualized earnings for the period divided by average equity reduced by average goodwill and other intangible assets.

You should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP performance measures that other companies use. The following reconciliation table provides a more detailed analysis of these non-GAAP performance measures:

	As of March 31,		As of December 31,				
	2009	2008	2008	2007	2006	2005	2004
Book value per common share	$ 8.75	$ 16.56	$ 15.57	$ 16.33	$ 16.09	$ 12.16	$ 11.94
Effect of intangible assets per share	(0.15)	(5.83)	(5.77)	(5.86)	(6.00)	(4.12)	(4.23)
Tangible book value per share	8.60	10.73	9.80	10.47	10.09	8.04	7.71
Return on average equity	N/A[(1)]%	5.6%	N/A[(1)]%	5.1%	9.0%	11.8%	11.0%
Effect of intangible assets	N/A[(1)]	3.2	N/A[(1)]	3.0	4.3	6.2	2.7
Return on average tangible equity	N/A[(1)]	8.8	N/A[(1)]	8.1	13.3	18.0	13.7

(1) These percentages are negative and therefore not meaningful.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following provides a narrative discussion and analysis of our results of operations and financial condition and changes in results of operations and financial condition as of and for the periods indicated. You should read this discussion along with the consolidated financial statements, including the notes to them, and the supplemental financial data included elsewhere in this prospectus.

Introduction and Management Overview

Like most community banks, we derive most of our income from interest we receive on our loans and investments. Our primary source of funds for making these loans and investments is our deposits, on which we pay interest. Consequently, one of the key measures of our success is our amount of net interest income. Another key measure is the spread between the yield we earn on these interest-earning assets and the rate we pay on our interest-bearing liabilities.

Summary of Quarter Ended March 31, 2009

Participation in Capital Purchase Program. In January 2009, we sold 44,000 shares of non-voting preferred stock, for an aggregate purchase price of $44.0 million and issued a warrant to purchase up to 1,145,833 shares of our common stock to the U.S. Treasury under the CPP.

Net Interest Income. Our net interest income was $12.4 million for the first quarter of 2009, compared to $14.5 million for the first quarter of 2008. Our net interest margin was 2.73% for the first quarter of 2009, compared to 3.23% for the first quarter of 2008. Our loan yields declined by 175 basis points for the first quarter of 2009, compared to the first quarter of 2008. This lower yield was partly attributable to the 200 basis point reduction in interest rates by the Federal Reserve between March 31, 2008 and March 31, 2009. Our yield on earning assets declined by 156 basis points for the first quarter of 2009, but was offset somewhat by a 1.3% increase in average earning assets during this period.

Provision for Loan Losses. Our provision for loan losses was $32.8 million for the first quarter of 2009, compared to $3.0 million for the first quarter of 2008. We incurred $14.4 million in net charge-offs for the first quarter of 2009, compared to $2.9 million for the first quarter of 2008. Most of the increase in net charge-offs is attributable to two real estate development loans to one borrower. Also, we significantly increased our allowance for loan losses during the first quarter of 2009. Our allowance for loan losses was $39.1 million at March 31, 2009, compared to $20.7 million at December 31, 2008. We have experienced an increase in non-performing loans, mostly due to deterioration in our construction and development loan portfolio. During the first quarter of 2009, increased weakness in our Middle Tennessee and Florida markets were reflected in our provision for loan losses in the first quarter.

Other Income (Noninterest Income). Our noninterest income, exclusive of securities gains and losses, was relatively flat between the first quarter of 2008 and the first quarter of 2009.

Other Expense (Noninterest Expense). Our noninterest expense increased to $81.5 million for the first quarter of 2009, compared to $13.8 million for the first quarter of 2008, representing an increase of $67.7 million, or 489.6%. This increase was largely the result of a $66.8 million impairment loss on goodwill. The remaining $0.9 million increase resulted primarily from increases in FDIC insurance premiums and expenses relating to OREO.

Net Income/(Loss). We reported a net loss of $84.5 million, or $(7.09) per common share, for the first quarter of 2009, compared to net income of $2.8 million, or $0.23 per common share, for the first quarter of 2008.

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Loan Portfolio. As of March 31, 2009, our loan portfolio was $1.293 billion, distributed among commercial real estate loans, commercial and industrial loans, 1-4 family mortgages and consumer loans. As of March 31, 2009, our loan portfolio was composed of approximately 63.0% variable rate loans and 37.0% fixed rate loans. Beginning in the third quarter of 2008, we made a concerted effort to reduce our concentration in commercial real estate loans, particularly residential construction and development loans, which typically have higher yields but also higher risk. Overall, our average loan balances declined by approximately $33.4 million, or 2.53%, to $1.314 billion for the first quarter of 2009, compared to $1.347 billion for the first quarter of 2008.

Investment Portfolio. The average balance of our investment portfolio was $467.8 million for the first quarter of 2009, compared to $443.9 million for the first quarter of 2008, representing an increase of $23.9 million, or 5.4%. However, our yield on securities declined by 54 basis points to 4.39% over this same period.

Deposits. Our overall cost of funds declined by 124 basis points between the first quarter of 2008 and the first quarter of 2009. Average interest-bearing deposits increased 8.3% to $1.34 billion for the first quarter of 2009, compared to $1.24 billion for the first quarter of 2008. This increase was partially offset by a decline of $49.6 million, or 13.5%, in average borrowed funds.

During the first quarter of 2009, we accumulated an additional $166 million in deposits, held at March 31, 2009 in our Federal Reserve account and in short-term U.S. Treasury obligations. Also during the first quarter of 2009, we completed the sale of $44.0 million of non-voting preferred stock and issued a warrant to purchase up to 1,145,833 shares of our common stock to the U.S. Treasury under the CPP.

Summary of Year Ended December 31, 2008

Net Interest Income. Net interest income was $55.5 million for the year ended December 31, 2008, compared to $57.3 million for the year ended December 31, 2007, a decrease of $1.7 million. Our net interest margin was 3.07% for the year ended December 31, 2008, compared to 3.28% for the year ended December 31, 2007. Our loan yields declined by 171 basis points for the year ended December 31, 2008, compared to the year ended December 31, 2007; however, our overall cost of funds only declined by 127 basis points. This reduction is primarily due to a 400 basis point reduction by the Federal Reserve. Pricing for deposits did not decline at the same pace as variable rate loans (which comprised approximately 64.0% of our loan portfolio) because of the strong competition for these funds. Our margins were continually under pressure due to the rate reductions occurring throughout 2008 and the timing differences between the repricing of our interest-bearing assets and liabilities.

Provision for Loan Losses. Our provision for loan losses was $28.6 million for the year ended December 31, 2008, compared to $8.1 million for the year ended December 31, 2007. This increase was due to a further deterioration in the real estate sectors of some of our markets, overall economic conditions, and internal credit downgrades on some client relationships.

Other Income (Noninterest Income). Noninterest income was $23.0 million for the year ended December 31, 2008, compared to $17.5 million for the year ended December 31, 2007. Noninterest income for 2007 reflects an impairment loss on certain securities in our investment portfolio that related to our decision to rescind the application of Financial Accounting Standards Board (FASB) Statement No. 159 to these securities. Noninterest income accounted for 29.3% and 23.4% of income in 2008 and 2007, respectively.

Other Expense (Noninterest Expense). Total noninterest expense was $58.3 million for the year ended December 31, 2008, compared to $54.0 million for the year ended December 31, 2007. Included in this increase is $3.6 million due to increased costs associated with OREO. The remaining $0.7 million of this increase is attributable to increases in FDIC insurance premiums.

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Net Income/(Loss). We reported a net loss of $3.4 million, or $(0.28) per common share, for the year ended December 31, 2008, compared to net income of $9.8 million, or $0.82 per common share, for the year ended December 31, 2007.

Loan Portfolio. As of December 31, 2008, our loan portfolio was $1.328 billion. Our primary lending focus has been distributed among commercial real estate loans, commercial and industrial loans, 1-4 family mortgages and consumer loans. As of December 31, 2008, our loan portfolio was composed of approximately 64% variable rate loans and 36% fixed rate loans. Beginning in the third quarter of 2008, we made a concerted effort to reduce our concentration in commercial real estate loans, particularly real estate development loans, which typically have higher yields but also higher risk. Overall, our average loan balances declined by approximately $66.1 million, or 5.1%, from December 31, 2007 to December 31, 2008.

Investment Portfolio. Our average investment portfolio balance was $436.8 million for the year ended December 31, 2008, compared to $440.6 million for the year ended December 31, 2007. This represents a decrease of $3.8 million, or 0.9%. Our yield on securities declined by 12 basis points to 4.77% over this same period.

Deposits. Our overall cost of funds declined by 127 basis points between the year ended December 31, 2007 and the year ended December 31, 2008. Average interest-bearing deposits decreased 0.9% to $1.238 billion for the year ended December 31, 2008, compared to $1.249 billion for the year ended December 31, 2007, offset by an increase of $77.3 million, or 26.4%, in average borrowed funds. Our deposits averaged $1.416 billion for the year ended December 31, 2008, $1.424 billion for 2007 and $1.227 billion for 2006.

Outlook for Remainder of 2009

We believe our most significant challenge for the remainder of 2009 will be managing credit quality. We have taken an aggressive stance in addressing credit issues in our loan portfolio to minimize future risks, including taking an increased focus on underwriting standards and updating our loan policies. We have a special assets team in place to manage workout situations and assist in the timely disposition of defaulted assets. Our management information systems relating to loan concentrations provide us with current and detailed information about the status of the loans in our portfolio. Although we believe that these steps enhance our ability to manage credit quality, credit quality will remain an issue as long as current economic trends, including increasing unemployment rates and declining real estate prices, continue.

We continue to look for ways to grow noninterest income; however, the growth of noninterest income will remain a challenge under current economic conditions. We will also continue our efforts to control noninterest expenses. We expect our costs for FDIC insurance premiums to remain high for 2009, and we expect additional increases in OREO expenses based on recent additions. If rates remain flat as we currently expect, it will be difficult for us to expand our margin. However, we also expect our deposits and wholesale funding balances to decline, as we intend to use our excess liquidity to absorb maturing liabilities to reduce interest expense.

Recently Issued Accounting Standards and Critical Accounting Policies

Our accounting and financial reporting policies conform to GAAP and to general practices within the banking industry. Note A (Summary of Accounting Policies) of the notes to consolidated financial statements (audited) contains a summary of our accounting policies, and Note 1 (Recently Issued Accounting Pronouncements) of the notes to consolidated financial statements (unaudited) contains additional information regarding recently issued accounting standards. We believe that Note A and Note 1, read in conjunction with all other information in this prospectus, are sufficient to provide the reader with the information needed to understand our financial condition and results of operations.

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Critical Accounting Policies. We believe that the areas of the financial statements that require the most difficult, subjective and complex judgments, and therefore contain the most critical accounting estimates, are as follows:

- the provision for loan losses and the resulting allowance for loan losses;
- the liability and expense relating to our pension and other postretirement benefit plans;
- issues relating to other-than-temporary impairment losses in the investment portfolio; and
- goodwill and other intangible assets.

Provision/Allowance for Loan Losses. Our allowance for loan losses is a reserve established through charges to earnings in the form of a provision for loan losses. The allowance for loan losses is maintained at a level that we believe is adequate to absorb all probable losses on loans inherent in the loan portfolio. The amount of the allowance is affected by loan charge-offs, which decrease the allowance; recoveries on loans previously charged off, which increase the allowance; and the provision for loan losses charged to earnings, which increases the allowance. In determining the provision for loan losses, we monitor fluctuations in the allowance resulting from actual charge-offs and recoveries and periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions. If actual losses exceed the amount of the allowance for loan losses, our earnings could be adversely affected.

The allowance for loan losses represents management s estimate of the amount necessary to provide for losses inherent in the loan portfolio in the normal course of business. Due to the uncertainty of risks in the loan portfolio, management s judgment of the amount of the allowance necessary to absorb loan losses is approximate. The allowance for loan losses is also subject to regulatory examinations and determination by the regulatory agencies as to its adequacy.

The allowance for loan losses is comprised of the following three components: specific reserves, general reserves and unallocated reserves. Generally, all loans that are indentified as impaired are reviewed on a quarterly basis in order to determine whether a specific reserve is required. A loan is considered impaired when, based on current information, it is probable that we will not receive all amounts due in accordance with the contractual terms of the loan agreement. Once a loan has been identified as impaired, management measures impairment in accordance with Statement of Financial Accounting Standards (SFAS) No. 114, Accounting By Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. The measurement of impaired loans is based on the present value of expected future cash flows discounted at the loan s effective interest rate or the loan s observable market price, or based on the fair value of the collateral if the loan is collateral-dependent. When management s measured value of the impaired loan is less than the recorded investment in the loan, the amount of the impairment is recorded as a specific reserve. These specific reserves are determined on an individual loan basis based on our current evaluation of our loss exposure for each credit, given the payment status, financial condition of the borrower and value of any underlying collateral. Loans for which specific reserves are provided are excluded from the general reserve and unallocated reserve calculations described below. Changes in specific reserves from period to period are the result in changes in the circumstances of individual loans such as charge-offs, pay-offs, changes in collateral values or other factors.

We also maintain a general reserve for each loan type in the loan portfolio. In determining the amount of the general reserve portion of our allowance for loan losses, we consider factors such as our historical loan loss experience, the growth, composition and diversification of our loan portfolio, current delinquency levels, adverse situations that may affect the borrower s ability to repay, estimated value of the underlying collateral, the results of recent regulatory examinations and general economic conditions. Established reserves for graded loans represent those criticized and classified loans where no impairment or specific reserve has been established. Reserves for these loans are based upon an average of the prior three-year loss factor. Homogeneous pools represent a pooling of non-criticized retail loan types. These loans are also reserved for based upon a three-year loss factor percentage. Other loan types include all other loans not included in the above commentary (not previously mentioned). These loans are non-criticized and are reserved for based upon the average of the prior three-year loss factor. We use this information to set the general reserve portion of the allowance for loan losses at a level we deem prudent.

Because there are additional risks of losses that cannot be quantified precisely or attributed to particular loans or types of loans, including general economic and business conditions and credit quality trends, we have established an unallocated portion of the allowance for loan losses based on our evaluation of these risks. The unallocated portion of our allowance is determined based on various factors, including general economic conditions of our market area, the growth, composition and diversification of our loan portfolio, types of collateral securing our loans, the experience level of our lending officers and staff, the quality of our credit risk management and the results of independent third party reviews of our classification of credits. The unallocated portion of the allowance for loan losses was $4.0 million, or 10.2% of the total allowance, as of March 31, 2009, and $4.0 million, or 19.3% of the total allowance, as of December 31, 2008.

Based on an evaluation of the loan portfolio, management presents a quarterly review of the allowance for loan losses to the Bank s executive committee and our full board of directors, indicating any change in the allowance for loan losses since the last review and any recommendations as to adjustments in the allowance for loan losses. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as events change. We used the same methodology and generally similar assumptions in assessing the allowance for both comparison periods. The allowance for loan losses was $39.1 million as of March 31, 2009, compared to $20.7 million as of December 31, 2008. This increase reflects further deterioration in our loan portfolio, due primarily to the lack of demand for residential housing, and the subsequent increase in net charge-offs.

Pension and Other Postretirement Benefit Plans. Another area that requires subjective and complex judgments is the liability and expense relating to our pension and other postretirement benefit plans. We maintain several benefit plans for our employees. They include a defined benefit pension plan, a defined contribution pension plan, a 401(k) plan and a deferred compensation plan. We make all contributions to these plans when they are due.

The defined benefit pension plan is the only plan that requires multiple assumptions to determine the liability under the plan. This plan has been frozen to new participants for several years. Management evaluates, reviews with the plan actuaries, and updates as appropriate the assumptions used in the determination of pension liability, including the discount rate, the expected rate of return on plan assets, and increases in future compensation. Actual experience that differs from the assumptions could have a significant effect on our financial position and results of operations. The discount rate and the expected rate of return on the plan assets have a significant impact on the actuarially computed present value of future benefits that is recorded on the financial statements as a liability and the corresponding pension expense.

In selecting the expected rate of return, management, in consultation with the plan trustees, selected a rate based on assumptions compared to recent returns and economic forecasts. We consider the current allocation of the portfolio and the probable rates of return of each investment type. In selecting the appropriate discount rate, management, with the assistance of actuarial consultants, performs an analysis of the plan s projected benefit cash flows against discount rates from a national Pension Discount Curve (a yield curve used to measure pension liabilities). Based on the analysis, management used a discount rate of 5.75% in 2006 and 2007 and a discount rate of 6.0% in 2008. We used an expected rate of return of 7.5% for 2006, 2007 and 2008. From a historical perspective, the rates of return on the plan were 9.5% for 2006, 7.6% for 2007, and (21.7%) for 2008. Additionally, our philosophy has been to fund the plan annually to the maximum amount deductible under the Internal Revenue Service (IRS) rules. As of December 31, 2008, the plan had a current accumulated benefit obligation of approximately $10.7 million, and plan assets with a fair value of approximately $10.7 million.

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FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, requires us to recognize the funded status of the plan (defined as the difference between the fair value of plan assets and the projected benefit obligation) on the balance sheet and to recognize in other comprehensive income any gains or losses and prior service costs or benefits not included as components of periodic benefit cost. Detailed information on our pension plan and the related impacts of these changes on the amounts recorded in our financial statements can be found in Note M (Employee Benefits) of the notes to consolidated financial statements (audited).

Other-Than-Temporary Impairment of Investment Securities. A third area that requires subjective and complex judgments on the part of management is the review of the investments in the investment portfolio for other-than-temporary impairments. Emerging Issue Task Force Issue 03-01 and FASB FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, require us to review our investment portfolio and determine if it has impairment losses that are other-than-temporary. In making its determination, management considers the following items:

- the length of time and extent to which the current market value is less than cost;
- evidence of a forecasted recovery;
- financial condition and the industry environment of the issuer, including whether the issuer is a government or government-backed agency (all of the mortgage-backed securities and collateralized mortgage obligations in our portfolio are issued by government-backed agencies);
- downgrades of the securities by rating agencies;
- whether there has been a reduction or elimination of dividends or interest payments;
- whether we have the intent or ability to hold the securities for a period of time sufficient to allow for anticipated recovery of fair value; and
- interest rate trends that may impact recovery and realization.

As of March 31, 2009, our investment portfolio included certain securities that were impaired by definition, but based on our review and consideration of the criteria listed above, we determined that none of the impairments were other-than-temporary.

Goodwill and Other Intangible Assets. FASB Statement No. 142, Goodwill and Other Intangible Assets, eliminated the requirement to amortize goodwill; however, it does require periodic testing for impairment using a two-step approach. The first step is to determine whether impairment could exist. If the results of the first step of testing indicate that impairment does not exist, the test is complete. If the results of the first step indicate that impairment could exist, the second step of testing must be performed. We completed our periodic impairment test in accordance with FASB Statement No. 142 as of September 30, 2008. Based on the results of the first step of testing, we concluded that no impairment writedown was warranted as of September 30, 2008.

FASB Statement No. 142 requires that goodwill be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Several events occurred during the first quarter of 2009 that we believed triggered an additional test of goodwill for impairment. These events included our results of operations for the three months ended March 31, 2009, the changes in credit quality of our loan portfolio, and the continued general decline in the economy. We engaged an outside consultant to perform this additional goodwill impairment testing. Due primarily to the decline in the market value of our stock and the decline in prices paid in comparable bank acquisition transactions between September 30, 2008 and March 31, 2009, the first step of the goodwill impairment test indicated that potential impairment existed and the second step of testing should be performed to determine the amount of impairment. In the second step of the test, our consolidated balance sheet was marked to market to determine the current fair value of the goodwill that should be recorded on the balance sheet. As a

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result of this testing, we concluded that our goodwill was fully impaired as of March 31, 2009, and we recognized a goodwill impairment charge of $66.8 million for the quarter ended March 31, 2009. This charge eliminated all goodwill previously reflected on our balance sheet.

Income Taxes. The calculation of our income tax provision is complex and requires the use of estimates and judgment in its determination. We are subject to the income tax laws of the various jurisdictions where we conduct business, and we estimate income tax expense based on amounts expected to be owed to these various tax jurisdictions. We assess the appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other pertinent information, and we maintain tax accruals consistent with our evaluation. Changes in the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations by the taxing authorities, and newly enacted statutory, judicial, and regulatory guidance that could affect the relative merits of the tax positions. These changes, when they occur, impact accrued taxes and can materially affect our operating results. On January 1, 2007, we adopted FIN 48 FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109. For additional information, see Note J (Income Taxes) of the notes to consolidated financial statements (audited) included in this prospectus.

Other Accounting Issues. We own NBC Capital Corporation (MS) Statutory Trust I (the Trust), which was organized under the laws of the State of Connecticut for the purpose of issuing trust preferred securities (TPSs). In accordance with FASB Interpretation No. 46 (revised December 2003), the Trust, which is considered a variable interest entity, is not consolidated into our financial statements because the only activity of the variable interest entity is the issuance of TPSs.

Comparison of Results of Operations for the Three Months Ended March 31, 2009 and 2008

Net Income/(Loss)

For the first quarter of 2009, we reported a net loss of $84.5 million, or $(7.09) per common share, compared to net income of $2.8 million, or $0.23 per common share, for the first quarter of 2008. The net loss for the first quarter of 2009 resulted primarily from the $66.8 million impairment loss on goodwill and a $32.8 million provision for loan losses.

Net Interest Income

Net interest income, the primary source of our earnings, represents income generated from earning assets, less the interest expense of funding those assets. Changes in net interest income may be divided into two components: (a) the change in average earning assets (volume component) and (b) the change in the net interest spread (rate component). Net interest spread represents the difference between yields on earning assets and rates paid on interest-bearing liabilities. Net interest margin is net interest income divided by average earning assets.

Net interest income was $12.4 million for the first quarter of 2009, compared to $14.5 million for the first quarter of 2008, a decrease of 14.9%. Net interest margin was 2.73% for the first quarter of 2009, compared to 3.23% for the first quarter of 2008. This 50 basis point decrease in margin resulted primarily from our loan yields declining at a faster rate than the cost of funds. Our loan yields and margin were also adversely affected by the reversal of interest income on loans that were placed on non-accrual status during the year ended December 31, 2008. During 2008, these reversals of interest income totaled $1.1 million, compared to $461,000 for 2007. This difference amounted to five basis points of yield on our loan portfolio and four basis points on our margin. Also, we generated fewer construction and development loans for the year ended December 31, 2008. These loans typically have higher yields. This reduction in higher yield loans was a result of the softening economy, a reduction in demand for real estate development loans, and our focus on credit quality.

Also, in recent quarters, we have made a concerted effort to reduce our concentration in commercial real estate loans, particularly construction and development loans, which typically have higher yields. When comparing the first quarter of 2009 to the first quarter of 2008, we lost 175 basis points of yield on our loans but only reduced the cost of funds by 124 basis points. Our yield on earning assets declined by 156 basis points for the first quarter of 2009, but was offset somewhat by a slight increase of $23.4 million, or 1.3%, in our average earning assets due to increases in the taxable securities and federal funds sold categories that were used to invest the additional liquidity accumulated during the first quarter of 2009.

The following table shows, for the periods indicated, an analysis of net interest earnings, including the average amount of interest-earning assets and interest-bearing liabilities outstanding during the period, the interest earned or paid on those amounts, the average yields/rates paid and the net yield on interest-earning assets:

	For the Quarter Ended March 31, 2009			For the Quarter Ended March 31, 2008		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)
	(Dollars in thousands)					
Assets:						
Interest-earning assets:						
Loans	$ 1,313,743	$ 16,566	5.13%	$ 1,347,147	$ 23,045	6.88%
Mortgages held for sale	2,180	27	4.95	3,315	42	5.07
Securities:						
Taxable	362,826	4,038	4.51	333,090	4,290	5.18
Tax exempt	104,967	1,020	3.94	110,766	1,150	4.18
Federal funds sold and other	48,975	55	0.45	15,001	82	2.19
Total interest-earning assets	1,832,691	21,706	4.80	1,809,319	28,609	6.36
Less: Allowance for loan losses	(21,903)			(14,534)		
Noninterest-earning assets	216,310			202,218		
Total assets	$ 2,027,098			$ 1,997,003		
Liabilities and shareholders equity						
Interest-bearing liabilities:						
Interest checking	$ 263,091	$ 652	0.99%	$ 219,961	$ 1,057	1.92%
Money market and savings	332,755	987	1.19	322,208	1,771	2.20
Time deposits	744,775	5,520	2.96	695,796	7,837	4.51
Total interest-bearing deposits	1,340,621	7,159	2.17	1,237,965	10,665	3.46
Borrowings and repurchase agreements	286,326	1,871	2.61	335,880	2,844	3.39
Junior subordinated debentures	30,928	323	4.18	30,928	581	7.51
Total interest-bearing liabilities	1,657,875	9,353	2.29	1,604,773	14,090	3.53
Noninterest-bearing liabilities:						
Noninterest-bearing deposits	180,260			175,780		
Other liabilities	23,144			20,686		
Total liabilities	1,861,279			1,801,239		
Shareholders equity	165,819			195,764		
Total liabilities and shareholders equity	$ 2,027,098			$ 1,997,003		
Net interest income		$ 12,353			$ 14,519	
Net interest spread[(1)]			2.48%			2.81%

Net interest margin[(2)]	2.73%	3.23%

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(1) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(2) Represents net interest income as a percentage of average interest-earning assets.

Provision for Loan Losses

We use our provision for loan losses to replenish the allowance for loan losses on our balance sheet. Based on our evaluation of the risk exposure contained in the loan portfolio, management believes that the level of the allowance is adequate. The board of directors reviews and approves management s evaluation. This is an ongoing process through which we review and determine the amount of the provision on a quarterly basis. Our provision for loan losses was $32.8 million for the first quarter of 2009, compared to $3.0 million for the first quarter of 2008. We incurred $14.4 million in net charge-offs for the first quarter of 2009, compared to $2.9 million for the first quarter of 2008. Most of the increase in net charge-offs is attributable to two real estate development loans to one borrower. We significantly increased our allowance for loan losses during the first quarter of 2009. Our allowance for loan losses was $39.1 million as of March 31, 2009, compared to $20.7 million as of December 31, 2008. We have experienced an increase in non-performing loans, mostly due to commercial real estate construction and development loans. During the first quarter of 2009, increased weakness in our Middle Tennessee and Florida markets were reflected in our provision for loan losses in the first quarter of 2009. Also contributing to the increase in the provision for loan losses for the first quarter of 2009 was the updating of the three-year average historical loss factors included in our allowance for loan losses methodology. The 2008 losses were significantly higher than the 2005 losses that they replaced, which caused an increase in our estimate of the required allowance for loan losses as of March 31, 2009.

Other Income (Noninterest Income)

Other income refers to our noninterest income, which includes various service charges, fees and commissions, including insurance commissions earned by Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM Insurance), a wholly-owned subsidiary of the Corporation. One of our strategic objectives has been, and continues to be, one of our strategic objectives to diversify our other income sources so that we can be less dependent on net interest income. Our other income, exclusive of securities gains and losses, was $5.7 million for the first quarter of 2009, compared to $5.8 million for the first quarter of 2008, a decrease of $56,000, or 1.0%. The following table presents for the periods indicated the major categories of noninterest income and the changes in the first quarter of 2009 compared to the first quarter of 2008:

	Quarter Ended March 31, 2009	2008	Change
		(In thousands)	
Service charges on deposit accounts	$ 2,005	$ 2,137	$ (132)
Insurance commissions, fees and premiums	1,306	1,379	(73)
Trust Department income	466	564	(98)
Mortgage loan fees	210	360	(150)
Other	1,757	1,360	397
Securities gains (losses), net	63	203	(140)
Total noninterest income	$ 5,807	$ 6,003	$ (196)

The decline in service charges on deposit accounts can be attributed to fewer insufficient funds fees charged during the first quarter of 2009. The insurance commission, fees and premiums declined due to lower profit sharing from the insurance carriers and lower insurance commissions from sales, resulting from the overall economic downturn. Trust Department income was impacted by a decline in the market value of investments under management, and mortgage loan fees were affected by fewer home sales, lower demand for refinancings,

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and more conservative underwriting requirements. Our other noninterest income increased 29.2% from the first quarter of 2008 to the first quarter of 2009, primarily due to insurance proceeds from a bank owned life insurance policy of approximately $645,000 received in the first quarter of 2009 and $150,000 from the reversal of an accrual established at the time of our most recent acquisition. During the first quarter of 2008, we recognized a $232,000 gain on the sale of an asset and $110,000 in proceeds from the redemption of stock in Visa Inc.

We recognized $63,000 in securities gains during the first quarter of 2009, compared to securities gains of $203,000 during the first quarter of 2008, representing a decrease of $140,000 or 69.0%.

Other Expense (Noninterest Expense)

Noninterest expense represents ordinary overhead expenses and, from time to time, any impairments to goodwill or other intangibles. Our total noninterest expense was $81.5 million for the first quarter of 2009, compared to $13.8 million for the first quarter of 2008, an increase of $67.7 million. The following table presents for the periods indicated the major categories of noninterest expense and the changes in the first quarter of 2009 compared to the first quarter of 2008:

	Quarter Ended March 31,		
	2009	2008	Change
	(In thousands)		
Salaries and employee benefits	$ 7,900	$ 7,967	$ (67)
Premises and fixed asset expense	1,979	1,996	(17)
Impairment loss on goodwill	66,846		66,846
Other expense	4,818	3,868	950
Total other expense	$ 81,543	$ 13,831	$ 67,712

Salaries and employee benefits and premises and fixed asset expenses declined slightly in the first quarter of 2009, compared to the first quarter of 2008. In accordance with the provisions of FASB Statement No. 142 and based on the results of a third party analysis, we recognized a $66.8 million impairment loss on goodwill for the first quarter of 2009. The goodwill impairment was primarily due to the decline in the market value in our stock and the prices paid in recent comparable bank acquisitions. We recorded this goodwill in connection with a number of acquisitions since 2004. This impairment charge eliminated all goodwill from our balance sheet. However, our other noninterest expenses increased by $950,000, or 24.6%, in the first quarter of 2009, compared to the first quarter of 2008, due primarily to increases in FDIC insurance premiums and expenses relating to OREO. FDIC insurance premiums increased to $915,000 in the first quarter of 2009, compared to $64,000 in the first quarter of 2008. OREO-related expenses increased to $562,000 in the first quarter of 2009, compared to $157,000 for the first quarter of 2008. The 2009 expenses include approximately $320,000 in losses on the sale of OREO. Effective June 1, 2009, we suspended our 401(k) matching contributions. Also, we froze salaries for all employees at 2008 levels and reduced the salaries of our chief executive officer and chief operating officer by 10%. The board of directors also agreed to a 10% reduction in their board and committee fees.

Changes in our income tax expense have generally paralleled changes in pre-tax income. Our effective tax rate was 25.2% for the first quarter of 2008. The income tax benefit for the first quarter of 2009 results from the loss recognized for the period, as well as the tax benefits of our tax-exempt income.

Comparison of Results of Operations for the Years Ended December 31, 2008, 2007 and 2006

Net Income/(Loss)

For the year ended December 31, 2008, we reported a net loss of $3.4 million, or $(0.28) per common share, compared to net income of $9.8 million, or $0.82 per common share, for the year ended December 31, 2007 and net income of $14.2 million, or $1.37 per common share, for the year ended December 31, 2006. Return on

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average equity was (1.8)% for the year ended December 31, 2008, compared to 5.1% for the year ended December 31, 2007 and 9.0% for the year ended December 31, 2006. Return on average assets was (0.2)% for the year ended December 31, 2008, compared to 0.5% for the year ended December 31, 2007 and 0.9% for the year ended December 31, 2006.

The $20.5 million increase in our provision for loan losses for the year ended December 31, 2008 ($12.6 million after tax) equates to approximately $1.06 per share. The $3.6 million increase in OREO-related expenses for the year ended December 31, 2008 ($2.2 million after tax) equates to approximately $0.18 per share.

The reduction in earnings per share for the year ended December 31, 2007 was attributable to the first quarter impairment loss of $5.1 million ($3.1 million after tax), or $0.26 per share, the $6.5 million increase in our provision for loan losses ($4.0 million after tax), or $0.34 per share, and the 15.4% increase in average weighted shares outstanding, resulting from the $50.2 million stock offering and shares issued in our 2006 acquisition of SunCoast Bancorp, Inc. (SunCoast) in Florida.

Net Interest Income

Net interest income was $55.5 million for the year ended December 31, 2008, compared to $57.3 million for the year ended December 31, 2007, a decrease of $1.7 million, or 3.0%. Average earning assets were $1.809 billion for the year ended December 31, 2008, compared to $1.745 billion for the year ended December 31, 2007, an increase of $64.5 million, or 3.7%. Our net interest margin was 3.07% for the year ended December 31, 2008, compared to 3.28% for the year ended December 31, 2007. Our margins were continually under pressure due to the rate reductions occurring throughout 2008 and the timing differences between the repricing of our interest-bearing assets and liabilities.

In analyzing the rate component of net interest income in 2008 compared to 2007, we lost 131 basis points of yield on our earning assets and our loan yields declined by 171 basis points. During this period, the cost of funds decreased by 127 basis points. Our loan portfolio, which was comprised of approximately 64.0% variable rate loans, reflected a yield decrease to 6.04% for the year ended December 31, 2008, compared to 7.75% for the year ended December 31, 2007, due to the 400 basis point reduction by the Federal Reserve in interest rates in 2008. The yield on our investment portfolio also declined to 4.71% for the year ended December 31, 2008, compared to 4.89% for the year ended December 31, 2007. Our cost of deposits declined to 2.88% for the year ended December 31, 2008, compared to 4.00% for the year ended December 31, 2007 and our cost of other borrowings declined to 3.15% for the year ended December 31, 2008, compared to 5.08% for the year ended December 31, 2007 due to the decline in interest rates during this period, and our use of short-term, low-cost FHLB borrowing during 2008. Pricing for deposits did not decline at the same pace as variable rate loans because of the strong competition for these funds.

Our loan yields and margin were also adversely affected by the reversal of interest income on loans that were placed on non-accrual status during the year ended December 31, 2008. During 2008, these reversals of interest income totaled $1.1 million, compared to $461,000 for 2007. This difference amounted to five basis points of yield on our loan portfolio and four basis points on our margin. Also, we generated fewer real estate development loans for the year ended December 31, 2008. These loans typically have higher yields. This reduction in higher yield loans was a result of the softening economy, a reduction in demand for real estate development loans, and our focus on credit quality.

Our average earning asset balances increased by $64.5 million for the year ended December 31, 2008, as compared to the year ended December 31, 2007, attributed primarily to a $66.1 million increase in the average loan balance. The average balance of interest-bearing deposits decreased by $10.7 million to $1.238 billion for the year ended December 31, 2008, compared to $1.249 billion for the year ended December 31, 2007, and the average balance of other borrowings increased by $77.3 million to $370.4 million for the year ended December 31, 2008, compared to $293.1 million for the year ended December 31, 2007.

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Net interest income was $57.3 million for the year ended December 31, 2007, compared to $50.5 million for the year ended December 31, 2006, an increase of $6.8 million, or 13.5%. Average earning assets were $1.745 billion for the year ended December 31, 2007, compared to $1.459 billion for the year ended December 31, 2006, an increase of $285.5 million, or 19.6%. Our net interest margin was 3.28% for the year ended December 31, 2007, compared to 3.46% for the year ended December 31, 2006.

In analyzing the rate component of net interest income in 2007 compared to 2006, we gained 35 basis points of yield on our earning assets. During this period, the cost of funds increased by 55 basis points. Our loan portfolio, which was comprised of approximately 61.0% variable rate loans, reflected a yield increase to 7.75% for the year ended December 31, 2007, compared to 7.62% for the year ended December 31, 2006. The yield on our investment portfolio also increased to 4.89% for the year ended December 31, 2007, compared to 4.68% for the year ended December 31, 2006. Our cost of deposits increased to 4.00% for the year ended December 31, 2007, compared to 3.39% for the year ended December 31, 2006. The primary reason for our increased net interest income in 2007 compared to 2006 was the increase in average earning asset balances. The increase in average earning assets in 2007 compared to 2006 was composed of the following: average loans increased by $311.3 million; average federal funds sold and other interest-bearing assets decreased by $6.5 million; and average investment securities decreased by $19.3 million. The increases in these balances resulted from the inclusion of the assets acquired in the two acquisitions during 2006 being reflected in the average balances for the full year of 2007. The average balance of interest-bearing deposits increased by $187.6 million in 2007 compared to 2006, and the average balance of other borrowings increased by $85.2 million in 2007 compared to 2006.

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The following table shows, for the periods indicated, an analysis of net interest income, including the average amount of earning assets and interest-bearing liabilities outstanding during the period, the interest earned or paid on those amounts, the average yields/rates paid and the net yield on earning assets on both a book and tax equivalent basis:

	For the Year Ended December 31,								
	2008			2007			2006		
	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)	Average Outstanding Balance	Interest Income/ Expense	Average Yield/ Rate (%)
	(Dollars in thousands)								
Assets:									
Interest-earning assets:									
Loans	$ 1,350,870	$ 81,533	6.04%	$ 1,284,762	$ 99,591	7.75%	$ 973,466	$ 74,182	7.62%
Mortgages held for sale[(1)]	2,818	156	5.54	4,298	249	5.79	*See note 1*	*See note 1*	*See note 1*
Securities:									
Taxable	326,097	16,296	5.00	335,564	17,173	5.12	343,515	16,641	4.84
Tax exempt	110,691	4,536	4.10	104,995	4,379	4.17	116,328	4,859	4.18
Federal funds sold and other	18,763	336	1.79	15,086	721	4.78	25,893	1,312	5.07
Total interest-earning assets	1,809,239	102,857	5.69	1,744,705	122,113	7.00	1,459,202	96,994	6.65
Less: Allowance for loan losses	(15,833)			(12,641)			(10,463)		
Noninterest-earning assets	197,829			196,555			182,869		
Total assets	$ 1,991,235			$ 1,928,619			$ 1,631,608		
Liabilities and shareholders equity									
Interest-bearing liabilities:									
Interest checking	$ 240,817	$ 3,866	1.61%	$ 201,678	$ 4,737	2.35%	$ 208,024	$ 4,421	2.13%
Money market and savings	326,362	5,871	1.80	329,768	10,008	3.03	248,331	6,163	2.48
Time deposits	670,977	25,945	3.87	717,366	35,200	4.91	604,895	25,408	4.20
Total interest-bearing deposits	1,238,156	35,682	2.88	1,248,812	49,945	4.00	1,061,250	35,992	3.39
Borrowings and repurchase agreements	339,430	9,708	2.86	256,488	11,902	4.64	170,813	7,594	4.45
Junior subordinated debentures	30,928	1,940	6.27	36,599	2,998	8.19	37,114	2,926	7.88
Total interest-bearing liabilities	1,608,514	47,330	2.94	1,541,899	64,845	4.21	1,269,177	46,512	3.66
Noninterest-bearing liabilities:									
Noninterest-bearing deposits	177,670			175,196			165,939		
Other liabilities	14,537			19,663			39,701		
Total liabilities	1,800,721			1,736,758			1,474,817		
Shareholders equity	190,514			191,861			156,791		
Total liabilities and shareholders equity	$ 1,991,235			$ 1,928,619			$ 1,631,608		
Net interest income		$ 55,527			$ 57,268			$ 50,482	
Net interest spread[(2)]			2.75%			2.79%			2.99%
Net interest margin[(3)]			3.07%			3.28%			3.46%

(1)

This data is not available for 2006, due to our method of originating and selling mortgage loans. All mortgage loans are originated for and underwritten to upstream correspondent specifications on a best efforts basis without recourse. The loans are already sold at origination. The held for sale caption is used to account for the loans from origination until we deliver them to the correspondent and receive payment. Prior to 2007, these balances were included in other assets as receivables from correspondents.

(2) Represents the average rate earned on interest-earning assets less the average rate paid on interest-bearing liabilities.

(3) Represents net interest income as a percentage of average interest-earning assets.

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Provision for Loan Losses

Our provision for loan losses was $28.6 million for the year ended December 31, 2008, compared to $8.1 million for the year ended December 31, 2007. The substantial increase for the year ended December 31, 2008 was due primarily to continued deterioration in the real estate sectors of some of our markets, overall national economic conditions, and internal credit downgrades on certain client relationships. Our underwriting standards have tightened based on recent changes in market conditions. At the time, management believed that the level of the provision for loan losses for the year ended December 31, 2008 was appropriate based on the risk in the loan portfolio. However, during 2009, there have been changes in circumstances, and we believe we have made the necessary adjustments in the provision for loan losses to reflect these changes.

Our provision for loan losses was $8.1 million for the year ended December 31, 2007, compared to $1.7 million for the year ended December 31, 2006. The increase for the year ended December 31, 2007 was due to the deterioration of some large credits, including two commercial loans, a bankruptcy of a client, and an agricultural loan, as well as a softening in certain real estate sectors and a general weakening in the economy.

Other Income (Noninterest Income)

Other income (noninterest income) was $23.0 million for the year ended December 31, 2008, compared to $17.5 million for the year ended December 31, 2007. Noninterest income for the year ended December 31, 2007 reflects an impairment loss on certain investment securities that related to our decision to rescind the application of FASB Statement No. 159 to these securities. Noninterest income accounted for 29.3% of income for the year ended December 31, 2008, compared to 23.4% of income for the year ended December 31, 2007.

The following table presents for the periods indicated the major categories of noninterest income and the changes in 2008 compared to 2007:

	For the Years Ended December 31, 2008	2007	Change
		(In thousands)	
Service charges on deposit accounts	$ 9,133	$ 9,295	$ (162)
Insurance commissions, fees, and premiums	5,028	4,999	29
Other service charges and fees	3,294	3,337	(43)
Trust Department income	2,305	2,558	(253)
Mortgage loan fees	1,156	1,690	(534)
Securities gains (losses), net	390	(17)	407
Bank owned life insurance income	683	681	2
Impairment loss on securities		(5,097)	5,097
Other	1,003	39	964
Total other income	$ 22,992	$ 17,485	$ 5,507

Trust Department income declined by 9.9% for the year ended December 31, 2008, as a result of lower asset balances under management, reflecting the downturn of the equity markets during 2008. Mortgage loan fees declined by 31.6% for the year ended December 31, 2008, as a result of reduced home sales and demand for refinancing. The increase in other noninterest income for the year ended December 31, 2008 compared to the year ended December 31, 2007 resulted primarily from a $232,000 gain on the sale of an asset, a $443,000 gain on the sale of a previously closed branch property in Mississippi, and $110,000 in proceeds from the redemption of stock in Visa Inc. Changes in other accounts were not individually material.

We recognized $390,000 in net securities gains for the year ended December 31, 2008, compared to $17,000 in net securities losses for the year ended December 31, 2007. During the first quarter of 2007, we recognized a

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$5.1 million impairment loss on certain collateralized mortgage obligations (CMOs) and mortgage-backed securities. We sold those securities in early April 2007 and reinvested the proceeds in agency securities.

Noninterest income was $17.5 million for the year ended December 31, 2007, compared to $20.0 million for the year ended December 31, 2006. Noninterest income accounted for 23.4% of income for the year ended December 31, 2007, compared to 28.4% of income for the year ended December 31, 2006.

The following table presents for the periods indicated the major categories of noninterest income and the changes in 2007 compared to 2006:

	For the Years Ended December 31,		
	2007	2006	Change
	(In thousands)		
Service charges on deposit accounts	$ 9,295	$ 8,878	$ 417
Insurance commissions, fees, and premiums	4,999	4,441	558
Other service charges and fees	3,337	2,933	404
Trust Department income	2,558	2,341	217
Mortgage loan fees	1,690	876	814
Securities gains (losses), net	(17)	66	(83)
Bank owned life insurance income	681	641	40
Impairment loss on securities	(5,097)	(2,025)	(3,072)
Other	39	1,842	(1,803)
Total other income	$ 17,485	$ 19,993	$ (2,508)

Service charges on deposit accounts increased by 4.7% for the year ended December 31, 2007, mostly due to improved management and oversight of our noninterest-bearing accounts. Insurance commissions, fees, and premiums earned by GCM Insurance increased by 12.6% for the year ended December 31, 2007, because of an increase in profit sharing received from the insurance carriers based on loss experience. Other service charges and fees increased by 13.8% for the year ended December 31, 2007, primarily due to increases in checkcard income and retail investment income. Trust Department income increased by 9.3% for the year ended December 31, 2007 because of higher asset balances under management. Mortgage loan fees increased by 92.9% for the year ended December 31, 2007, as a result of our restructuring of the division and the expansion of our mortgage operations into our newer markets during 2007. Other noninterest income decreased significantly for the year ended December 31, 2007, compared to the year ended December 31, 2006, due to a $488,000 gain on the sale of our credit card portfolio, a $215,000 increase in earnings from our investment in a low income housing partnership, and a $842,000 gain on early extinguishment of debt related to prepayments on certain FHLB borrowings during 2006. Changes in other accounts were not individually material.

We recognized $17,000 in net securities losses during 2007, compared to gains of $66,000 during 2006. We recognized a $5.1 million impairment loss on certain CMOs and mortgage-backed securities during the first quarter of 2007. We sold those securities in early April 2007 and reinvested the proceeds in agency securities. We recognized a $2.0 million other-than-temporary impairment charge relating to certain Fannie Mae and Freddie Mac preferred stock during the third quarter of 2006. We sold those securities in the fourth quarter of 2006 for amounts approximating their carrying values at the time of sale.

Other Expense (Noninterest Expense)

Total other expense (noninterest expense) was $58.3 million for the year ended December 31, 2008, compared to $54.0 million for the year ended December 31, 2007. Included in this increase was $3.6 million, due to increased costs associated with OREO. The remaining $0.7 million of this increase is attributable to increased FDIC insurance premiums.

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The following table presents for the periods indicated the major categories of noninterest expense and the changes in 2008 compared to 2007:

	For the Years Ended December 31, 2008	2007	Change
	(In thousands)		
Salaries	$ 25,461	$ 25,351	$ 110
Employee benefits	5,229	5,356	(127)
Net occupancy	3,923	4,367	(444)
Furniture and equipment	4,070	4,005	65
Communications	1,251	1,272	(21)
Data processing	1,629	1,736	(107)
Advertising	997	820	177
Professional fees	2,417	1,712	705
Intangible amortization	890	1,328	(438)
Loss on sale of assets/OREO	3,413	180	3,233
Other	9,015	7,915	1,100
Total other expense	$ 58,295	$ 54,042	$ 4,253

The 10.2% decrease in net occupancy expense for the year ended December 31, 2008 is mostly due to a decrease in premises rental expense and depreciation. Advertising expenses increased by 21.6% for the year ended December 31, 2008 because of a general brand advertising campaign implemented during the year. Professional fees increased by 41.2% for the year ended December 31, 2008, due to increased legal fees associated with OREO, attorney consultations regarding our participation in the CPP. See Note X (Subsequent Events) of the notes to consolidated financial statements (audited) for additional information about the CPP and the outsourcing of a portion of our credit review function. Other noninterest expenses increased by 13.9% for the year ended December 31, 2008, due primarily to increases in FDIC insurance premiums and expenses related to OREO. Before 2008, we paid the majority of our FDIC insurance premiums using credits with the FDIC; however, these credits were depleted in early 2008. Our FDIC insurance premiums expense totaled $923,000 for the year ended December 31, 2008, compared to $248,000 for the year ended December 31, 2007. Due to the increased number of foreclosed properties, we incurred increased legal fees, appraisal fees and other maintenance and holding expenses, as well as losses on sales of OREO. These expenses totaled approximately $4.1 million for the year ended December 31, 2008, compared to $463,000 for the year ended December 31, 2007. The most significant component of this increase was a $2.7 million writedown representing a decline in market value of OREO property that we held and had not yet sold as of December 31, 2008. This writedown is reflected in the loss on sale of assets/OREO category of noninterest expense. Changes in the other expense categories were not individually material.

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The following table presents for the periods indicated the major categories of noninterest expense and the changes in 2007 compared to 2006:

	For the Years Ended December 31, 2007	2006	Change
	(In thousands)		
Salaries	$ 25,351	$ 23,010	$ 2,341
Employee benefits	5,356	5,756	(400)
Net occupancy	4,367	3,314	1,053
Furniture and equipment	4,005	3,501	504
Communications	1,272	1,128	144
Data processing	1,736	1,676	60
Advertising	820	969	(149)
Professional fees	1,712	1,476	236
Intangible amortization	1,328	1,144	184
Other	8,095	7,708	387
Total other expense	$ 54,042	$ 49,682	$ 4,360

The 10.2% increase in salaries for the year ended December 31, 2007 was attributable to a full year of salaries related to our branches in Florida and Georgia acquired in 2006 through the acquisitions of SunCoast and Seasons Bancshares, Inc. (Seasons), respectively, a full year of salaries related to branches opened in Memphis and Brentwood, Tennessee in 2006, and salaries related to new branches in Hoover, Alabama and Franklin, Tennessee opened in 2007. For the year ended December 31, 2007, salaries related to our Florida and Georgia branches increased by $1.7 million, salaries related to the new branches in Memphis and Brentwood increased by $275,000, and salaries expense for the new branches in Hoover and Franklin totaled $286,000. Exclusive of these items, our overall salaries expense remained virtually flat, as normal raises were offset by increased staffing efficiencies. However, employee benefits expense decreased by 6.9% for the year ended December 31, 2007, due primarily to pension costs associated with certain retirements in 2006.

The 31.8% increase in net occupancy expense and the 14.4% increase in furniture and equipment expense for the year ended December 31, 2007 were mostly due to increased depreciation, facility rental, and equipment rental expenses associated with the opening of new branches. These branches accounted for $1.4 million of the $1.6 million increase in expense in these two categories for the year ended December 31, 2007, compared to the year ended December 31, 2006. Changes in the other expense categories were not considered individually material.

The tax benefit for the year ended December 31, 2008 reflects the addition of tax free income of approximately $4.5 million to our pre-tax operating loss of $8.4 million, to reflect a tax loss of approximately $12.9 million. The tax benefit of $5.0 million reflects a rate of 38.8% for the year ended December 31, 2008, which is approximately the statutory rate.

Changes in our income tax expense for the year ended December 31, 2007, compared to the year ended December 31, 2006 have generally paralleled changes in pre-tax income. Our effective tax rate was 22.2% for the year ended December 31, 2007, compared to 26.0% for the year ended December 31, 2006. These changes resulted primarily from the mix of income from tax-exempt investments and the percentage relationship of tax-exempt income to total pre-tax income. The alternative minimum tax provision, the market supply of acceptable municipal securities, the level of tax-exempt yields and our normal liquidity and balance sheet structure requirements limit our ability to reduce income tax expense by acquiring additional tax-free investments.

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Financial Condition as of March 31, 2009 and 2008

Summary

Total assets were $2.075 billion as of March 31, 2009, compared to $1.979 billion as of December 31, 2008, an increase of $95.7 million, or 4.8%. Our loan portfolio balance was $1.293 billion as of March 31, 2009, compared to $1.328 billion as of December 31, 2008, a decrease of $35.3 million, or 2.7%. Our investment portfolio balance was $600.6 million as of March 31, 2009, compared to $436.4 million as of December 31, 2008, an increase of $164.2 million, or 37.6%. Total deposits were $1.602 billion as of March 31, 2009, compared to $1.461 billion as of December 31, 2008. Shareholders equity was $146.1 million as of March 31, 2009, compared to $185.6 million as of December 31, 2008, a decrease of $39.5 million, or 21.3%.

Loan Portfolio

Historically, our lending focus has been distributed among commercial real estate, commercial and industrial loans, 1-4 family mortgages and consumer loans. Total commercial, financial and agricultural loans, which consist primarily of short-term loans for working capital purposes, inventories, seasonal loans, lines of credit and equipment loans, accounted for 15.9% of our loan portfolio as of March 31, 2009, compared to 16.5% as of December 31, 2008. Total real estate loans, which are secured by commercial real estate, one-to-four family residential properties and multi-family dwelling units, accounted for 75.1% of our loan portfolio as of March 31, 2009, compared to 76.0% as of December 31, 2008. Total consumer loans, which consist of home improvement, mobile home, automobile and unsecured personal loans, made up 2.4% of our loan portfolio as of March 31, 2009, compared to 2.3% as of December 31, 2008.

Total loans were $1.293 billion as of March 31, 2009, a decrease of $35.3 million, or 2.7%, compared to total loans of $1.328 billion as of December 31, 2008. The majority of the decline in loans occurred in commercial real estate loans and construction and development loans due primarily to payoffs and workouts.

The following tables summarize our loan portfolio by type of loan and type of customer as of the dates indicated:

	As of March 31,			
	2009		2008	
	Amount	Percent	Amount	Percent
	(Dollars in thousands)			
Commercial:				
Commercial	$ 205,262	15.9%	$ 232,951	17.1%
Commercial real estate	657,774	50.9	597,140	43.8
Real estate construction	156,525	12.1	275,049	20.2
Total commercial	1,019,561	78.9	1,105,140	81.0
Consumer:				
Residential real estate	88,368	6.8	105,012	7.7
Home equity lines	68,815	5.3	58,552	4.3
Other consumer loans	31,542	2.4	34,121	2.5
Total consumer	188,725	14.5	197,685	14.5
Other	84,733	6.6	60,975	4.4
Total loans	$ 1,293,019	100.0%	$ 1,363,800	100.0%

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The contractual maturity ranges of our loan portfolio and the amount of such loans with fixed and variable interest rates in each maturity range classified by borrower type as of March 31, 2009, are summarized in the following table:

	One Year or Less	After One Through Five Years	After Five Years	Total
	(In thousands)			
Commercial:				
Commercial	$ 82,688	$ 116,130	$ 6,444	$ 205,262
Commercial real estate	205,286	339,699	112,789	657,774
Real estate construction	123,764	20,808	11,953	156,525
Total commercial	411,738	476,637	131,186	1,019,561
Consumer:				
Residential real estate	9,223	23,951	55,194	88,368
Home equity lines	520	12,659	55,636	68,815
Other consumer loans	5,205	12,512	13,825	31,542
Total consumer	14,948	49,122	124,655	188,725
Other	69,012	15,301	420	84,733
Total loans	$ 495,698	$ 541,060	$ 256,261	$ 1,293,019
Loans with a fixed interest rate	$ 178,451	$ 194,782	$ 92,254	$ 465,487
Loans with a variable interest rate	317,247	346,278	164,007	827,532
Total loans	$ 495,698	$ 541,060	$ 256,261	$ 1,293,019

As of March 31, 2009, our loan portfolio was composed of approximately 37% fixed interest rate loans and 63% of variable interest rate loans. Scheduled contractual principal repayments do not reflect the actual maturities of loans. The average maturity of our loans is substantially less than their average contractual term because of prepayments. The average life of mortgage loans tends to increase when the current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loans rates are substantially lower than rates on existing mortgages due primarily to refinancings of adjustable rate and fixed rate loans at lower rates.

Delinquent and Nonperforming Assets

We have several procedures that are designed to maintain the overall quality of our loan portfolio. We have established underwriting guidelines followed by our management and delinquency levels are monitored by our executive committee and reviewed by the board of directors for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Trends in delinquency ratios represent an indicator, among other considerations, of credit risk within the loan portfolio. Nonperforming loans include nonaccrual loans, loans past due 90 days or more, and loans renegotiated or restructured because of a debtor s financial difficulties. Loans 90 days past due and still accruing interest totaled $5.8 million as of March 31, 2009, compared to $3.5 million as of December 31, 2008. The ratio of 90 days delinquent loans to total loans was 0.45% as of March 31, 2009, compared to 0.26% as of December 31, 2008.

We generally place loans on nonaccrual status if any of the following events occur:

the classification of a loan as nonaccrual internally or by regulatory examiners;

delinquency on principal for 90 days or more unless management is in the process of collection;

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a balance remains after repossession of collateral;

notification of bankruptcy; or

management judges that nonaccrual status is appropriate.

Cash payments received while a loan is classified as nonaccrual are recorded as a reduction of principal as long as doubt exists as to collection. We are sometimes required to revise the interest rate or repayment terms in a troubled debt restructuring.

We obtain appraisals on loans secured by real estate with principal amounts in excess of $250,000 and may update those appraisals for loans categorized as nonperforming loans and potential problem loans. In instances where updated appraisals reflect reduced collateral values, we evaluate the borrower s overall financial condition to determine the need, if any, for possible writedowns or appropriate additions to the allowance for loan losses. We record real estate acquired through foreclosure at fair value at the time of acquisition, less estimated costs to sell the property.

The following table presents information regarding nonperforming assets as of the dates indicated:

	As of March 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Nonaccrual loans	$ 33,051	$ 23,761
Accruing loans past due 90 days or more	5,774	3,467
Restructured loans	5,325	4,397
Total nonperforming loans	44,150	31,625
Other real estate	19,208	18,691
Total nonperforming assets	$ 63,358	$ 50,316
Nonperforming assets to total loans and other real estate	4.83%	3.74%

Nonperforming assets were $63.4 million as of March 31, 2009, compared to $50.3 million as of December 31, 2008. Our ratio of nonperforming assets to total loans and other real estate was 4.83% as of March 31, 2009, compared to 3.74% as of December 31, 2008. The increase in nonperforming assets in the first quarter of 2009 was due primarily to the continued decline in the economy, resulting in continued deterioration in the construction and development sector of our loan portfolio.

As of March 31, 2009, other real estate was comprised primarily of residential real estate developments in various stages of completion.

We follow a loan review program designed to evaluate the credit risk in our loan portfolio. Through this loan review process, we maintain an internally classified watch list which helps management assess the overall quality of the loan portfolio and the adequacy of the allowance for loan losses. Loans included on the watch list that are not otherwise classified show warning elements where the present status portrays one or more deficiencies that require attention in the short term or where pertinent ratios of the loan account have weakened to a point where more frequent monitoring is warranted. These loans do not have all of the characteristics of a classified loan (substandard or doubtful) but do show weakened elements compared to those of a satisfactory credit.

In establishing the appropriate classification for specific assets, we consider, among other factors, the estimated value of the underlying collateral, the borrower s ability to repay, the borrower s repayment history and the current delinquent status. As a result of this process, loans are classified as substandard, doubtful or loss.

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Loans classified as substandard are those loans with clear and defined weaknesses such as a highly leveraged position, unfavorable financial ratios, uncertain repayment sources or poor financial condition which may jeopardize the repayment of the debt as contractually agreed. They are characterized by the distinct possibility that we will sustain some losses if the deficiencies are not corrected. Loans classified as doubtful are those loans which have characteristics similar to substandard loans but with an increased risk that collection or liquidation in full is highly questionable and improbable. Loans classified as loss are those loans that are in the process of being charged off. Once a loan is deemed uncollectible as contractually agreed, the loan is charged off either partially or in-full against the allowance for loan losses.

As of March 31, 2009, we had $92.3 million of loans classified as substandard, $26.2 million classified as doubtful and $48,000 classified as loss. As of March 31, 2009, our allowance for loan losses included $21.5 million specifically allocated to individual loans in these categories.

Allowance for Loan Losses

The allowance for loan losses was $39.1 million as of March 31, 2009, compared to $20.7 million as of December 31, 2008. This increase reflects further deterioration in our loan portfolio, due primarily to the lack of demand for residential housing, and the subsequent increase in net charge-offs.

The following table summarizes the activity in our allowance for loan losses as of and for the periods indicated:

	As of March 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Average loans outstanding	$ 1,313,742	$ 1,350,869
Total loans outstanding at end of period	$ 1,293,019	$ 1,328,329
Allowance for loan losses at beginning of period	$ 20,730	$ 14,926
Charge-offs:		
Commercial, financial and agricultural	(581)	(1,582)
Real estate	(13,945)	(21,000)
Installment loans and other	(160)	(1,339)
Total charge-offs	(14,686)	(23,921)
Recoveries:		
Commercial, financial and agricultural	37	379
Real estate	117	322
Installment loans and other	99	425
Total recoveries	253	1,126
Net charge-offs	(14,433)	(22,795)
Provision for loan losses	32,761	28,599
Allowance for loan losses at end of period	$ 39,058	$ 20,730
Ratio of net charge-offs to average loans outstanding	1.10%	1.69%
Ratio of allowance for loan losses to period end loans	3.02%	1.56%
Ratio of allowance for loan losses to nonperforming loans	88.47%	65.55%

Allocated Allowance for Loan Losses. We use a risk rating and specific reserve methodology in the calculation and allocation of our allowance for loan losses. The following tables describe the allocation of the allowance for loan losses among various categories of loans and certain other information for the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

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	As of March 31, 2009		As of December 31, 2008	
	Loan Balance	**Allowance for Loan Losses**	**Loan Balance**	**Allowance for Loan Losses**
Allocated component:				
Impaired loans	$ 74,038	$ 21,504	$ 59,664	$ 10,075
Graded loans	122,221	5,498	86,376	1,876
Homogeneous pools	141,107	739	141,318	584
Other loans	955,653	7,317	1,040,971	4,195
Unallocated component		4,000		4,000
Totals	$ 1,293,019	$ 39,058	$ 1,328,329	$ 20,730

Management believes that the allowance for loan losses as of March 31, 2009 is adequate to cover losses inherent in the portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance for loan losses as of March 31, 2009.

Investment Portfolio

The investment portfolio serves as a source of liquidity and earnings and is used to manage interest rate risk and to ensure collateral is available for pledging requirements. Our investment portfolio primarily consists of agency mortgage-backed securities, pooled government guaranteed SBA loans and taxable and non-taxable municipal securities. Securities within the portfolio are classified as held-to-maturity or available-for-sale. As of March 31, 2009, we had no securities classified as trading. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Securities available-for-sale are carried at fair value with unrealized holding gains and losses reported as a separate component of shareholders equity called accumulated other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk or changes to underlying bank funding. Available-for-sale securities were $565.6 million as of March 31, 2009, compared to $398.7 million as of December 31, 2008. As of March 31, 2009, $246.7 million, or 43.6%, of the available-for-sale securities were invested in mortgage-backed securities, compared to $220.5 million, or 55.3%, as of December 31, 2008. The remainder of the available-for-sale portfolio was invested primarily in government securities.

Securities held-to-maturity are carried at amortized historical cost. Securities that we have the intent and ability to hold until maturity or on a long-term basis are classified as held-to-maturity. Held-to-maturity securities were $18.6 million as of March 31, 2009, compared to $21.4 million as of December 31, 2008. All of the securities in the held-to-maturity category were issued by state and municipal subdivisions.

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The following tables summarize the amortized cost of securities classified as available-for-sale and held-to-maturity and their approximate fair values as of the dates shown:

	As of March 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale:				
Mortgage-backed securities	$ 237,956	$ 8,715	$ 15	$ 246,656
Other securities	317,805	2,944	1,765	318,984
Total	$ 555,761	$ 11,659	$ 1,780	$ 565,640
Held-to-maturity:				
Mortgage-backed securities	$	$	$	$
Other securities	18,556	769		19,325
Total	$ 18,556	$ 769	$	$ 19,325

	As of December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(Dollars in thousands)			
Available-for-sale:				
Mortgage-backed securities	$ 213,736	$ 6,736	$ 17	$ 220,455
Other securities	177,528	2,168	1,449	178,247
Total	$ 391,264	$ 8,984	$ 1,466	$ 398,702
Held-to-maturity:				
Mortgage-backed securities	$	$	$	$
Other securities	21,358	757		22,115
Total	$ 21,358	$ 757	$	$ 22,115

Some of our investment securities are valued at less than their historical cost. We believe these declines resulted primarily from increases in market interest rates. Because the declines in market value are due to changes in interest rates and not credit quality, and because we have the ability and intent to hold these securities until a recovery in fair value, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net earnings in the period the other than temporary impairment is identified.

As of March 31, 2009, we had net unrealized gains of $10.6 million in the investment portfolio compared to net unrealized gains of $8.2 million as of December 31, 2008. The $2.4 million increase in net unrealized gains is primarily attributable to changes in market interest rates from December 31, 2008 to March 31, 2009.

Mortgage-backed securities (MBSs) are securities that have been developed by pooling a number of real estate mortgages and are principally issued by quasi-federal agencies such as Fannie Mae and Freddie Mac. These securities are deemed to have high credit ratings, and the minimum monthly cash flows of principal and interest are guaranteed by the issuing agencies. Although investors generally assume that the federal government will support these agencies, it is under no obligation to do so. Other MBSs are issued by Ginnie Mae, which is a federal agency, and are guaranteed by the U.S. government.

Unlike U.S. government securities, which have a lump sum payment at maturity, MBSs provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities.

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MBSs that are purchased at a premium will generally suffer decreasing net yields as interest rates drop because homeowners tend to refinance their mortgages. Thus, the premium paid must be amortized over a shorter period. Conversely, MBSs purchased at a discount will obtain higher net yields in a decreasing interest rate environment. As interest rates rise, the opposite will generally be true. During a period of increasing interest rates, fixed rate MBSs do not tend to experience heavy prepayments of principal, and consequently the average life of this security will be lengthened. If interest rates begin to fall, prepayments will increase, thereby shortening the estimated lives of these securities.

The following table summarizes the contractual maturities of investment securities on an amortized cost basis and their weighted average yields as of March 31, 2009. This table shows the contractual maturities of the related investment securities and not the estimated average lives of the securities. The contractual maturity of an MBS is the date at which the last underlying mortgage matures. In the case of a 15-year pool of loans or a 30-year pool of loans, the maturity date of the security will be the date the last payment is due on the underlying mortgages.

	As of March 31, 2009									
	Due in One Year or Less		Due After One Year through Five Years		Due After Five Years through Ten Years		Due After Ten Years		Total (Avg.)	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Available-for-sale:										
Mortgage-backed securities	$ 3	8.38%	$ 9,834	3.38%	$ 27,313	4.64%	$ 209,506	5.12%	$ 246,656	5.00%
Other securities	154,871	0.21	49,918	4.56	35,070	4.86	78,321	4.41	318,180	2.44
Total	154,874	0.21	59,752	4.36	62,383	4.76	287,827	4.93	564,836	3.56
Held-to-maturity:										
Mortgage-backed securities										
Other securities	145	9.73			1,933	9.24	16,478	9.03	18,556	9.06
Total	145	9.73			1,933	9.24	16,478	9.03	18,556	9.06
Equity and other securities			262	7.13			16,925	2.28	17,187	2.35
Total securities	$ 155,019	0.22%	$ 60,014	4.38%	$ 64,316	4.89%	$ 321,230	5.00%	$ 600,579	3.69%

Contractual maturity of an MBS is not a reliable indicator of its expected life because borrowers have the right to prepay their obligations at any time. A third party analysis of our mortgage-backed securities as of March 31, 2009 showed the estimated average lives for fixed MBSs to be 2.8 years. The average life of the total investment portfolio is 2.1 years as of March 31, 2009.

Goodwill and Other Intangibles

The change in our carrying amount of goodwill and other intangible assets as of March 31, 2009 and as of December 31, 2008 was as follows:

	As of March 31, 2009	As of December 31, 2008
	(In thousands)	
Balance, beginning	$ 68,849	$ 69,738
Intangible asset amortization	(182)	(889)
Goodwill impairment charge	(66,846)	
Balance, ending	$ 1,821	$ 68,849

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The change resulted from the decline in the market value of our stock and the decline in prices paid in comparable acquisition transactions.

Deposits

Deposits are our primary source of funds and we rely on our banking centers and branches to attract and retain those deposits. We offer a variety of products, which consist of noninterest-bearing and interest checking accounts, money market and savings accounts and certificates of deposit. Deposits are gathered from individuals, partnerships and corporations in our market areas. From time to time, we also purchase brokered deposits. Our deposits averaged $1.521 billion for the first quarter of 2009, compared to $1.416 billion for the year ended December 31, 2008.

As of March 31, 2009, core deposits (which consist of all deposits other than brokered deposits, 50% of time deposits $100,000 and greater and 50% of public funds) were $1.269 billion, or 79.2%, of total deposits, while non-core deposits, including brokered deposits, made up 20.8% of total deposits. Total deposits increased to $1.602 billion as of March 31, 2009, compared to $1.461 billion as of the year ended December 31, 2008, an increase of $140.9 million, or 9.6%. The increase resulted from a $148.3 million, or 11.6%, increase in interest-bearing deposits, primarily time deposits, partially offset by a $7.4 million, or 4.1%, decrease in noninterest-bearing deposits.

The interest rates we pay are based on the competitive environments in each of our markets. We manage our interest expense through weekly deposit pricing reviews that compare our deposit rates with the competition and wholesale alternatives. The rising cost of our deposits over the past few years reflects the impact of the increase in the Federal Funds rate from 2006 through 2008. In addition, we have at times offered special products or attractive rates so that our deposits will keep up with our loan growth. The average cost of deposits, including noninterest-bearing deposits, for the first quarter of 2009 was 1.88%, compared to 2.52% for the year ended December 31, 2008.

The following table presents the daily average balances and rates paid on deposits for the periods indicated:

	For the quarter ended March 31, 2009		For the year ended December 31, 2008	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Noninterest-bearing deposits	$ 180,260	%	$ 177,670	%
Interest-bearing demand[1]	554,406	1.15	526,918	1.80
Savings	41,440	0.44	40,261	0.58
Time deposits less than $100,000	274,509	2.99	287,987	3.76
Core deposits	1,050,615	1.41	1,032,836	1.99
Time deposits $100,000 and greater	320,910	2.70	287,621	3.79
Brokered deposits	149,356	3.48	95,369	4.41
Total deposits	$ 1,520,881	1.88%	$ 1,415,826	2.52%

(1) Includes money market accounts.

The following table provides the amount of our time deposits as of March 31, 2009 that are $100,000 and greater by time remaining until maturity:

Three months or less	$ 116,853
Over three months through six months	106,197
Over six months through one year	161,522

Over one year	121,863
Total	$ 506,435

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While a majority of the time deposits in amounts of $100,000 and greater will mature within one year, we expect that a significant portion of these deposits will be renewed, given that the rates we offer on time deposits are competitive in the market. If a significant portion of the time deposits were not renewed, it would have an adverse effect on our liquidity. We monitor maturities and have other available funding sources such as FHLB advances to mitigate this effect.

Borrowings, Repurchase Agreements and Junior Subordinated Debentures

We use borrowings to supplement deposits in funding our lending and investing activities. These borrowings are typically FHLB advances, which have terms ranging from overnight to several years. All FHLB borrowings are collateralized by investment securities or first mortgage loans. Additionally, we borrow from other financial institutions using investment securities as collateral and have issued junior subordinated debentures to a subsidiary trust.

Our borrowings and repurchase agreements were $281.2 million as of March 31, 2009. The outstanding balance as of March 31, 2009 includes no short-term FHLB advances, $190.0 million in long-term FHLB advances, $50.0 million in repurchase agreements with brokerage firms and $41.2 million in repurchase agreements with clients and treasury tax and loan note payable.

We decreased our borrowing and repurchase agreements $6.2 million, or 2.2%, to $281.2 million as of March 31, 2009 from $287.5 million as of December 31, 2008. The decrease was primarily a result of rising deposits, which provided us with a less expensive and more stable funding source, than borrowings and repurchase agreements.

The following table summarizes our outstanding borrowings and repurchase agreements of the dates indicated:

	As of March 31, 2009	As of December 31, 2008
	(Dollars in thousands)	
Ending balance	$ 281,228	$ 287,465
Average balance for the period	286,327	339,430
Maximum month-end balance during the period	284,664	389,309
Average interest rate for the period	2.60%	2.85%
Weighted average interest rate at the end of the period	2.66%	2.51%

In addition to the borrowings and repurchase agreements discussed above, as of March 31, 2009, we had one issue of junior subordinated debentures outstanding totaling $30.9 million.

In addition to the borrowings and repurchase agreements discussed above, on December 20, 2003, the Corporation issued $30.9 million of floating rate junior subordinated deferrable interest debentures to the Trust. The debentures are the sole asset of the Trust. The net proceeds received by the Corporation from the issuance of the debentures were used for the Enterprise acquisition. The Trust issued $30.0 million of TPSs to investors. The Corporation s obligations under the debentures and related documents, taken together, constitute a full and unconditional guarantee by the Corporation of the Trust s obligations under the TPSs. The TPSs are redeemable at the Corporation s option on or after December 30, 2008, on any interest payment date. The TPSs must be redeemed upon maturity of the debentures in 2033. Interest on the debentures and TPSs is the three month London Interbank Offer Rate (LIBOR) plus 2.85% and is payable quarterly.

The Trust is a statutory business trust organized for the sole purpose of issuing trust securities and investing the proceeds in our junior subordinated debentures. The TPSs represent preferred beneficial interests in the assets of the Trust and are subject to mandatory redemption upon payment of the junior subordinated debentures held by the Trust. We own the common securities of the Trust. The Trust s ability to pay amounts due on the TPSs depend solely on our making payment on the related junior subordinated debentures. The debentures, which are the only assets of the Trust, are subordinate and junior in right of payment to all of our present and future senior indebtedness. We have fully and unconditionally guaranteed the Trust s obligations under the Trust securities to the extent not paid or made by the Trust, provided that the Trust has funds available for those obligations.

Under the provisions of the issue of the junior subordinated debentures, we have the right to defer payment of interest on the debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the junior subordinated debentures are deferred, the distributions on the TPSs will also be deferred. However, the interest due would continue to accrue during any such interest payment deferral period.

The TPSs issued by the Trust are currently included in our Tier 1 capital for regulatory purposes. On March 1, 2005, the Federal Reserve adopted final rules that continued to allow trust preferred securities to be included in Tier 1 capital, but subject to stricter quantitative and qualitative limits that took effect on March 31, 2009. Prior to March 31, 2009, trust preferred securities and qualifying perpetual preferred stock were limited in the aggregate to no more than 25% of a bank holding company s core capital elements. The new rule amends the existing limit by providing that the aggregate amount of restricted core capital elements (including trust preferred securities and qualifying perpetual preferred stock) that may be included in Tier 1 capital may not exceed 25% of the sum of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Because the 25% limit was previously calculated without deducting goodwill, the final rule reduced the amount of TPSs that we can include in Tier 1 capital. The rules that became effective on March 31, 2009 did not affect the amount of TPSs that we may include in our Tier 1 capital.

The Trust issuing the TPSs holds junior subordinated debentures we issued with a 30-year maturity. The final rules provide that in the last five years before the junior subordinated debentures mature, the associated TPSs will be excluded from Tier 1 capital and included in Tier 2 capital, subject (together with subordinated debt and certain other investments) to an aggregate limit of 50% of Tier 1 capital. In addition, under the proposal, the TPSs during this five-year period would be amortized out of Tier 2 capital by one-fifth each year and excluded from Tier 2 capital completely during the year prior to maturity of the debentures.

Shareholders Equity

Shareholders equity was $146.1 million as of March 31, 2009, compared to $185.6 million as of December 31, 2008. Our ratio of average shareholders equity to average assets decreased to 8.2% as of March 31, 2009, compared to 9.6% as of December 31, 2008. On January 9, 2009, we sold $44 million of non-voting preferred stock to the U.S. Treasury under the CPP. During the first quarter of 2009, we reported a net loss applicable to common shareholders of $84.5 million. Included in this amount are the payment of $220,000 in preferred dividends and $102,000 of discount accretion related to the preferred stock. Also, we declared common dividends to our shareholders of $595,000. Finally, an increase in the market value of our available-for-sale investment securities caused our accumulated other comprehensive income to increase from $237,000 at December 31, 2008, to $1.7 million at March 31, 2009.

Financial Condition as of December 31, 2008, 2007 and 2006

Summary

Total assets were $1.979 billion as of December 31, 2008, compared to $1.984 billion as of December 31, 2007, a decrease of $4.9 million, or 0.2%. Our loan portfolio was $1.328 billion as of December 31, 2008, compared to $1.338 billion as of December 31, 2007, a decrease of $9.5 million, or 0.7%. Our investment portfolio was $436.4 million as of December 31, 2008, compared to $443.1 million as of December 31, 2007, a decrease of $6.7 million, or 1.5%. Total deposits were $1.461 billion as of December 31, 2008, compared to $1.426 billion as of December 31, 2007. Shareholders equity was $185.6 million as of December 31, 2008, compared to $194.4 million as of December 31, 2007, a decrease of $8.8 million, or 4.5%.

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Total assets were $1.984 billion as of December 31, 2007, compared to $1.900 billion as of December 31, 2006, an increase of $84.2 million, or 4.4%. Our loan portfolio was $1.338 billion as of December 31, 2007, compared to $1.223 billion as of December 31, 2006, an increase of $114.9 million. Our investment portfolio was $443.1 million as of December 31, 2007, compared to $448.6 million as of December 31, 2006, a decrease of $5.5 million, or 1.2%. Total deposits were $1.426 billion as of December 31, 2007, compared to $1.461 billion as of December 31, 2006. Shareholders equity was $194.4 million as of December 31, 2007, compared to $191.3 million as of December 31, 2006, an increase of $3.1 million, or 1.6%.

Loan Portfolio

Total commercial, financial and agricultural loans accounted for 17% of our portfolio as of December 31, 2008. Total real estate loans accounted for 76% of our loan portfolio as of December 31, 2008. Total consumer loans made up 15% of our loan portfolio as of December 31, 2008.

Total loans were $1.328 billion as of December 31, 2008, a decrease of $10.0 million, or 0.7%, compared to loans of $1.338 billion as of December 31, 2007. The majority of the loan decline occurred in real estate construction loans due primarily to the moratorium imposed on this type of lending during 2008.

Total loans increased $114.9 million, or 9.4%, to $1.338 billion as of December 31, 2007, compared to $1.223 billion as of December 31, 2006. As of December 31, 2008, 2007, and 2006, loans comprised 67.1%, 67.4% and 64.4%, respectively, of total assets.

The following table summarizes our loan portfolio by type of loan as of the dates indicated:

	As of December 31,									
	2008		2007		2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)									
Commercial:										
Commercial	$ 219,236	16.5%	$ 233,055	17.4%	$ 232,338	19.0%	$ 192,966	22.4%	$ 154,581	18.7%
Commercial real estate	670,595	50.5	573,387	42.9	515,029	42.1	343,320	39.9	321,261	38.9
Real estate construction	179,381	13.5	281,391	21.0	211,220	17.3	95,005	11.0	86,351	10.5
Total commercial	1,069,212	80.5	1,087,833	81.3	958,587	78.4	631,291	73.4	562,193	68.1
Consumer:										
Residential real estate	92,055	6.9	108,378	8.1	130,019	10.6	113,850	13.2	139,630	16.9
Home equity lines	67,708	5.1	57,446	4.3	58,230	4.8	49,148	5.7	44,379	5.4
Other consumer loans	30,921	2.3	34,702	2.6	36,325	3.0	37,209	4.3	53,213	6.4
Total consumer	190,684	14.4	200,526	15.0	224,574	18.4	200,207	23.3	237,222	28.7
Other	68,433	5.2	49,488	3.7	39,785	3.3	29,146	3.4	25,849	3.1
Total loans	$ 1,328,329	100.0%	$ 1,337,847	100.0%	$ 1,222,946	100.0%	$ 860,644	100.0%	$ 825,264	100.0%

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The contractual maturity ranges of our loan portfolio and the amount of such loans with fixed and variable interest rates in each maturity range as of dates indicated, are summarized in the following table:

	As of December 31, 2008			
	One Year or Less	After One Through Five Years	After Five Years	Total
	(In thousands)			
Commercial:				
Commercial	$ 84,255	$ 125,728	$ 9,253	$ 219,236
Commercial real estate	225,606	329,408	115,581	670,595
Real estate construction	132,616	25,611	21,154	179,381
Total commercial	442,477	480,747	145,988	1,069,212
Commercial:				
Residential real estate	10,694	24,129	57,232	92,055
Home equity lines	957	11,694	55,057	67,708
Other consumer loans	4,961	13,801	12,159	30,921
Total consumer	16,612	49,624	124,448	190,684
Other	64,690	2,476	1,267	68,433
Total loans	$ 523,779	$ 532,847	$ 271,703	$ 1,328,329
Loans with a fixed interest rate	$ 188,560	$ 191,825	$ 97,813	$ 478,198
Loans with a variable interest rate	335,219	341,022	173,890	850,131
Total loans	$ 523,779	$ 532,847	$ 271,703	$ 1,328,329

As of December 31, 2008, our loan portfolio was composed of approximately 63.0% fixed rate loans and 37.0% variable rate loans. Scheduled contractual principal repayments do not reflect the actual maturities of loans. The average maturity of our loans is substantially less than their average contractual term because of prepayments. The average life of mortgage loans tends to increase when the current mortgage loan rates are substantially higher than rates on existing mortgage loans and, conversely, decrease when current mortgage loans rates are substantially lower than rates on existing mortgages due primarily to refinancings of adjustable rate and fixed rate loans at lower rates.

Delinquent and Nonperforming Assets

Nonaccrual loans totaled $23.8 million as of December 31, 2008, compared to $3.5 million as of December 31, 2007, and $1.4 million as of December 31, 2006. Loans 90 days past due and still accruing interest totaled $3.5 million as of December 31, 2008, compared to $5.5 million as of December 31, 2007, and $1.5 million as of December 31, 2006. The ratio of 90 days delinquent loans to total loans was 0.26% as of December 31, 2008, compared to 0.41% as of December 31, 2007 and 0.09% as of December 31, 2006.

The following table presents information regarding nonperforming assets as of the dates indicated:

	As of December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Nonaccrual loans	$ 23,761	$ 3,460	$ 1,435	$ 498	$ 1,918
Accruing loans past due 90 days or more	3,467	5,493	1,146	2,043	1,094

Restructured loans	4,397	180	151	73	1,502
Total nonperforming loans	31,625	9,133	2,732	2,614	4,514
Other real estate	18,691	10,678	4,561	5,131	4,463
Total nonperforming assets	$ 50,316	$ 19,811	$ 7,293	$ 7,745	$ 8,977
Nonperforming assets to total loans and other real estate	3.74%	1.47%	0.59%	0.89%	1.08%

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Nonperforming assets were $50.3 million, $19.8 million and $7.3 million as of December 31, 2008, 2007 and 2006, respectively. Our ratio of nonperforming assets to total loans and other real estate was 3.74%, 1.47% and 0.59% as of December 31, 2008, 2007 and 2006, respectively. The increase in nonperforming assets in 2008 was due primarily to the decline in the economy resulting in continued deterioration in the residential, construction and development sector of our loan portfolio.

As of December 31, 2004 through December 31, 2008, other real estate was comprised primarily of residential real estate developments in various stages of completion.

As of December 31, 2008, we had $64.5 million of loans classified as substandard, $17.9 million classified as doubtful and $21,000 classified as loss. As of December 31, 2008, our allowance for loan losses included $10.1 million specifically allocated to individual loans in these categories.

Allowance for Loan Losses

The following table summarizes the activity in our allowance for loan losses as of and for the periods indicated:

	As of and for the Years Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Average loans outstanding	$ 1,350,870	$ 1,284,762	$ 973,466	$ 808,795	$ 756,110
Total loans outstanding at end of period	$ 1,328,329	$ 1,337,847	$ 1,222,946	$ 860,644	$ 828,563
Allowance for loan losses at beginning of period	$ 14,926	$ 12,236	$ 9,312	$ 10,914	$ 6,181
Allowance of acquired entity			3,116		4,547
Total allowances	14,926	12,236	12,428	10,914	10,728
Charge-offs:					
Commercial, financial and agricultural	(1,582)	(2,547)	(749)	(1,320)	(732)
Real estate	(21,000)	(2,952)	(526)	(1,373)	(2,070)
Installment loans and other	(1,339)	(1,999)	(1,358)	(1,927)	(1,308)
Total charge-offs	(23,921)	(7,498)	(2,633)	(4,620)	(4,110)
Recoveries:					
Commercial, financial and agricultural	379	408	259	52	133
Real estate	322	1,171	119	348	185
Installment loans and other	425	479	407	490	456
Total recoveries	1,126	2,058	785	890	774
Net charge-offs	(22,795)	(5,440)	(1,848)	(3,730)	(3,336)
Provision for loan losses	28,599	8,130	1,656	2,128	3,522
Allowance for loan losses at end of period	$ 20,730	$ 14,926	$ 12,236	$ 9,312	$ 10,914
Ratio of net charge-offs to average loans outstanding	1.69 %	0.42 %	0.19 %	0.46 %	0.44 %
Ratio of allowance for loan losses to period end loans	1.56 %	1.12 %	1.00 %	1.08 %	1.32 %
Ratio of allowance for loan losses to nonperforming loans	65.55 %	163.43 %	447.88 %	356.24 %	241.78 %

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Allocated Allowance for Loan Losses. The following table describes the allocation of the allowance for loan losses among various categories of loans and certain other information for the dates indicated. The allocation is made for analytical purposes and is not necessarily indicative of the categories in which future losses may occur. The total allowance is available to absorb losses from any segment of loans.

	As of December 31,									
	2008		2007		2006		2005		2004	
	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
	(In thousands)									
Allocated component:										
Impaired loans	$ 59,664	$ 10,075	$ 23,824	$ 4,396	$ 13,577	$ 2,113	$ 10,544	$ 1,293	$ 4,107	$ 2,237
Graded loans	86,376	1,876	24,728	852	32,682	972	19,978	812	44,820	3,805
Homogeneous pools	141,318	584	133,191	570	105,114	524	120,315	855	232,618	2,230
Other loans	1,040,971	4,195	1,156,104	4,246	1,071,573	6,107	709,807	4,768	547,018	1,905
Unallocated component		4,000		4,862		2,520		1,584		737
Total	$ 1,328,329	$ 20,730	$ 1,337,847	$ 14,926	$ 1,222,946	$ 12,236	$ 860,644	$ 9,312	$ 828,563	$ 10,914

We believe that the allowance for loan losses as of December 31, 2008 was adequate to cover losses inherent in the portfolio as of such date. There can be no assurance, however, that we will not sustain losses in future periods, which could be substantial in relation to the size of the allowance for loan losses as of December 31, 2008.

Investment Portfolio

As of December 31, 2008, we had no securities classified as trading. Fair values of securities are based on quoted market prices where available. If quoted market prices are not available, estimated fair values are based on quoted market prices of comparable securities.

Securities available-for-sale are carried at fair value with unrealized holding gains and losses reported as a separate component of shareholders equity called other comprehensive income. Securities that are held as available-for-sale are used as a part of our asset/liability management strategy. Securities may be sold in response to interest rate changes, changes in prepayment risk or changes to underlying bank funding. Our average investment portfolio balances were $436.8 million as of December 31, 2008, compared to $440.6 million as of December 31, 2007. Available-for-sale securities were $398.7 million as of December 31, 2008, compared to $403.8 million as of December 31, 2007 and $413.8 million as of December 31, 2006. As of December 31, 2008, $220.5 million, or 55.3%, of the available-for-sale securities were invested in mortgage-backed securities, compared to $137.8 million, or 34.1%, as of December 31, 2007. The remainder of the available-for-sale portfolio was invested primarily in government securities.

Securities held-to-maturity are carried at amortized historical cost. Securities that we have the intent and ability to hold until maturity or on a long-term basis are classified as held-to maturity. Held-to-maturity securities were $21.4 million as of December 31, 2008, compared to $22.8 million as of December 31, 2007 and $23.5 million as of December 31, 2006. All of the securities in the held-to-maturity category were state and municipal securities.

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The following tables summarize the amortized cost of securities classified as available-for-sale and held-to-maturity and their approximate fair values as of the dates shown:

	As of December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Available-for-sale:				
Mortgage-backed securities	$ 213,736	$ 6,736	$ 17	$ 220,455
Other securities	177,528	2,168	1,449	178,247
Total	$ 391,264	$ 8,904	$ 1,466	$ 398,702
Held-to-maturity:				
Mortgage-backed securities	$	$	$	$
Other securities	21,358	757		22,115
Total	$ 21,358	$ 757	$	$ 22,115

	As of December 31, 2007				As of December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
Available-for-sale:								
Mortgage-backed securities	$ 137,221	$ 971	$ 412	$ 137,780	$ 254,390	$ 268	$ 6,466	$ 248,192
Other securities	265,128	1,338	450	266,016	166,556	271	1,207	165,620
Total	$ 402,349	$ 2,309	$ 862	$ 403,796	$ 420,946	$ 539	$ 7,673	$ 413,812
Held-to-maturity:								
Mortgage-backed securities	$	$	$	$	$	$	$	$
Other securities	22,846	1,111		23,957	23,478	1,579		25,057
Total	$ 22,846	$ 1,111	$	$ 23,957	$ 23,478	$ 1,579	$	$ 25,057

Certain investment securities are valued at less than their historical cost. We believe these declines resulted primarily from increases in market interest rates. Because the declines in market value are due to changes in interest rates and not credit quality, and because we have the ability and intent to hold these securities until a recovery in fair value, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net earnings in the period the other-than-temporary impairment is identified.

As of December 31, 2008, we had net unrealized gains of $8.2 million in the investment portfolio compared to net unrealized gains of $2.6 million as of December 31, 2007. The $5.6 million increase in net unrealized gains is primarily attributable to changes in market interest rates from December 31, 2007 to December 31, 2008. As of December 31, 2007, we had net unrealized gains of $2.6 million compared to net unrealized losses of $5.6 million as of December 31, 2006. The $8.1 million increase in net unrealized gains was primarily due to rising interest rates.

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The following table summarizes the contractual maturities of investment securities on an amortized cost basis and their yields as of December 31, 2008. This table shows the contractual maturities of the related investment securities and not the estimated average lives of the securities. The contractual maturity of an MBS is the date at which the last underlying mortgage matures. In the case of a 15-year pool of loans or a 30-year pool of loans, the maturity date of the security will be the date the last payment is due on the underlying mortgages.

	Due in One Year or Less		Due After One Year through Five Years		Due After Five Years through Ten Years		Due After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
Available-for-sale:										
Mortgage-backed securities	$ 4	8.32%	$ 44,794	4.41%	$ 21,201	4.88%	$ 194,456	5.30%	$ 220,455	5.24%
Other securities	4,864	4.81	69,296	4.40	60,865	4.99	41,908	5.31	176,933	4.83
Total	4,868	4.81	74,090	4.40	82,066	4.96	236,364	5.31	397,388	5.06
Held-to-maturity:										
Mortgage-backed securities										
Other securities	2,145	3.02			1,933	9.24	17,280	8.27	21,358	7.83
Total	2,145	3.02			1,933	8.27	17,280	9.42	21,358	7.83
Equity and other securities	501	5.73	248	8.61			16,934	3.96	17,683	3.79
Total securities	$ 7,514	4.36%	$ 74,338	4.42%	$ 83,999	5.06%	$ 270,578	5.41%	$ 436,429	5.16%

Contractual maturity of an MBS is not a reliable indicator of its expected life because borrowers have the right to prepay their obligations at any time. A third party analysis of our mortgage-backed securities as of December 31, 2008 shows the estimated average lives for fixed MBSs to be 2.6 years. The average life of the total investment portfolio is 2.3 years as of December 31, 2008.

Goodwill and Other Intangibles

The change in our carrying amount of goodwill and intangibles as of the years ended December 31, 2008 and 2007 is as follows:

	As of December 31,	
	2008	2007
	(Dollars in thousands)	
Balance, beginning	$ 69,738	$ 71,342
Intangible asset amortization	(889)	(1,327)
Goodwill adjustment relating to acquisition		(277)
Balance, ending	$ 68,849	$ 69,738

Deposits

Deposits were $1.461 billion as of December 31, 2008, compared to $1.426 billion as of December 31, 2007, an increase of $35.6 million, or 2.5%. Interest-bearing deposits increased to $1.280 billion as of December 31, 2008, compared to $1.254 billion as of December 31, 2007, an increase of $25.8 million, or 2.1%. Noninterest-bearing deposits increased to $181.2 million as of December 31, 2008, compared to $171.4 million as of December 31, 2007, an increase of $9.8 million, or 5.7%. Federal funds purchased and securities sold under

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agreements to repurchase decreased to $98.5 million as of December 31, 2008, compared to $107.1 million as of December 31, 2007, a decrease of $8.5 million, or 8.0%. Other borrowed funds (primarily FHLB advances) decreased to $188.9 million as of December 31, 2008, compared to $210.8 million as of December 31, 2007, a decrease of $21.8 million, or 10.4%, during 2008. Our deposits were $1.461 billion for the year ended December 31, 2008, $1.426 billion for 2007 and $1.227 billion for 2006.

As of December 31, 2008, core deposits (which consist of all deposits other than brokered deposits, 50% of time deposits $100,000 and greater and 50% of public funds) were $1.094 billion, or 74.8%, of total deposits, while non-core deposits, including brokered deposits, made up 25.2% of total deposits.

The interest rates we pay are based on the competitive environments in each of our markets. We manage our interest expense through weekly deposit pricing reviews that compare our deposit rates with the competition and wholesale alternatives. The rising cost of our deposits in 2007 and the decline in our cost of deposits in 2008 reflect the impact of the changes in the Federal Funds rate from 2006 through 2008. In addition, we have at times offered special products or attractive rates so that our deposits will keep up with our loan growth. The average cost of deposits, including noninterest-bearing deposits, for the year ended December 31, 2008 was 2.52% compared to 3.51% for the year ended December 31, 2007, and 2.93% for the year ended December 31, 2006.

As of December 31, 2007, core deposits (which consist of all deposits other than brokered deposits, 50% of time deposits $100,000 and greater and 50% of public funds) were $1.157 billion, or 81.1%, of total deposits while non-core deposits, including brokered deposits, made up 18.9% of total deposits.

The following table presents the daily average balances and weighted average rates paid on deposits for the periods indicated:

	Years Ended December 31,					
	2008		2007		2006	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)					
Noninterest-bearing deposits	$ 177,670	%	$ 175,196	%	$ 165,939	%
Interest-bearing demand[(1)]	526,918	1.80	489,136	2.95	414,137	2.51
Savings	40,261	0.58	42,310	0.78	42,218	0.46
Time deposits less than $100,000	287,987	3.76	344,853	4.74	291,972	3.94
Core deposits	1,032,836	1.99	1,051,495	2.96	914,266	2.42
Time deposits $100,000 and greater	287,621	3.79	309,804	5.08	256,593	4.41
Brokered deposits	95,369	4.41	62,709	4.94	56,330	4.60
Total deposits	$ 1,415,826	2.52%	$ 1,424,008	3.51%	$ 1,227,189	2.93%

(1) Includes money market accounts.

The following table sets forth the amount of our time deposits as of December 31, 2008 that are $100,000 and greater by time remaining until maturity:

	(Dollars in thousands)
Three months or less	$ 161,595

Over three months through six months	72,579
Over six months through one year	122,346
Over one year	69,381
Total	$ 425,901

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While a majority of the time deposits in amounts of $100,000 and greater will mature within one year, we expect that a significant portion of these deposits will be renewed as the rates offered on time deposits are competitive in the market. If a significant portion of the time deposits were not renewed, it would have an adverse effect on our liquidity. We monitor maturities and have other available funding sources such as FHLB advances to mitigate this effect.

Borrowings, Repurchase Agreements and Junior Subordinated Debentures

Our borrowings and repurchase agreements were $287.5 million as of December 31, 2008. The outstanding balance as of December 31, 2008 includes $20.0 million in short-term FHLB advances, $168.4 million in long-term FHLB advances, $99.1 million in repurchase agreements and treasury tax and loan note payable.

We decreased our borrowings and repurchase agreements $30.3 million, or 9.54%, to $287.5 million as of December 31, 2008 from $317.8 million as of December 31, 2007. The decrease was primarily a result of rising deposits, which provided us with a less expensive and more stable funding source, than borrowings and repurchase agreements.

The following table summarizes our outstanding borrowings and repurchase agreements of the dates indicated:

	As of and for the Years Ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Balance at year end	$ 287,465	$ 317,831	$ 193,502
Average balance during the year	$ 339,430	$ 256,058	$ 170,813
Average interest rate during the year	2.85%	4.65%	4.43%
Maximum month-end balance during the year	$ 389,309	$ 331,700	$ 196,639
Weighted average interest rate at the end of the year	2.51%	4.31%	4.78%

In addition to the borrowings and repurchase agreements discussed above, as of December 31, 2008, we had one issue of junior subordinated debentures outstanding totaling $30.9 million.

Shareholders Equity

Shareholders equity decreased $8.8 million, or 4.5%, to $185.6 million as of December 31, 2008, compared to $194.4 million as of December 31, 2007. Our ratio of average shareholders equity to average assets decreased to 9.6% as of December 31, 2008 compared to 9.9% as of December 31, 2007.

Shareholders equity increased $3.1 million, or 1.6%, to $194.4 million as of December 31, 2007, compared to $191.3 million as of December 31, 2006. Our ratio of average shareholders equity to average assets increased to 9.9% as of December 31, 2007 compared to 9.6% as of December 31, 2006.

Regulatory Capital

We actively manage our capital. Our potential sources of capital are earnings and common or preferred equity. In 2003, we issued TPSs through a subsidiary trust to fund an acquisition. Trust preferred securities can be eligible for treatment as Tier 1 regulatory capital provided such securities comprise less than 25% of Tier 1 regulatory capital. Any amount above this limit can be eligible for treatment as Tier 2 capital. We currently have the capacity to issue additional trust preferred securities that would be treated as Tier 1 capital.

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The following table provides the Tier 1 capital, total risk-based capital and risk-based ratios for the Corporation:

	Actual		To Be Categorized as Well-Capitalized	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
As of March 31, 2009				
Tangible capital	$ 144,252	N/A	N/A	N/A
Total risk-based	190,046	13.5%	$ 140,524	10.0%
Tier 1 risk-based	172,215	12.3	84,314	6.0
Tier 1 leverage	172,215	8.4	102,673	5.0
As of December 31, 2008				
Tangible capital	$ 116,716	N/A	N/A	N/A
Total risk-based	164,255	11.4%	$ 144,462	10.0%
Tier 1 risk-based	146,164	10.1	86,677	6.0
Tier 1 leverage	146,164	7.7	95,590	5.0
As of December 31, 2007				
Tangible capital	$ 124,632	N/A	N/A	N/A
Total risk-based capital	168,640	11.2%	$ 150,217	10.0%
Tier 1 risk-based capital	153,714	10.2	90.130	6.0
Tier 1 leverage	153,714	8.0	95,579	5.0

The following table provides the Tier 1 capital, total risk-based capital and risk-based ratios for the Bank:

	Actual		To Be Categorized as Well-Capitalized	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
As of March 31, 2009				
Tangible capital	$ 150,745	N/A	N/A	N/A
Total risk-based	166,457	11.7%	$ 139,728	10.0%
Tier 1 risk-based	148,707	10.5%	83,920	6.0%
Tier 1 leverage	148,707	7.2%	102,523	5.0%
As of December 31, 2008				
Tangible capital	$ 136,158	N/A	N/A	N/A
Total risk-based	153,652	10.4%	$ 144,092	10.0%
Tier 1 risk-based	135,607	9.3%	86,455	6.0%
Tier 1 leverage	135,607	7.0%	95,165	5.0%
As of December 31, 2007				
Tangible capital	$ 142,265	N/A	N/A	N/A
Total risk-based capital	156,272	10.2%	$ 149,722	10.0%
Tier 1 risk-based capital	141,346	9.3%	89,833	6.0%
Tier 1 leverage	141,346	7.4%	95,001	5.0%

The Bank is subject to the capital adequacy requirements of the OCC. The Corporation, as a bank holding company, is subject to the capital adequacy requirements of the Federal Reserve. After the successful completion of this offering, we expect that the Bank will maintain a capital position that meets or exceeds the well-capitalized requirements as defined by the OCC.

As part of the agreement with the OCC, the OCC has required the Bank to achieve by September 30, 2009, and maintain on an ongoing basis, a Tier 1 leverage ratio of 8.0% and a total risk-based capital ratio of 12.0%. The risk- based capital requirements of the Federal Reserve and the OCC define capital and establish minimum capital requirements in relation to assets and off-balance sheet exposure, adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate relative risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The risk-based capital standards issued by the Federal Reserve require all bank holding companies to have a Tier 1 leverage ratio of at least 4.0% to be adequately capitalized and at least 6.0% to be well-capitalized and a total risk-based capital ratio (Tier 1 and Tier 2) of at least 8.0% of total risk-adjusted assets to be adequately capitalized and at least 10.0% to be well-capitalized. Tier 1 capital generally includes common shareholders equity and qualifying perpetual preferred stock together with related surpluses and retained earnings, less deductions for goodwill and various other intangibles. Tier 2 capital may consist of a limited amount of intermediate-term preferred stock, a limited amount of term subordinated debt, certain hybrid capital instruments and other debt securities, perpetual preferred stock not qualifying as Tier 1 capital, and a limited amount of the general valuation allowance for loan losses.

The Federal Reserve has also adopted guidelines which supplement the risk-based capital guidelines with a minimum ratio of Tier 1 capital to average total consolidated assets (leverage ratio) of 3.0% for institutions with well diversified risk, including no undue interest rate exposure; excellent asset quality; high liquidity; good earnings; and that are generally considered to be strong banking organizations, rated composite 1 under applicable federal guidelines, and that are not experiencing or anticipating significant growth. Other banking organizations are required to maintain a leverage ratio of at least 4.0% in order to be categorized as adequately capitalized and at least 5.0% to be categorized as well-capitalized. These rules further provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels and comparable to peer group averages, without significant reliance on intangible assets. The Bank is subject to capital adequacy guidelines of the OCC that are substantially similar to the Federal Reserve s guidelines.

Current minimum regulatory requirements call for a basic Tier 1 leverage ratio of 5.0% for an institution to be considered well-capitalized. As of December 31, 2008, we maintained a Tier 1 leverage ratio of 7.7%, significantly exceeding the ratio required for a well-capitalized institution. Regulatory authorities also evaluate a financial institution s capital under certain risk-weighted formulas (high-risk assets would require a higher capital allotment, lower risk assets a lower capital allotment). In this context, a well-capitalized financial institution is required to have a Tier 1 risk-based capital ratio (excludes allowance for loan losses) of 6.0% and a total risk-based capital ratio (includes allowance for loan losses) of 10.0%. At the end of 2008, we had a Tier 1 risk-based capital ratio of 10.1% and a total risk-based capital ratio of 11.4%. As of December 31, 2008, these ratios were below our peer averages. On January 9, 2009, we received $44 million from the U.S. Treasury (which is considered Tier 1 capital) from the sale of preferred stock, allowing us to significantly increase our ratios. If we had completed this transaction on Decembe