RENASANT CORP
Form 10-K
March 06, 2009

Table of Contents

Index to Financial Statements

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended December 31, 2008

Commission file number 001-13253

RENASANT CORPORATION
(Exact name of registrant as specified in its charter)

Mississippi (State or other jurisdiction of incorporation or organization)	64-0676974 (I.R.S. Employer Identification No.)
209 Troy Street Tupelo, Mississippi 38804-4827 (Address of principal executive offices) (Zip Code)	(662) 680-1001 (Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5.00 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES ________ NO ___X___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES ________ NO ___X___

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ___X___ NO ________

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

Indicate by check mark whether the registrant is 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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES ________ NO ___X___

As of June 30, 2008, the aggregate market value of the registrant s common stock, $5.00 par value, held by non-affiliates of the registrant, computed by reference to the last sale price as reported on The NASDAQ Global Select Market for such date, was $289,415,408.

As of February 27, 2009, 21,067,539 shares of the registrant s common stock, $5.00 par value, were outstanding. The registrant has no other classes of securities outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the 2009 Annual Meeting of Shareholders of Renasant Corporation are incorporated by reference into Part III.

Table of Contents

Index to Financial Statements

RENASANT CORPORATION

Form 10-K

For the Year Ended December 31, 2008

CONTENTS

Table of Contents

Index to Financial Statements

PART I

This Annual Report on Form 10-K may contain or incorporate by reference statements which may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and that actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to management that could cause actual results to differ materially from those in forward-looking statements include those risks identified in Item 1A, Risk Factors, of this Form 10-K and significant fluctuations in interest rates, inflation, economic recession, significant changes in the federal and state legal and regulatory environment, significant underperformance in our portfolio of outstanding loans and competition in our markets. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time.

The information set forth in this Annual Report on Form 10-K is as of February 28, 2009, unless otherwise indicated herein.

ITEM 1. BUSINESS

General

Renasant Corporation (referred to herein as the Company, we, our, or us), a Mississippi corporation incorporated in 1982, owns and operat Renasant Bank, a Mississippi banking association with operations in Mississippi, Alabama and Tennessee, and Renasant Insurance, Inc., a Mississippi corporation with operations in Mississippi. Renasant Insurance, Inc. is a wholly-owned subsidiary of Renasant Bank. Renasant Bank is referred to herein as the Bank and Renasant Insurance, Inc. is referred to herein as Renasant Insurance.

Our vision is to be the financial services advisor and provider of choice in each community we serve. With this vision in mind, management has organized the branch banks into community banks using a franchise concept. The franchise approach empowers community bank presidents to execute their own business plans in order to achieve our vision. Specific performance measurement tools are available to assist these presidents in determining the success of their plan implementation. A few of the ratios used in measuring the success of their business plan include:

return on average assets	net interest margin and spread
the efficiency ratio	fee income shown as a percentage of loans and deposits
loan and deposit growth	the number and type of services provided per household
net charge-offs to average loans	the percentage of loans past due and nonaccruing

While we have preserved decision-making at a local level, we have centralized our legal, accounting, investment, loan review, human resources, audit and data processing functions. The centralization of these processes enables us to maintain consistent quality of these functions and achieve certain economies of scale.

Our vision is further validated through our core values. These values state that (1) employees are our greatest assets, (2) quality is not negotiable and (3) clients trust is foremost. Centered on these values was the development of five different objectives that are the focal point of our strategic plan. Those objectives include: (1) client satisfaction and development, (2) financial soundness and profitability, (3) growth, (4) employee satisfaction and development and (5) shareholder satisfaction and development.

Members of our Board of Directors also serve as members of the Board of Directors of the Bank. Responsibility for the management of our Bank remains with the Board of Directors and officers of the Bank; however, management services rendered by the Company to the Bank are intended to supplement internal management and expand the scope of banking services normally offered by the Bank.

Mergers

On July 1, 2007, the Company merged with Capital Bancorp, Inc. (Capital), a bank holding company headquartered in Nashville, Tennessee. The Company issued approximately 2.8 million shares of its common stock and paid approximately $56.0 million in cash as merger consideration to the shareholders of Capital. The Company used the proceeds of its public offering of 2.76 million shares of its common stock completed in June 2007 to pay the cash portion of the merger consideration. Capital Bank & Trust Company, a wholly-owned subsidiary of

Capital

1

Table of Contents

Index to Financial Statements

with seven banking offices in the Nashville-Davidson-Murfreesboro, Tennessee Metropolitan Statistical Area, was merged into the Bank immediately after the consummation of the merger of Capital into the Company.

Operations

We have four reportable segments: a Mississippi community bank, a Tennessee community bank, an Alabama community bank and an insurance agency. Financial information about our segments, including information with respect to revenues from external customers, profit or loss and total assets for each segment, is contained in Note N, Segment Reporting, in the Notes to Consolidated Financial Statements of the Company in Item 8, Financial Statements and Supplementary Data. The description of the operations of the Bank immediately below applies to the operations of each of our three banking segments.

Operations of the Bank

Substantially all of our business activities are conducted through, and substantially all of our assets and revenues are derived from, the Bank, which is a community bank offering a complete range of banking and financial services to individuals and to small to medium-size businesses. These services include checking and savings accounts, business and personal loans, interim construction and residential mortgage loans, student loans, equipment leasing, as well as safe deposit and night depository facilities. Automated teller machines are located throughout our market area. Our Internet Banking product and our call center also provide 24-hour banking services. Accounts receivable financing is also available to qualified businesses.

On February 28, 2009, we had 63 banking and financial services offices located throughout our markets in north and north central Mississippi, west and middle Tennessee, and north and north central Alabama.

Lending Activities. Income generated by our lending activities, in the form of both interest income and loan-related fees, comprises a substantial portion of our revenue, accounting for approximately 68.03%, 71.61% and 69.24% of our total gross revenues in 2008, 2007 and 2006, respectively. Total gross revenues consist of interest income on a fully taxable equivalent basis and noninterest income. Our lending philosophy is to minimize credit losses by following strict credit approval standards, diversifying our loan portfolio and conducting ongoing review and management of the loan portfolio. The following is a description of each of the principal types of loans in our loan portfolio, the relative risk of each type of loan and the steps we take to reduce credit risk. A further discussion of our risk reduction policies and procedures can be found in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, under the heading Risk Management Credit Risk and Allowance for Loan Losses. We have omitted a discussion of lease financing, as such financing comprised only approximately 0.07% of our portfolio at December 31, 2008.

Commercial, Financial and Agricultural Loans. Commercial, financial and agricultural loans (referred to as commercial loans), which accounted for approximately 12.35% of our total loans at December 31, 2008, are customarily granted to established local business customers in our market area on a fully collateralized basis to meet their credit needs. Many of these loans have terms allowing the loan to be extended for periods of between one and five years. Loans are usually structured either to fully amortize over the term of the loan or to balloon after the third year or fifth year of the loan, typically with an amortization period not to exceed 15 years. The terms and loan structure are dependent on the collateral and strength of the borrower. The loan-to-value ratios range from 50% to 80%, depending on the type of collateral.

Commercial lending generally involves different risks from those associated with commercial real estate lending or construction loans. Although commercial loans may be collateralized by equipment or other business assets, the repayment of these types of loans depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the general business conditions of the local economy and the local business borrower s ability to sell its products and services, thereby generating sufficient operating revenue to repay us under the agreed upon terms and conditions, are the chief considerations when assessing the risk of a commercial loan. The liquidation of collateral is considered a secondary source of repayment because equipment and other business assets may, among other things, be obsolete or of limited use. To manage these risks, the Bank s policy is to secure its commercial loans with both the assets of the borrowing business and any other additional collateral and guarantees that may be available. In addition, we actively monitor certain financial measures of the borrower, including advance rate, cash flow, collateral value and other appropriate credit factors. We employ the use of commercial loan credit scoring models for smaller level commercial loans.

Table of Contents

Index to Financial Statements

Real Estate Construction. Our Real Estate Construction loans (construction loans) represented approximately 9.56% of our total loans at December 31, 2008. Our construction loan portfolio consists of loans for the construction of single family residential properties, multi-family properties and commercial projects. Maturities for construction loans generally range from 6 to 12 months for residential property and from 12 to 24 months for non-residential and multi-family properties. Construction lending entails significant additional risks compared to residential mortgage or commercial real estate lending. A significant additional risk is that loan funds are advanced upon the security of the property under construction, which is of uncertain value prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and to calculate related loan-to-value ratios. To minimize the risks associated with construction lending, we limit loan-to-value ratios to 85% of when-completed appraised values for owner-occupied and investor-owned residential or commercial properties.

Real Estate 1-4 Family Mortgage. We are active in the Real Estate 1-4 Family Mortgage area (referred to as residential real estate loans), with approximately 35.02% of our total loans at December 31, 2008 being residential real estate loans. We offer both first and second mortgages on residential real estate and loans for the preparation of residential real property prior to construction. In addition, we offer home equity lines of credit and term loans secured by first and second mortgages on the residences of borrowers for purchases, refinances, home improvements, education and other personal expenditures. Both fixed and variable rate loans are offered with competitive terms and fees. Originations of residential real estate loans are generated through either retail efforts in our branches or wholesale marketing, which involves obtaining mortgage referrals from third-party mortgage brokers. We attempt to minimize the risk associated with residential real estate loans by strictly scrutinizing the financial condition of the borrower; typically, we also limit the maximum loan-to-value ratio.

We retain loans for our portfolio when the Bank has sufficient liquidity to fund the needs of established customers and when rates are favorable to retain the loans. We also originate residential real estate loans with the intention of selling them in the secondary market to third party private investors. These loans are collateralized by one-to-four family residential real estate and are sold with servicing rights released. Mortgage loan originations to be sold are locked in at a contractual rate with third party private investors, and we are obligated to sell the mortgages to such investors only if the mortgages are closed and funded. The risk we assume is conditioned upon loan underwriting and market conditions in the national mortgage market. The Company does not actively market or originate subprime mortgage loans.

We also offer home equity loans or lines of credit as an option to borrowers who elect to utilize the accumulated equity in their homes by borrowing money through either a first or second lien home equity loan or line of credit. We limit our exposure to second lien home equity loans or lines of credit, which inherently carry a higher risk of loss upon default, by limiting these types of loans to borrowers with high credit scores.

Real Estate Commercial Mortgage. Our Real Estate Commercial Mortgage loans (commercial real estate loans) represented approximately 40.14% of our total loans at December 31, 2008. We offer commercial real estate loans to developers of commercial properties for purposes of site acquisition and preparation and other development prior to actual construction. In addition, loans in which the owner develops a property with the intention of occupying it are also included in commercial real estate loans. Because payments on these loans are often dependent on the successful development, operation and management of the properties, repayment of these loans may be affected by adverse conditions in the real estate market or the economy as a whole, in addition to the borrower s ability to generate sufficient operating revenue to repay us. If our estimate of value proves to be inaccurate, we may not be able to obtain full repayment on the loan in the event of default and foreclosure. We seek to minimize risks by limiting the maximum loan-to-value ratio and strictly scrutinizing the financial condition of the borrower, the quality of the collateral and the management of the property securing the loan. We also actively monitor such financial measures as advance rate, cash flow, collateral value and other appropriate credit factors. We generally obtain loan guarantees from financially capable parties to the transaction based on a review of personal financial statements.

Installment Loans to Individuals. Installment Loans to Individuals (or consumer loans), which represented approximately 2.86% of our total loans at December 31, 2008, are granted to individuals for the purchase of personal goods. These loans are generally granted for periods ranging between one and six years at fixed rates of interest 1% to 5% above the prime interest rate quoted in The Wall Street Journal. Loss or decline of income by the borrower due to unplanned occurrences may represent risk of default to us. In the event of default, a shortfall in the value of the collateral may pose a loss to us in this loan category. Before granting a consumer loan, we assess the applicant s credit history and ability to meet existing and proposed debt obligations. Although the applicant s creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. We obtain a lien against the collateral securing the loan and hold title until the loan is repaid in full.

Deposit Services. We offer a broad range of deposit services and products to our consumer and commercial clients. Through our community branch networks, we offer totally free consumer checking accounts with free Internet banking with bill pay and free debit cards, interest bearing checking, money market accounts and savings accounts. In addition, Renasant offers certificates of deposit, individual retirement accounts and health savings accounts.

For our commercial clients, we offer a competitive suite of cash management products which include, but are not limited to, remote deposit capture, CD ROM statements with account reconciliation, electronic statements, positive pay, ACH origination and wire transfer, wholesale and retail lockbox, investment sweep accounts, enhanced business Internet banking, outbound data exchange, multi-bank reporting and international services.

The deposit services we offer accounted for approximately 11.29%, 10.30% and 11.40% of our total gross revenues in 2008, 2007 and 2006, respectively. No material portion of our deposits has been obtained from a single or small group of customers, and the loss of any single customer s deposits or a small group of customers deposits would not have a materially adverse effect on our business. The deposits held by our Bank have been primarily generated within the market areas where the branches are located. Neither we nor the Bank have any foreign activities.

Other Products and Services. Through the Financial Services division of the Bank, we also offer a wide variety of fiduciary services and administer (as trustee or in other fiduciary or representative capacities) qualified retirement plans, profit sharing and other employee benefit plans, personal trusts and estates. In addition, the Financial Services division offers annuities, mutual funds and other investment services through a third party broker-dealer. The Financial Services division does not constitute a separately-reportable segment for financial reporting purposes.

Operations of Renasant Insurance

Renasant Insurance is a full-service insurance agency offering all lines of commercial and personal insurance through major carriers. At December 31, 2008, Renasant Insurance contributed total revenue of $4.0 million, or 1.54%, of the Company s total gross revenues and operated three offices in central and northern Mississippi.

Competition

Banking

Vigorous competition exists in all major product and geographic areas in which we conduct banking business. We compete through our Bank for available loans and depository accounts with state, regional and national banks in all of our service areas, as well as savings and loan associations, credit unions, finance companies, mortgage companies, insurance companies, brokerage firms and investment companies. All of these numerous institutions compete in the delivery of services and products through availability, quality and pricing, and many of our competitors are larger and have substantially greater resources than we do, including higher total assets and capitalization, greater access to capital markets and a broader offering of financial services.

For 2008, we maintained approximately 17% of the market share (deposit base) in our Mississippi area, approximately 2% in our Tennessee area and approximately 2% in our Alabama area. Certain markets in which we operate have demographics which we believe indicate the possibility of future growth at higher rates than other markets in which we operate. We have identified these markets, which are listed in the table below, as our key growth markets. At December 31, 2008, 82% of our loans and 63% of our deposits were located in these key markets.

The following table shows our deposit share in the counties that we consider our key markets as of June 30, 2008 (which is the latest date that such information is available):

Table of Contents

Index to Financial Statements

Market	Available Deposits (in billions)	Deposit Share
Mississippi		
Tupelo	$ 1.4	30.5%
DeSoto County	1.8	10.0%
Oxford	0.8	4.0%
Alabama		
Birmingham	19.3	0.4%
Decatur	1.6	13.3%
Huntsville/Madison	5.2	2.0%
Tennessee		
Memphis	17.5	1.5%
Nashville	21.9	1.6%
Total	$ 69.5	
Source: FDIC, dated as of June 30, 2008.		

Insurance

We encounter strong competition in our markets in which we conduct insurance operations. Through our insurance subsidiary, we compete with independent insurance agencies and agencies affiliated with other banks and/or other insurance carriers. All of these agencies compete in the delivery of personal and commercial product lines. There is no dominant insurance agency in our markets.

Supervision and Regulation

Banking

Under the current regulatory environment, nearly every facet of our banking operations is regulated pursuant to various state and federal banking laws, rules and regulations. The primary focus of these laws and regulations is the protection of depositors and the maintenance of the safety and soundness of the banking system as a whole and the insurance funds of the Federal Deposit Insurance Corporation (FDIC). While the following summary addresses the regulatory environment in which we operate, it is not intended to be a fully inclusive discussion of the statutes and regulations affecting our operations. Discussions in this section focus only on certain provisions of such statutes and regulations and do not purport to be comprehensive. Such discussions are qualified in their entirety by reference to the relevant statutes and regulations. In addition, the impact from future changes in federal or state legislation on our operations cannot be predicted.

We elected not to participate in the U.S. Treasury Department s Capital Purchase Program, which is part of the federal government s Troubled Asset Relief Program. Thus, we will not be subject to any of the regulations enacted (and to be enacted) with respect to such program. We have, however, opted to participate in the FDIC s Temporary Liquidity Guarantee Program. We do not expect that the regulations we are subject to on account of our participation in this program will have a material effect on our business or operations.

We are a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the Act), and are registered as such with the Board of Governors of the Federal Reserve System (the Federal Reserve). We are required to file with the Federal Reserve an annual report and such other information as the Federal Reserve may require. The Federal Reserve may also make examinations of us and the Bank pursuant to the Act. The Federal Reserve has the authority (which to date it has not exercised) to regulate provisions of certain types of our debt.

The Act requires a bank holding company to obtain the prior approval of the Federal Reserve before acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank that is not already majority-owned by such bank holding company. The Act further provides that the Federal Reserve shall not approve any acquisition, merger or consolidation which would result in a monopoly or which would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking. The Federal Reserve will also not approve any transaction in which the effect of the transaction might be to substantially lessen competition or in any manner amount to a restraint on trade, unless the anti-competitive effects of the proposed

Table of Contents

Index to Financial Statements

transaction are clearly outweighed by the benefits to the public interest resulting from the probable effect of the transaction in meeting the convenience and needs of the community to be served.

The Act also prohibits a bank holding company, with certain exceptions, from itself engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities. The principal exception to this prohibition is for a bank holding company engaging in or acquiring shares of a company whose activities are found by the Federal Reserve to be so closely related to banking or managing banks as to be a proper incident thereto. In making determinations whether activities are closely related to banking or managing banks, the Federal Reserve is required to consider whether the performance of such activities by a bank holding company or its subsidiaries can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition or gains in efficiency of resources and whether such public benefits outweigh the risks of possible adverse effects, such as decreased or unfair competition, conflicts of interest or unsound banking practices.

The Company and the Bank are subject to certain restrictions imposed by the Federal Reserve Act and the Federal Deposit Insurance Act on any extensions of credit to the Company or the Bank, on investments in the stock or other securities of the Company or the Bank and on taking such stock or other securities as collateral for loans of any borrower.

On November 12, 1999, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 (the Financial Services Modernization Act) was signed into law. The Financial Services Modernization Act eliminates the barriers erected by the 1933 Glass-Steagall Act and amends the Act, among other statutes. Further, it allows for the affiliation of banking, securities and insurance activities in new financial services organizations.

A dominant theme of the Financial Services Modernization Act is functional regulation of financial services, with the primary regulator of the Company or its subsidiaries being the agency which traditionally regulates the activity in which the Company or its subsidiaries wishes to engage. For example, the Securities and Exchange Commission (SEC) will regulate bank holding company securities transactions, and the various banking regulators will oversee banking activities.

The principal provisions of the Financial Services Modernization Act permit the Company, so long as it meets the standards for a well-managed and well-capitalized institution and has at least a satisfactory Community Reinvestment Act performance rating, to engage in any activity that is financial in nature, including security and insurance underwriting, investment banking and merchant banking investing in commercial and industrial companies. The Company, if it satisfies the above criteria, can file a declaration of its status as a financial holding company (FHC) with the Federal Reserve and thereafter engage directly or through nonbank subsidiaries in the expanded range of activities which the Financial Services Modernization Act identifies as financial in nature. Further, the Company, if it elects FHC status, will be able to pursue additional activities which are incidental or complementary in nature to a financial activity or which the Federal Reserve subsequently determines to be financial in nature. We have not elected to become an FHC.

Under the Reigle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Act), the Company or any other bank holding company located in Mississippi is able to acquire a bank located in any other state, and a bank holding company located outside Mississippi can acquire any Mississippi-based bank, in either case subject to certain deposit percentage and other restrictions.

The Interstate Act also provides that, unless an individual state has elected to prohibit out-of-state banks from operating interstate branches within its territory, adequately capitalized and managed bank holding companies may consolidate their multistate bank operations into a single bank subsidiary and branch interstate through acquisitions. Under Mississippi law, out-of-state bank holding companies may establish a bank in Mississippi only by acquiring a Mississippi bank or Mississippi bank holding company.

Bank holding companies are allowed to acquire savings associations under The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). Deposit insurance premiums for banks and savings associations were increased as a result of FIRREA, and losses incurred by the FDIC in connection with the default or assistance of troubled federally-insured financial institutions are required to be reimbursed by other federally-insured financial institutions.

The Bank is chartered under the laws of the State of Mississippi and as a result is subject to the supervision of, and is regularly examined by, the Department of Banking and Consumer Finance of the State of Mississippi. Certain

6

restrictions exist under Mississippi law regarding the ability of our Bank to transfer funds to us in the form of cash dividends, loans or advances. The approval of the Department of Banking and Consumer Finance of the State of Mississippi is required prior to the Bank paying dividends. The amount of any dividend is limited to earned surplus in excess of three times its capital stock. Federal Reserve regulations also limit the amount the Bank may loan to us unless such loans are collateralized by specific obligations.

The Bank s deposits are insured by the FDIC, and the Bank is subject to examination and review by that regulatory authority. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) provides for increased funding for the FDIC s Deposit Insurance Fund through risk based assessments and expands the regulatory powers of federal banking agencies to permit prompt corrective actions to resolve problems of insured depository institutions.

The Community Reinvestment Act of 1997 requires the assessment by the appropriate regulatory authority of a financial institution s record in meeting the credit needs of its local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility.

The USA PATRIOT Act of 2001 contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the IMLAFA). The IMLAFA substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States, imposes new compliance and due diligence obligations, creates new crimes and penalties, compels the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States and clarifies the safe harbor from civil liability to customers. The U.S. Treasury Department has issued a number of regulations implementing the USA PATRIOT Act that apply certain of its requirements to financial institutions such as our Bank. The regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The IMLAFA requires all financial institutions, as defined, to establish anti-money laundering compliance and due diligence programs. Such programs must include, among other things, adequate policies, the designation of a compliance officer, employee training programs and an independent audit function to review and test the program. The Company believes that it has complied with these requirements.

Insurance

Renasant Insurance is subject to licensing requirements and regulation under the laws of the United States and the State of Mississippi. The laws and regulations are primarily for the benefit of clients. In all jurisdictions, the applicable laws and regulations are subject to amendment by regulatory authorities. Generally, such authorities are vested with relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Licenses may be denied or revoked for various reasons, including the violation of such regulations, conviction of crimes and the like. Possible sanctions which may be imposed for violation of regulations include suspension of individual employees, limitations on engaging in a particular business for a specified period of time, revocation of licenses, censures and fines.

Monetary Policy and Economic Controls

We and the Bank are affected by the policies of regulatory authorities, including the Federal Reserve. An important function of the Federal Reserve is to regulate the national supply of bank credit in order to combat recession and curb inflationary pressures. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open market operations in U.S. Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These instruments are used in varying degrees to influence overall growth of bank loans, investments and deposits and may also affect interest rates charged on loans or paid for deposits.

The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to do so in the future. In view of changing conditions in the national economy and in the various money markets, as well as the effect of actions by monetary and fiscal authorities including the Federal Reserve, the effect on our, and the Bank s, future business and earnings cannot be predicted with accuracy.

Sources and Availability of Funds

The funds essential to our, and our Bank s, business consist primarily of funds derived from customer deposits, federal funds purchased, securities sold under repurchase agreements, Federal Home Loan Bank advances and

Table of Contents

Index to Financial Statements

borrowings from correspondent banks by the Bank. The availability of such funds is primarily dependent upon the economic policies of the federal government, the economy in general and the general credit market for loans.

Personnel

At December 31, 2008, we employed 866 people at all of our subsidiaries on a full-time equivalent basis. Of this total, the Bank accounted for 829 employees, and Renasant Insurance employed 37 individuals. The Company has no additional employees; however, at December 31, 2008, 18 employees of the Bank served as officers of the Company in addition to their positions with the Bank.

Dependence Upon a Single Customer

Neither we nor our subsidiaries are dependent upon a single customer or upon a limited number of customers. A discussion of concentrations of credit in our loan portfolio is set forth under the heading Risk Management Loan Concentrations in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

Available Information

Our Internet address is www.renasant.com. We make available at this address under the link SEC Filings , free of charge, our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

Table of Contents

Index to Financial Statements

Table 1 Distribution of Assets, Liabilities and Shareholders Equity; Interest Rates and Interest Differential

(In Thousands)

The following table sets forth average balance sheet data, including all major categories of interest-earning assets and interest-bearing liabilities, together with the interest earned or interest paid and the average yield or average rate paid on each such category for the years ended December 31, 2008, 2007 and 2006:

	2008			2007			2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Interest-earning assets:									
Loans[1]	$ 2,591,254	$ 167,824	6.48%	$ 2,259,634	$ 172,694	7.64%	$ 1,752,759	$ 132,861	7.58%
Securities:									
Taxable[2]	552,361	28,595	5.18	381,652	19,879	5.21	323,291	15,629	4.83
Tax-exempt	125,136	7,637	6.10	121,792	7,731	6.35	114,065	7,342	6.44
Other	20,651	547	2.65	23,931	1,539	6.43	31,220	1,807	5.79
Total interest-earning assets	3,289,402	204,603	6.22	2,787,009	201,843	7.24	2,221,335	157,639	7.10
Cash and due from banks	74,285			69,454			69,467		
Intangible assets	195,252			146,175			99,198		
Other assets	147,086			130,153			117,077		
Total assets	$ 3,706,025			$ 3,132,791			$ 2,507,077		
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand	$ 164,676	3,051	1.85	$ 159,871	4,336	2.71	$ 77,424	1,671	2.16
Savings and money market	754,233	11,993	1.59	706,253	18,413	2.61	665,752	14,346	2.15
Time deposits	1,276,862	48,465	3.80	1,271,482	61,067	4.80	990,973	41,450	4.18
Total interest-bearing deposits	2,195,771	63,509	2.89	2,137,606	83,816	3.92	1,734,149	57,467	3.31
Total other interest-bearing liabilities	772,952	28,011	3.62	340,084	18,566	5.46	237,802	12,763	5.37
Total interest-bearing liabilities	2,968,723	91,520	3.08	2,477,690	102,382	4.13	1,971,951	70,230	3.56
Noninterest-bearing deposits	292,145			279,271			261,401		
Other liabilities	42,132			40,915			27,218		
Shareholders equity	403,025			334,915			246,507		
Total liabilities and shareholders equity	$ 3,706,025			$ 3,132,791			$ 2,507,077		
Net interest income/ net interest margin		$ 113,083	3.44%		$ 99,461	3.57%		$ 87,409	3.93%

The average balances of non-accruing loans are included in this table. Weighted average yields on tax-exempt loans and securities have been computed on a fully tax-equivalent basis assuming a federal tax rate of 35% and a state tax rate of 3.3%, which is net of federal tax benefit.

(1) Includes mortgage loans held for sale and shown net of unearned income.

(2) U.S. Government and some U.S. Government Agency securities are tax-free in the states in which we operate.

Table of Contents

Index to Financial Statements

Table 2 Volume/Rate Analysis

(In Thousands)

The following table sets forth a summary of the changes in interest earned, on a tax equivalent basis, and interest paid resulting from changes in volume and rates for the Company for the years ended December 31, as indicated:

	2008 Compared to 2007			2007 Compared to 2006		
	Volume	Rate	Net[1]	Volume	Rate	Net[1]
Interest income:						
Loans [2]	$ 25,344	$ (30,214)	$ (4,870)	$ 38,400	$ 1,433	$ 39,833
Securities:						
Taxable	8,892	(176)	8,716	2,822	1,428	4,250
Tax-exempt	212	(306)	(94)	497	(108)	389
Other	(211)	(781)	(992)	(422)	154	(268)
Total interest-earning assets	34,237	(31,477)	2,760	41,297	2,907	44,204
Interest expense:						
Interest-bearing demand deposits	131	(1,416)	(1,285)	1,780	885	2,665
Savings and money market accounts	1,251	(7,671)	(6,420)	873	3,194	4,067
Time deposits	258	(12,860)	(12,602)	11,733	7,884	19,617
Other interest-bearing liabilities	23,630	(14,185)	9,445	5,490	313	5,803
Total interest-bearing liabilities	25,270	(36,132)	(10,862)	19,876	12,276	32,152
Change in net interest income	$ 8,967	$ 4,655	$ 13,622	$ 21,421	$ (9,369)	$ 12,052

(1) Changes in interest due to both volume and rate have been allocated on a pro-rata basis using the absolute ratio value of amounts calculated.

(2) Includes mortgage loans held for sale and shown net of unearned income.

Table 3 - Investment Portfolio

(In Thousands)

The following table sets forth the scheduled maturity distribution and weighted average yield based on the amortized cost of our securities portfolio as of December 31, 2008. See Note B, Securities Available for Sale, in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, for information regarding the carrying value of the investment securities listed below as of December 31, 2008, 2007 and 2006.

	One Year or Less	After One Year Through	After Five Years Through Ten Years	After Ten Years

			Five Years					
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Obligations of other U.S. Government agencies and corporations	$ 15,495	4.24%	$ 23,814	4.70%	$ 19,483	4.87%	$	
Mortgage-backed securities	720	5.02%	9,058	4.77%	51,690	4.90%	385,829	5.30%
Obligations of states and political subdivisions	5,772	6.40%	40,529	6.00%	53,298	6.02%	12,530	6.15%
Trust preferred securities							32,669	7.06%
Other equity securities							53,089	2.42%
	$ 21,987		$ 73,401		$ 124,471		$ 484,117	

The maturity of mortgage-backed securities reflects scheduled repayments based upon the contractual maturities of the securities. Weighted average yields on tax-exempt obligations have been computed on a fully tax-equivalent basis assuming a federal tax rate of 35% and a state tax rate of 3.3%, which is net of federal tax benefit.

Table of Contents

Index to Financial Statements

Table 4 Loan Portfolio

(In Thousands)

The following table sets forth loans, net of unearned income, outstanding as of December 31, 2008, which, based on remaining scheduled repayments of principal, are due in the periods indicated. Loans with balloon payments and longer amortizations are often repriced and extended beyond the initial maturity when credit conditions remain satisfactory. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported below as due in one year or less. For information regarding the loan balances in each of the categories listed below as of the end of each of the last five years, see Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, under the heading Financial Condition and Results of Operations Loan and Loan Interest Income. See Risk Management Credit Risk and Allowance for Loan Losses in such Item 7 for information regarding the risk elements applicable to, and a summary of our loan loss experience with respect to, the loans in each of the categories listed below.

	One Year or Less	After One Year Through Five Years	After Five Years	Total
Commercial, financial, agricultural	$ 176,814	$ 111,941	$ 23,893	$ 312,648
Lease financing	945	755	46	1,746
Real estate construction	128,019	101,068	12,731	241,818
Real estate 1-4 family mortgage	456,099	340,098	90,183	886,380
Real estate commercial mortgage	374,990	408,220	232,684	1,015,894
Installment loans to individuals	29,428	41,113	1,859	72,400
	$ 1,166,295	$ 1,003,195	$ 361,396	$ 2,530,886

The following table sets forth the fixed and variable rate loans maturing after one year as of December 31, 2008:

	Interest Sensitivity	
	Fixed Rate	Variable Rate
Due after one year through five years	$ 911,763	$ 91,432
Due after five years	356,279	5,117
	$ 1,268,042	$ 96,549

Table 5 Deposits

(In Thousands)

The following table shows the maturity of certificates of deposit and other time deposits over $100 at December 31, 2008:

	Certificates of Deposit	Other
Three Months or Less	$ 140,547	$ 6,428
Over Three through Six Months	156,101	3,466
Over Six through Twelve Months	101,547	6,504

Over 12 Months	163,887	12,139
	$ 562,082	$ 28,537

11

Table of Contents

Index to Financial Statements

ITEM 1A. RISK FACTORS

In addition to the other information contained in or incorporated by reference into this Form 10-K and the exhibits hereto, the following risk factors should be considered carefully in evaluating our business. The risks disclosed below, either alone or in combination, could materially adversely affect the business, financial condition or results of operations of the Company. Additional risks not presently known to us, or that we currently deem immaterial, may also adversely affect our business, financial condition or results of operations.

Risks Related To Our Business and Industry

Our business may be adversely affected by conditions in the financial markets and economic conditions in general.

In recent months, the United States economy and the global economy have experienced a severe economic downturn. Business activity across a wide range of industries and regions is greatly reduced and local governments and many businesses are in serious difficulty due to the lack of consumer spending and the lack of liquidity in the credit markets. Unemployment has also increased.

Since mid-2007, and particularly during the second half of 2008, the financial services industry and the securities markets generally were materially and adversely affected by significant declines in the values of nearly all asset classes and by a significant lack of liquidity in the credit markets. This was initially triggered by declines in home prices and the values of subprime mortgages. The global markets have since been characterized by substantially increased volatility and an overall loss of investor confidence, initially in financial institutions, but more recently in companies in a number of other industries and in the broader markets.

Declining asset values, defaults on mortgages and consumer loans, and the lack of market and investor confidence, as well as other factors, have all combined to cause rating agencies to lower credit ratings, and to otherwise increase the cost and decrease the availability of liquidity, despite very significant declines in Federal Reserve borrowing rates and other government actions. As a result of this market volatility, many banks and other institutions have suffered significant losses and have become reluctant to lend, even on a secured basis, due to the increased risk of default and the impact of declining asset values on the value of collateral. This has significantly weakened the strength and liquidity of many financial institutions worldwide, resulting in the failure or near-failure of many institutions. Despite governmental intervention both in the United States and abroad, asset values have continued to decline and access to liquidity in the credit markets continues to be very restricted.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where we operate and in the United States as a whole. We anticipate that the business environment in our markets and the United States as a whole could continue to deteriorate for the foreseeable future. If this occurs, these conditions could materially and adversely affect the credit quality of our loans as well as results of operations and financial condition.

We are subject to lending risk.

There are inherent risks associated with our lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where we operate as well as those across the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. For the reasons explained below, if current trends in the housing and real estate markets continue, we may experience higher than normal delinquencies and credit losses.

As of December 31, 2008, approximately 62.05% of our loan portfolio consisted of commercial, construction and commercial real estate loans. These types of loans are generally viewed as having more risk to our financial condition than other types of loans due primarily to the large amounts loaned to individual borrowers. Because the loan portfolio contains a significant number of commercial, construction and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

Our commercial, construction and commercial real estate loan portfolios are discussed in more detail under the caption Operations Operations of the Bank in Item 1, Business.

Table of Contents

Index to Financial Statements

We have a high concentration of loans secured by real estate.

Approximately 84.72% of our loan portfolio had real estate as a primary or secondary component of the collateral securing the loan. The real estate provides an alternate source of repayment in the event of a default by the borrower. Currently, United States real estate is experiencing severe declines in value. Although real estates values in the markets in which we operate have not declined as dramatically as in other areas of the United States, any such adverse change in our markets could significantly impair the value of the particular collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower s obligations to us. Furthermore, it is possible that, in a declining real estate market, we will be required to further increase our allowance for loan losses to address the deterioration in the value of the real estate securing our loans. Any of the foregoing could have a material adverse effect on our financial condition and results of operations.

We have a concentration of credit exposure in commercial real estate.

At December 31, 2008, we had approximately $1.0 billion in commercial real estate loans, representing approximately 40.14% of our loans outstanding on that date. In addition to the general risks associated with our lending activities described above, including the effects of declines in real estate values, commercial real estate loans are subject to additional risks. Commercial real estate loans depend on cash flows from the property to service the debt. Cash flows, either in the form of rental income or the proceeds from sales of commercial real estate, may be affected significantly by general economic conditions. A downturn in the local economy generally or in occupancy rates where the property is located could increase the likelihood of default. In addition, in light of the current downturn in United States real estate markets generally, banking regulators are giving commercial real estate lending greater scrutiny and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for possible losses and capital levels as a result of commercial real estate lending growth and exposure. Any of these factors could have a material adverse effect on our financial condition and results of operations.

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

In deciding whether to extend credit or enter into other transactions, we often rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

Our allowance for possible loan losses may be insufficient.

Although we try to maintain diversification within our loan portfolio in order to minimize the effect of economic conditions within a particular industry, management also maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on management s ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collateral impairment. Among other considerations in establishing the allowance for loan losses, management considers economic conditions reflected within industry segments, the unemployment rate in our markets, loan segmentation and historical losses that are inherent in the loan portfolio. 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. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. The current economic downturn has made it more difficult to estimate with precision the extent to which credit risks and future trends need to be addressed through a provision to our allowance for loan losses.

In addition, bank regulatory agencies periodically review the allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital and may have a material adverse effect on our financial

13

Table of Contents

Index to Financial Statements

condition and results of operations. A discussion of the policies and procedures related to management s process for determining the appropriate level of the allowance for loan losses is set forth under the caption Risk Management Credit Risk and Allowance for Loan Losses in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

We are subject to interest rate risk.

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest earned on assets, such as loans and securities, and the cost of interest-bearing liabilities, such as deposits and borrowed funds. 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 and, in particular, the Federal Reserve. Currently, to help combat the effects of the economic downturn in the United States, the Federal Reserve has indicated that it is likely to maintain a low interest rate policy with respect to its federal funds target rate for the foreseeable future. Changes in monetary policy, including changes in interest rates, could influence not only the interest we receive on loans and securities and the amount of interest we pay on deposits and borrowings, but such changes could also affect (1) our ability to originate loans and obtain deposits, which could reduce the amount of fee income generated, (2) the fair value of our financial assets and liabilities and (3) the average duration of our mortgage-backed securities portfolio. For example, higher-fixed rate mortgages may be repaid faster than anticipated if long-term mortgage rates remain low and borrowers refinance into lower rate mortgages. Further, if the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income could be adversely affected, which in turn could negatively affect our earnings. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the results of our operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations. Volatility in interest rates may also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as U.S. Government and Agency securities and other investment vehicles, including mutual funds, which generally pay higher rates of return than financial institutions because of the absence of federal insurance premiums and reserve requirements. Disintermediation could also result in material adverse effects on our financial condition and results of operations.

A discussion of the policies and procedures used to identify, assess and manage certain interest rate risk is set forth under the caption Risk Management Interest Rate Risk in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

We rely on the dividends from the Bank as our primary source of funds. The primary source of the Bank s funds are customer deposits 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, 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. Many of these conditions have arisen during the current economic downturn. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers 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 or to support growth. Such sources include Federal Home Loan Bank advances 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.

If the aforementioned sources of liquidity are not adequate for our needs, we may attempt to raise additional capital in the capital markets. Over the past months, there has been a significant decline in major stock market indices, and our stock price has suffered as well. Our ability to raise additional capital, if needed, will depend on conditions in such markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital in this manner.

If we are unable to meet our liquidity needs, we may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets.

Our business strategy includes the continuation of growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

Since 2004, we have significantly grown our business outside our Mississippi footprint through the acquisition of entire financial institutions and through de novo branching. We intend to continue pursuing a growth strategy for our business through de novo branching. In addition, although we have no current intentions regarding new acquisitions in the next few years, we expect to continue to evaluate attractive acquisition opportunities that are presented to us. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in growth stages of development, including the following:

Management of Growth. We may be unable to successfully:

- maintain loan quality in the context of significant loan growth;
- maintain adequate management personnel and systems to oversee such growth;
- maintain adequate internal audit, loan review and compliance functions; and
- implement additional policies, procedures and operating systems required to support such growth.

Operating Results. There is no assurance that existing offices or future offices will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. Our growth and de novo branching strategy necessarily entails growth in overhead expenses as we routinely add new offices and staff. Our historical results may not be indicative of future results or results that may be achieved as we continue to increase the number and concentration of our branch offices. Should any new location be unprofitable or marginally profitable, or should any existing location experience a decline in profitability or incur losses, the adverse effect on our results of operations and financial condition could be more significant than would be the case for a larger company.

Development of Offices. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our de novo branches can be expected to negatively impact our earnings for some period of time until the branches reach certain economies of scale. Our expenses could be further increased if we encounter delays in opening any of our de novo branches. We may be unable to accomplish future branch expansion plans due to a lack of available satisfactory sites, difficulties in acquiring such sites, increased expenses or loss of potential sites due to complexities associated with zoning and permitting processes, higher than anticipated merger and acquisition costs or other factors. Finally, we have no assurance our de novo branches or branches that we may acquire will be successful even after they have been established or acquired, as the case may be.

Expansion into New Markets. Much of our recent growth, and all of our growth through acquisitions, has been focused in the highly-competitive Memphis and Nashville, Tennessee and Birmingham and Huntsville, Alabama metropolitan markets. The customer demographics and financial services offerings in these markets are unlike those found in the Mississippi markets that we have historically served. In these growth markets we face competition from a wide array of financial institutions, including much larger, well-established financial institutions. Our expansion into these new markets may be unsuccessful if we are unable to meet customer demands or compete effectively with the financial institutions operating in these markets.

Regulatory and Economic Factors. Our growth and expansion plans may be adversely affected by a number of regulatory and economic developments or other events, including regulatory changes enacted in response to the current economic downturn. Failure to obtain required regulatory approvals, changes in laws and regulations or other regulatory developments and changes in prevailing economic conditions or other unanticipated events may prevent or adversely affect our continued growth and expansion. Such factors may cause us to alter our growth and expansion plans or slow or halt the growth and expansion process, which may prevent us from entering certain target markets or allow competitors to gain or retain market share in our existing or expected markets.

Failure to successfully address these issues could have a material adverse effect on our financial condition and results of operations, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our operating results could be materially adversely affected.

Table of Contents

Index to Financial Statements

We may face risks with respect to future acquisitions.

When we attempt to expand our business through mergers and acquisitions, we seek partners that are culturally similar to us, have experienced management and possess either significant market presence or have potential for improved profitability through economies of scale or expanded services. Acquiring other banks, businesses or branches involves various risks commonly associated with acquisitions, including, among other things:

- the time and costs associated with identifying and evaluating potential acquisition and merger partners;
- inaccuracies in the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution;·
- the time and costs of evaluating new markets, hiring experienced local management and opening new bank locations, 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;
- the incurrence of an impairment of goodwill associated with an acquisition and adverse effects on our results of operations;
- entry into new markets where we lack experience; and
- risks associated with integrating the operations and personnel of the acquired business, which are discussed below.

Although we have no current intentions regarding new mergers or acquisitions in the next few years, we expect to continue to evaluate merger and acquisition opportunities that are presented to us and conduct due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur at any time. Acquisitions of financial institutions may involve the payment of a premium over book and market values, and, therefore, some dilution of our book value and net income per common share may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

Details of the 2007 merger with Capital are presented in Note T, Mergers and Acquisitions, in the Notes to Consolidated Financial Statements of the Company included in Item 8, Financial Statements and Supplementary Data.

Our integration efforts following any future mergers or acquisitions may not be successful. After giving effect to an acquisition, we may not be able to achieve profits comparable to or better than our historical experience.

The success of any merger or acquisition we enter into will depend primarily on our ability to consolidate operations, systems and procedures and to eliminate redundancies and costs. We may not be able to integrate our operations without encountering difficulties, such as:

- the loss of key employees and customers;
- the disruption of our ongoing business and operations;
- our inability to maintain and increase competitive presence;
- deposit attrition and revenue loss;
- possible inconsistencies in standards, controls, procedures and policies;
- unexpected problems with costs, operations, personnel, technology and credit; and/or
- problems with the assimilation of new operations, sites or personnel.

Additionally, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our successful integration of operations.

If we have difficulties with the integration, we might not achieve the economic benefits we expect to result from the merger or acquisition. Failure to achieve these anticipated benefits could result in greater than expected costs, decreases in the amount of expected revenues and diversion of management s time and energy, all of which could materially impact our business, financial condition and results of operations. In addition, the attention and effort devoted to the integration of an acquired business may divert management s attention from other important issues

Table of Contents

Index to Financial Statements

and could seriously harm our business. Finally, cost savings from any mergers or acquisitions may be offset by losses in revenues or charges to earnings.

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

We face substantial competition in all areas of our operations from a variety of different competitors, many of which are larger and have substantially greater resources than we have, including higher total assets and capitalization, greater access to capital markets and a broader offering of financial services. Such competitors primarily include national, regional and community banks within the various markets in which we operate. We also face competition from many other types of financial institutions, including savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The information under the caption Competition in Item 1, Business, provides more information regarding the competitive conditions in our markets.

Our industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. The economic downturn in the United States has already resulted in the consolidation of a number of financial institutions, and we expect additional consolidation to occur. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures.

Our ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- the ability to expand our market position;
- the scope, relevance and pricing of products and services offered to meet customer needs and demands;
- the rate at which we introduce new products and services relative to our competitors;
- customer satisfaction with our level of service; and
- industry and general economic trends.

Failure to perform in any of these areas could significantly weaken our competitive position, which could adversely affect our growth and profitability, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Our profitability depends significantly on economic conditions in the states of Mississippi, Tennessee and Alabama.

Our success depends primarily on the general economic conditions of the states of Mississippi, Tennessee and Alabama and the specific local markets in which we operate. Unlike larger national or other regional banks that are more geographically diversified, 82% of our loans and 63% of our deposits as of December 31, 2008 were principally located in the Tupelo, Oxford and DeSoto County, Mississippi; Memphis and Nashville, Tennessee; and Birmingham, Decatur and Huntsville, Alabama metropolitan areas. Although economic conditions in these areas have not deteriorated as dramatically as in other areas of the United States, economic conditions have declined and could continue to decline. The local economic conditions in these areas have a significant impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposit funding sources.

Our earnings are significantly affected by general business and economic conditions.

In addition to the risks associated with the general economic conditions in the markets in which we operate, our operations and profitability are also impacted by general business and economic conditions in the United States and abroad. These conditions include liquidity in the credit markets, short-term and long-term interest rates, inflation, deflated money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance and the strength of the U.S. economy and the local economies in which we operate, all of which are beyond our control. A continued deterioration in economic conditions that the United States is currently experiencing could result in an increase in loan delinquencies and nonperforming assets, decreases in loan collateral values and a decrease in demand for our products and services, among other things, any of which could have a material adverse effect on our financial condition and results of operations.

17

Table of Contents

Index to Financial Statements

We may be adversely affected by the soundness of other financial institutions.

Financial services institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different industries and counterparties and from time to time execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral we hold cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit due to us. Any such losses could have a material adverse affect on our financial condition and results of operations.

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

We and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not the economic or other interests of shareholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Furthermore, we believe that it is likely that there will be changes to the regulations governing banks and other financial institutions in light of the recent performance of the financial institutions sector and the events that contributed to such performance. We are unable to predict, however, the substance of these changes or their likely effect on our activities or profitability. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of the foregoing, could affect us and/or the Bank in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things.

Under regulatory capital adequacy guidelines and other regulatory requirements, we and the Bank must meet guidelines that include quantitative measures of assets, liabilities and certain off-balance sheet items, subject to qualitative judgments by regulators about components, risk weightings and other factors. If we fail to meet these minimum capital guidelines and other regulatory requirements, our financial condition would be materially and adversely affected. Our failure to maintain the status of well capitalized under our regulatory framework could affect the confidence of our customers in us, thus compromising our competitive position. In addition, failure to maintain the status of well capitalized under our regulatory framework or well managed under regulatory examination procedures could compromise our status as a bank holding company and related eligibility for a streamlined review process for merger or acquisition proposals.

We are also subject to laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002 and SEC regulations. These laws, regulations and standards are subject to varying interpretations in many cases, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, our efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased expenses and a diversion of management time and attention.

Failure to comply with laws, regulations or policies could also result in sanctions by regulatory agencies and/or civil money penalties, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. The information under the caption Supervision and Regulation in Item 1, Business, and Note M, Regulatory Matters, in the Notes to Consolidated Financial Statements of the Company in Item 8, Financial Statements and Supplementary Data, provides more information regarding the regulatory environment in which we and the Bank operate.

Our recent results may not be indicative of our future results.

We do not expect to be able to sustain our historical rate of growth, and we may not even be able to grow our business at all. Our recent and rapid growth, which was due in large part to our mergers with Renasant Bancshares, Inc., Heritage Financial Holding Corporation (Heritage) and Capital in 2004, 2005 and 2007, respectively, may distort some of our historical financial ratios and statistics. During 2004 to 2007, we also benefited from a generally stable interest rate environment and a strong residential mortgage market. Our future rate of growth is unlikely to reflect the rate of our growth we have experienced since 2004 due to the recent deterioration in the United States and

18

the global economy and the resulting consequences of the current severe economic downturn. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected.

We may not be able to attract and retain skilled people.

Our success depends in part on our ability to retain key executives and to attract and retain additional qualified personnel who have experience both in sophisticated banking matters and in operating a bank of our size. Competition for such personnel is intense in the banking industry, and we may not be successful in attracting or retaining the personnel we require. The unexpected loss of one or more of our key personnel could have a material adverse effect on our business because of their skills, knowledge of our markets, years of industry experience and the difficulty of promptly finding qualified replacements. We expect to effectively compete in this area by offering financial packages that are competitive within the industry.

We are subject to environmental liability risk associated with lending activities.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property s value or limit our ability to use or sell the affected property. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although management has policies and procedures to perform an environmental review before the loan is recorded and before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards.

Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Severe weather, natural disasters, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Risks Associated With Our Common Stock

Our stock price can be volatile.

Stock price volatility may make it more difficult for an investor to resell our common stock when desired and at attractive prices. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the banking and financial services industry;
- perceptions in the marketplace regarding us and/or our competitors;
- new technology used, or services offered, by us or our competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

19

Table of Contents

Index to Financial Statements

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

The trading volume in our common stock is less than that of other larger bank holding companies.

Although our common stock is listed for trading on The NASDAQ Global Select Market, the average daily trading volume in our common stock is lower than other publicly traded companies, generally less than that of many of our competitors and other larger bank holding companies. For the three months ended February 28, 2009, the average daily trading volume for Renasant common stock was 84,836 shares per day. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Significant sales of our common stock, or the expectation of these sales, could cause volatility in the price of our common stock.

Our ability to declare and pay dividends is limited by law, and we may be unable to pay future dividends.

We are a separate and distinct legal entity from the Bank, and we receive substantially all of our revenue from dividends from the Bank. These dividends are the principal source of funds to pay dividends on our common stock and interest and principal on debt. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to us. In the event the Bank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common stock. The inability to receive dividends from the Bank could have a material adverse effect on our business, financial condition and results of operations. The information under Note L, Restrictions on Cash, Bank Dividends, Loans or Advances, in the Notes to Consolidated Financial Statements of the Company in Item 8, Financial Statements and Supplementary Data, provides a detailed discussion about the restrictions governing the Bank s ability to transfer funds to us.

Holders of our junior subordinated debentures have rights that are senior to those of our common shareholders.

We have supported a portion of our growth through the issuance of trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. Also, in connection with the Heritage and Capital mergers, we assumed junior subordinated debentures issued by Heritage and Capital, respectively. At December 31, 2008, we had outstanding trust preferred securities and accompanying junior subordinated debentures totaling approximately $76 million. Payments of the principal and interest on the trust preferred securities of these trusts are conditionally guaranteed by us. Further, the junior subordinated debentures we issued to the trusts are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on our junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our common stock.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this Risk Factors section and elsewhere in this Annual Report on Form 10-K and is subject to the same market forces that affect the price of common stock in any company. As a result, an investor may lose some or all of his investment in our common stock.

Our Articles of Incorporation and Bylaws, as well as certain banking laws, could decrease our chances of being acquired even if our acquisition is in our shareholders best interests.

Provisions of our Articles of Incorporation and Bylaws and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions impedes a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

Our issuance of preferred stock could adversely affect holders of our common stock and discourage a takeover.

Our shareholders authorized the Board of Directors to issue up to 5,000,000 shares of preferred stock without any further action on the part of our shareholders. Our Board of Directors also has the power, without shareholder approval, to set the terms of any series of preferred stock that may be issued, including voting rights, dividend rights,

Table of Contents

Index to Financial Statements

preferences over our common stock with respect to dividends or in the event of a dissolution, liquidation or winding up and other terms. In the event that we issue preferred stock in the future that has preference over our common stock with respect to payment of dividends or upon our liquidation, dissolution or winding up, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of the holders of our common stock or the market price of our common stock could be adversely affected. In addition, the ability of our Board of Directors to issue shares of preferred stock without any action on the part of our shareholders may impede a takeover of us and prevent a transaction favorable to our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The main office of the Company is located at 209 Troy Street, Tupelo, Mississippi. Various departments occupy each floor of the five-story building. The Technology Center, also located in Tupelo, houses electronic data processing, document preparation, document imaging, loan servicing and deposit operations. In addition, the Bank operates forty-two branches, one loan production office and one financial services office throughout north and north central Mississippi, ten branches throughout west and middle Tennessee, and nine branches throughout north and north central Alabama.

In Mississippi, the Bank has seven branches in Tupelo, three branches in Booneville, two branches each in Amory, Corinth, Oxford, Pontotoc and West Point and one branch each in Aberdeen, Batesville, Belden, Calhoun City, Coffeeville, Grenada, Guntown, Hernando, Horn Lake, Iuka, Louisville, New Albany, Okolona, Olive Branch, Saltillo, Sardis, Shannon, Smithville, Southaven, Verona, Water Valley and Winona. The Bank operates one loan production office in Hernando and one financial services office in Tupelo.

In Tennessee, the Bank operates ten branches, three branches in the Memphis area and seven branches in the Nashville area. In Memphis, the Bank operates one branch each in East Memphis, Germantown and Collierville. In Nashville, the Bank operates three branches within the city of Nashville and one branch each in Franklin, Goodlettsville, Hendersonville and Hermitage.

In Alabama, the Bank has three branches in Decatur, three branches in Birmingham and one branch each in Huntsville, Madison and Trussville.

Renasant Insurance has one office each in Corinth, Louisville and Tupelo, Mississippi.

The Bank owns the Company s main office located at 209 Troy Street, Tupelo, Mississippi as well as forty-one of the Mississippi branch office sites and financial services centers. The Bank leases three locations in Mississippi for use in conducting banking activities as well as various storage facilities. In Tennessee, the Bank owns four branch office sites. The remaining six branch office sites as well as storage facilities in Tennessee are leased. In Alabama, the Bank owns two of the branch office sites in Decatur and leases seven office sites for conducting banking activities. Renasant Insurance owns each of the three locations for conducting its business. The aggregate annual rental for all leased premises during the year ending December 31, 2008 was $2.0 million.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company, the Bank, Renasant Insurance or any other subsidiaries are a party or to which any of their property is subject, and no such legal proceedings were terminated in the fourth quarter of 2008.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the Company s security holders during the fourth quarter of 2008.

Table of Contents

Index to Financial Statements

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Dividends

The Company s common stock trades on The NASDAQ Global Select Market (NASDAQ) under the ticker symbol RNST. On February 27, 2009, the Company had approximately 7,100 shareholders of record and the closing sales price of the Company s common stock was $10.77. The following table sets forth the high and low sales price for the Company s common stock for each quarterly period for the fiscal years ended December 31, 2008 and 2007 as reported on NASDAQ, and the amount of cash dividends declared during each quarterly period during such fiscal years:

	Dividends Per Share	Prices	
		Low	High
2008			
1st Quarter	**$ 0.170**	**$ 16.96**	**$ 23.30**
2nd Quarter	**0.170**	**14.60**	**24.28**
3rd Quarter	**0.170**	**13.87**	**26.00**
4th Quarter	**0.170**	**15.00**	**22.00**
2007			
1st Quarter	$ 0.160	$ 22.88	$ 31.50
2nd Quarter	0.160	22.47	25.72
3rd Quarter	0.170	18.07	24.06
4th Quarter	0.170	19.24	23.98

The Company declares dividends on a quarterly basis. Funds for the payment of cash dividends are obtained from dividends received by the Company from the Bank. Accordingly, the declaration and payment of cash dividends by the Company depends upon the Bank s earnings, financial condition, general economic conditions, compliance with regulatory requirements and other factors. Restrictions on the Bank s ability to transfer funds to the Company in the form of cash dividends exist under federal and state law and regulations. See Note L, Restrictions on Cash, Bank Dividends, Loans or Advances, in the Notes to Consolidated Financial Statements of the Company in Item 8, Financial Statements and Supplementary Data, for a discussion of these restrictions. There restrictions do not, and are not expected in the future to, materially limit the Company s ability to pay dividends to its shareholders.

Please refer to the information under Equity Compensation Plan Information in Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for a discussion of the securities authorized for issuance under the Company s equity compensation plans.

Unregistered Sales of Equity Securities

In the second quarter of 2008, warrants to purchase 16,755 shares of the Company s common stock were exercised. These warrants were assumed by the Company in connection with its acquisition of Renasant Bancshares, Inc.

Issuer Purchases of Equity Securities

The Company did not repurchase any of its outstanding equity securities during the three month period ended December 31, 2008.

Table of Contents

Index to Financial Statements

Stock Performance Graph

The following performance graph compares the performance of our common stock to the NASDAQ Market Index and to a peer group of 49 regional southeast bank holding companies (which includes the Company) for our reporting period. The performance graph assumes that the value of the investment in our common stock, the NASDAQ Market Index and the peer group of regional southeast bank holding companies was $100 at January 1, 2004, and that all dividends were reinvested.

Performance Graph

	December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2008**
Renasant Corporation	$ 100.00	$ 102.78	$ 100.99	$ 150.02	$ 108.81	$ 89.09
Hemscott Industry Group[(1)]	100.00	114.98	116.43	137.18	93.76	55.37
NASDAQ Market Index	100.00	108.41	110.79	122.16	134.29	79.25

(1) The Hemscott Industry Group, Regional Southeast Banks, is a peer group of regional bank holding companies located in the southeast area of the United States. The bank holding companies included in this group are: Appalachian Bancshares; Atlantic Coast Federal Corporation; Auburn National Bancorporation, Inc.; BancorpSouth, Inc.; BancTrust Financial Group, Inc.; Bank of the Ozarks, Inc.; Beach First National Bancshares, Inc.; Britton & Koontz Capital Corporation; Cadence Financial Corp.; CapitalSouth Bancorp; Cardinal Financial Corporation; Centerstate Banks of Florida, Inc.; Citizens First Corporation; Colonial BancGroup, Inc.; Community Trust Bancorp, Inc.; Crescent Banking Company; Eastern Virginia Bankshares, Inc.; Farmers Capital Bank Corporation; Fauquier Bankshares, Inc.; First Advantage Bancorp; First Bancshares, Inc. MS; First Financial Services Corp.; First Horizon National Corp.; First M & F Corporation; FNB Corporation FL; FPB Bancorp, Inc.; Green Bankshares, Inc.; Hancock Holding Company; Heritage Financial Group; Home Bancorp, Inc.; Iberiabank Corporation; Midsouth Bancorp, Inc.; NB&T Financial Group, Inc.; Nexity Financial Corporation; Pinnacle Financial Partners, Inc.; Porter Bancorp, Inc.; Premier Financial Bancorp, Inc.; Regions Financial Corporation; Renasant Corporation; Republic Bancorp, Inc.; S. Y. Bancorp, Inc.; Security Bank Corporation; Simmons First National Corporation; Southcoast Financial Corporation; Superior Bancorp; Tennessee Commerce Bancorp; Trustmark Corporation; United Security Bancshares, Inc.; and Whitney Holding Corporation. Source: Media General Financial Services.

There can be no assurance that our common stock performance will continue in the future with the same or similar trends depicted in the performance graph above. We will not make or endorse any predictions as to future stock performance. The information provided under the caption Stock Performance Graph shall not be deemed to be soliciting material or to be filed with the SEC or subject to its proxy regulations or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended, other than as provided in Item 201 of Regulation S-K. The information provided in this section shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Table of Contents

Index to Financial Statements

ITEM 6. SELECTED FINANCIAL DATA[1][2]

(In Thousands, Except Share Data) (Unaudited)

Year ended December 31,	2008	2007	2006	2005	2004
Interest income	**$ 200,962**	$ 198,203	$ 154,293	$ 128,389	$ 77,024
Interest expense	**91,520**	102,382	70,230	47,963	21,796
Provision for loan losses	**22,804**	4,838	2,408	2,990	1,547
Noninterest income	**54,042**	52,187	45,943	40,216	32,287
Noninterest expense	**107,968**	98,000	89,006	83,940	60,709
Income before income taxes	**32,712**	45,170	38,592	33,712	25,259
Income taxes	**8,660**	14,069	11,467	9,503	6,816
Net income	**$ 24,052**	$ 31,101	$ 27,125	$ 24,209	$ 18,443
Per Common Share					
Net income Basic	**$ 1.15**	$ 1.66	$ 1.75	$ 1.56	$ 1.43
Net income Diluted	**1.14**	1.64	1.71	1.54	1.42
Book value at December 31	**19.00**	19.15	16.27	15.22	13.19
Closing price[3]	**17.03**	21.57	30.63	21.09	22.07
Cash dividends declared and paid	**0.680**	0.660	0.627	0.580	0.547
At December 31					
Loans, net of unearned income	**$ 2,530,886**	$ 2,586,593	$ 1,826,762	$ 1,646,223	$ 1,141,480
Securities	**695,106**	539,590	428,065	399,034	371,581
Assets	**3,715,980**	3,612,287	2,611,356	2,397,702	1,707,545
Deposits	**2,344,331**	2,547,821	2,108,965	1,868,451	1,318,677
Borrowings	**933,976**	624,388	216,423	266,505	191,547
Shareholders equity	**400,371**	399,073	252,704	235,440	179,042
Selected Ratios					
Return on average:					
Total assets	**0.65%**	0.99%	1.08%	1.03%	1.18%
Shareholders equity	**5.97%**	9.29%	11.00%	10.29%	11.52%
Average shareholders equity to average assets	**10.87%**	10.69%	9.83%	10.00%	10.21%
At December 31					
Shareholders equity to assets	**10.77%**	11.05%	9.67%	9.82%	10.49%
Allowance for loan losses to total loans, net of unearned income	**1.38%**	1.02%	1.07%	1.12%	1.26%
Allowance for loan losses to nonperforming loans	**87.45%**	162.02%	173.05%	291.94%	166.11%
Nonperforming loans to total loans, net of unearned income	**1.58%**	0.63%	0.62%	0.38%	0.76%
Dividend payout	**59.65%**	40.24%	36.67%	37.66%	38.31%

(1) Selected consolidated financial data includes the effect of mergers from the date of each merger. On July 1, 2007, the Company completed the merger with Capital Bancorp, Inc. of Nashville, Tennessee. On January 1, 2005, the Company completed the merger with Heritage

Financial Holding Corporation of Decatur, Alabama. On July 1, 2004, the Company completed the merger with Renasant Bancshares, Inc. of Germantown, Tennessee. Refer to Item 1, Business, and Note T, Mergers and Acquisitions, in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, for additional information about the Capital Bancorp, Inc. merger. For additional information about the Company s mergers with Heritage Financial Holding Corporation and Renasant Bancshares, Inc., refer to Item 1, Business, and Note T, Mergers and Acquisitions, in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, in the Company s Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on March 7, 2007.

Table of Contents

Index to Financial Statements

(2) Per share information listed above has been restated to reflect the three-for-two stock split effected in the form of a stock dividend on August 28, 2006. Please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of the financial data discussed above.

(3) Reflects the closing price on the NASDAQ Global Select Market at December 31, 2008, 2007 and 2006, on the NASDAQ National Market at December 31, 2005, and on the American Stock Exchange at December 31, 2004.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(In Thousands, Except Share Data)

Performance Overview for 2008

Net income was $24,052 for 2008 compared to $31,101 in 2007. The decline in net income was influenced by a number of factors:

Net interest income increased 14.22% to $109,442 for 2008 as compared to $95,821 for 2007. Interest income increased 1.40% to $200,962 for 2008 from $198,203 for 2007. Interest expense decreased 10.61% to $91,520 for 2008 compared to $102,382 for 2007.
Net charge-offs as a percentage of average loans increased to 0.55% in 2008 compared to 0.14% in 2007. The provision for loan losses was $22,804 for 2008 compared to $4,838 for 2007.
Noninterest income continued to be a stable source of revenue as noninterest income increased to $54,042 for 2008 compared to $52,187 for 2007. Noninterest expenses were $107,968 for 2008 compared to $98,000 for 2007.
Loans, net of unearned income, totaled $2,530,886 at December 31, 2008 while deposits totaled $2,344,331 at December 31, 2008.

A historical look at key performance indicators is presented below.

	2008	2007	2006	2005	2004
Diluted EPS	**$ 1.14**	$ 1.64	$ 1.71	$ 1.54	$ 1.42
Diluted EPS Growth	**(30.49%)**	(4.09%)	11.04%	8.45%	(2.74%)
Return on Average Assets	**0.65%**	0.99%	1.08%	1.03%	1.18%
Return on Average Shareholders Equity	**5.97%**	9.29%	11.00%	10.29%	11.52%

Certain markets in which we operate have demographics which we believe indicate the possibility of future growth at higher rates than other markets in which we operate. These markets are: Tupelo, Oxford and DeSoto County, Mississippi; Birmingham, Decatur and Huntsville/Madison, Alabama; and Germantown, Collierville, Memphis/Cordova, Tennessee, and the Nashville-Davidson-Murfreesboro, Tennessee Metropolitan Statistical Area. We have identified these markets as key growth markets, and when we refer in this item to our key markets, we are referring to such markets.

We expect future loan growth to come primarily from our key markets. It is our strategy to fund this loan growth with deposits throughout all of our markets. While we believe future deposit growth will come primarily from these key markets, deposits outside of these key markets remain valuable to us given the low cost of such deposits relative to the cost of deposits in our key markets.

Critical Accounting Policies

Our financial statements are prepared using accounting estimates for various accounts. Wherever feasible, we utilize third-party information to provide management with estimates. Although independent third parties are engaged to assist us in the estimation process, management evaluates the results, challenges assumptions used and considers other factors which could impact the estimation. The following discussion presents some of the more significant estimates used in preparing our financial statements.

Table of Contents

Index to Financial Statements

Allowance for Loan Losses

The critical accounting policy most important to the presentation of our financial statements relates to the allowance for loan losses and the related provision for loan losses. The allowance for loan losses is available to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on a ongoing analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (Statement) No. 5, Accounting for Contingencies (Statement 5). The collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under FASB Statement 114, Accounting by Creditors for Impairment of a Loan (Statement 114). The balance of the loans determined to be impaired under Statement 114 and their related allowance is included in management s estimation and analysis of the allowance for loan losses. The determination of the appropriate level of the allowance is sensitive to a variety of internal factors, primarily historical loss ratios and assigned risk ratings, and external factors, primarily the economic environment. Additionally, the estimate of the allowance required to absorb credit losses in the entire portfolio may change due to shifts in the mix and level of loan balances outstanding and in prevailing economic conditions, as evidenced by changes in real estate demand and values, interest rates, unemployment rates and energy costs. While no one factor is dominant, each could cause actual loan losses to differ materially from originally estimated amounts. For a discussion of other considerations in establishing the allowance for loan losses and our loan policies and procedures for addressing credit risk, please refer to the disclosures in this Item under the heading Risk Management Credit Risk and Allowance for Loan Losses.

Certain loans acquired in the mergers with Capital Bancorp, Inc. (Capital) and Heritage Financial Holding Corporation (Heritage) are accounted for under American Institute of Certified Public Accountants Statement of Position 03-3 (SOP 03-3). SOP 03-3 prohibits the carryover of an allowance for loan losses for loans acquired in which the acquirer concludes that it will not collect the contractual amount. As a result, these loans are carried at values which represent management s estimate of the future cash flow of these loans. Increases in expected cash flows to be collected from the contractual cash flows are required to be recognized as an adjustment of the loan s yield over its remaining life, while decreases in expected cash flows are required to be recognized as an impairment. A more detailed discussion of our SOP 03-3 loans resulting from the Capital and Heritage mergers is set forth below under the heading Risk Management Credit Risk and Allowance for Loan Losses and in Note C, Loans and the Allowance for Loan Losses, in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

Intangible Assets

Our intangible assets consist primarily of goodwill and core deposit intangibles. Goodwill arises from business combinations and represents the value attributable to unidentifiable intangible elements of the business acquired. We test our goodwill for impairment annually or more often if events or circumstances indicate impairment may exist. Adverse changes in various factors, including the prevailing economic environment and the operations of the reporting unit to which the goodwill relates (our reporting units are the ongoing operations of the entities we have acquired) could result in a decline in the estimated implied fair value of goodwill. For purposes of testing goodwill for impairment, we use both the market and income approaches to value our reporting units. The market approach averages the values derived by applying a market multiple, based on observed purchase transactions, to the book value, tangible book value, loan and deposit balances and the last twelve months of net income. The income approach consists of discounting long-term projected future cash flows, which are derived from internal forecasts and economic expectations for the respective reporting units. A variation in the market multiples, discount rates or other assumptions used in determining the estimated fair value could change the estimated fair value of the reporting unit s goodwill. If the estimated implied fair value of goodwill is less than the carrying amount, an impairment loss would be recognized as a noninterest expense to reduce the carrying amount to the estimated implied fair value which could be material to our operating results for any particular reporting period.

Other identifiable intangible assets, primarily core deposit intangibles, are reviewed at least annually for events or circumstances which could impact the recoverability of the intangible asset, such as loss of core deposits, increased competition or adverse changes in the economy. To the extent an other identifiable intangible asset is deemed unrecoverable, an impairment loss would be recorded as a noninterest expense to reduce the carrying amount. These events or circumstances, when or if they occur, could be material to our operating results for any particular reporting period.

Table of Contents

Index to Financial Statements

Benefit Plans and Stock Based Compensation

Our independent actuary firm prepares actuarial valuations of our pension cost under FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106 and 132R (Statement 158). The discount rate utilized in the December 31, 2008 valuation was 6.25%, compared to 6.50% in 2007. Actual plan assets as of December 31, 2008 were used in the calculation and the expected long-term return on plan assets assumed for this valuation was 8.00%. Actual return on plan assets during 2008 approximated (27.76%). Changes in these assumptions and estimates can materially affect the benefit plan obligation and the funded status of the plan which in turn may impact shareholders equity through an adjustment to accumulated other comprehensive income and future pension expense. The pension plan covered under FASB Statement No. 87, Employers Accounting for Pensions, was frozen as of December 31, 1996.

In January 2006, we adopted the provisions of FASB Statement No. 123R, Share-Based Payment (Statement 123R). Statement 123R requires companies to recognize compensation expense for all share-based payments to employees. We have recognized compensation expense on our share-based payments since 2002 when we adopted the provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation. We utilize the Black-Scholes model for determining fair value of our options. Determining the fair value of, and ultimately the expense we recognize related to, our stock options requires us to make assumptions regarding dividend yields, expected stock price volatility, estimated forfeitures and the expected life of the option. Changes in these assumptions and estimates can materially affect the calculated fair value of stock-based compensation and the related expense to be recognized. Due to the low historical forfeiture rate, the Company has not estimated any forfeitures in determining the fair value of options granted in 2008, 2007 and 2006. Changes in this assumption in the future could result in lower expenses related to the Company s stock option. For a description of our assumptions utilized in calculating the fair value of our share-based payments, please refer to Note K, Employee Benefit and Deferred Compensation Plans, in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

Income Taxes

Accrued taxes represent the estimated amount payable to or receivable from taxing jurisdictions, either currently or in the future, and are reported, on a net basis, as a component of other assets in the consolidated balance sheets. The calculation of our income tax expense is complex and requires the use of many estimates and judgments in its determination.

Management s determination of the realization of the net deferred tax asset is based upon management s judgment of various future events and uncertainties, including the timing and amount of future income earned by certain subsidiaries and the implementation of various tax plans to maximize realization of the deferred tax asset. Management believes that the Company and its subsidiaries will generate sufficient operating earnings to realize the deferred tax assets.

For certain business plans enacted by the Company, management bases the estimates of related tax liabilities on its belief that future events will validate management s current assumptions regarding the ultimate outcome of tax-related exposures. As part of this process, management consults with its outside advisers to assess the relative merits and risks of our proposed tax treatment of such business plans. Although we have received from these outside advisers opinions that our proposed tax treatment should prevail, the examination of our income tax returns, changes in tax law and regulatory guidance may impact the tax treatment of these transactions and resulting provisions for income taxes.

We believe we employ appropriate methods for these calculations and that the results of such calculations closely approximate the actual cost. We review the calculated results for reasonableness and compare those calculations to prior period costs. We also consider the effect of current economic conditions on the calculations.

We monitor the status of proposed and newly issued accounting standards to evaluate the impact on our financial condition and results of operations. The impact of newly issued accounting standards is discussed in further detail in Note A, Significant Accounting Policies, in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

Table of Contents

Index to Financial Statements

Financial Condition and Results of Operations

Net Income

Net income for the year ended December 31, 2008 was $24,052, which represents a decrease of $7,049, or 22.66%, from net income of $31,101 for the year ended December 31, 2007. Basic earnings per share decreased $.51 to $1.15 for the year ended December 31, 2008 as compared to $1.66 for the prior year. Diluted earnings per share decreased $.50 to $1.14 for the year ended December 31, 2008 as compared to $1.64 for the prior year. The decrease in net income and earnings per share was primarily attributable to an increase in the provision for loan losses for 2008 as compared to 2007. Earnings per share were further negatively impacted by the dilutive effect of the 5.56 million shares issued during 2007 in connection with our acquisition of Capital and the related equity offering that were outstanding for all of 2008.

Net income for the year ended December 31, 2007 was $31,101, which represents an increase of $3,976, or 14.66%, from net income of $27,125 for the year ended December 31, 2006. Net income for the year ended December 31, 2007 was reduced by $360 in after-tax merger expenses associated with the Capital merger. Basic earnings per share decreased $.09 to $1.66 for the year ended December 31, 2007 as compared to $1.75 for the prior year. Diluted earnings per share decreased $.07 to $1.64 for the year ended December 31, 2007 as compared to $1.71 for the prior year. The decrease in earnings per share in 2007 as compared to 2006 is due primarily to the dilutive effect of the aforementioned shares issued in our equity offering and the Capital merger, in the aggregate.

Net Interest Income

Net interest income, the difference between interest earned on assets and the cost of interest-bearing liabilities, is the largest component of our net income, comprising 67.66% of total net revenue in 2008. Total net revenue consists of net interest income on a fully taxable equivalent basis and noninterest income. The primary concerns in managing net interest income are the mix and the repricing of rate-sensitive assets and liabilities.

Net interest income on a tax equivalent basis increased $13,622 to $113,083 in 2008 from $99,461 in 2007. Of the increase in net interest income, the increase due to the favorable growth in the volume of net earning assets was $8,967. Net interest income was further increased by $4,655 due to management s ability to lower deposit costs or use lower costing alternative funding sources, which offset reductions in interest income due to changes in the interest rate environment.

Net Interest Margin Tax Equivalent

2008	2007	2006
3.44%	3.57%	3.93%

Net interest margin, the tax equivalent net yield on earning assets, decreased to 3.44% during 2008 from 3.57% in the prior year. Net interest margin and net interest income are influenced by several factors, primarily changes in interest rates, competition and the shape of the interest rate yield curve. Beginning in September 2007, the Federal Reserve took several measures to encourage growth in the national economy, one of which was the reduction of its overnight borrowing rate by 100 basis points over the last four months of 2007. During 2008, the Federal Reserve reduced its overnight borrowing rate an additional 400 to 425 basis points, down to a target of 0.00% to 0.25%. Additionally, other interest rate indices, specifically, the prime rate, rates paid on U.S. Treasury securities and the London Interbank Offering Rate (LIBOR) also decreased. With each reduction in these rate indices, our loan yield on variable rate loans indexed to the rates decreased. At the same time, however, competitive and liquidity factors prevented the cost of deposits (whose rates are not directly indexed to the interest rate indices described above) in several of our markets from declining proportionately. The combination of lower yields on variable rate loans due to interest rate changes and competitive factors in deposit prices caused our net interest margin to decline. In an effort to mitigate the extent to which net interest margin declined, management continued its strategy implemented in late 2007 to utilize alternative lower costing funding sources (primarily advances from the Federal Home Loan Bank (FHLB)) rather than increasing rates on deposits. Management believed the competition for deposits in our markets would eventually ease, resulting in lower deposit costs.

Interest income, on a tax equivalent basis, grew to $204,603 for 2008 from $201,843 for 2007. The growth in interest income was driven primarily by volume, as the average balance in interest-earning assets increased $502,393 during 2008, while the tax equivalent yield on earning assets decreased 102 basis points to 6.22%. The full year impact of the Capital acquisition and purchase of investment securities during 2008 were the primary reason for

the increase in the average balance of interest-earning assets. The reduction in interest rates which began in 2007 and continued through 2008 was the primary reason for the reduction in the yield of earnings assets.

Interest expense decreased to $91,520 for 2008 as compared to $102,382 for 2007. The average balance of interest bearing liabilities increased $491,033 to $2,968,723 during 2008 as compared to the average balance for 2007. The full year impact of the Capital acquisition was the primary reason for the increase in the average balance of interest-bearing liabilities. The cost of interest-bearing liabilities decreased from 4.13% in 2007 to 3.08% in 2008, or 105 basis points.

Net interest income on a tax equivalent basis increased $12,052 from $87,409 in 2006 to $99,461 in 2007. Of the tax equivalent increase, an increase of $21,421 was due to the favorable growth in net earning assets while changes in interest rates resulted in a decrease of $9,369. Interest income grew 28.04% to $201,843 for 2007 from $157,639 for 2006. The growth in interest income was driven primarily by volume, as the average balance in interest-earning assets increased $565,674 during 2007 primarily from the acquisition of Capital. The tax equivalent yield on earning assets increased 14 basis points to 7.24%. Interest expense for 2007 was $102,382 as compared to $70,230 for 2006. The average balance of interest-bearing liabilities increased $505,739 to $2,477,690 during 2007 as compared to the average balance for 2006. The cost of interest-bearing liabilities increased from 3.56% in 2006 to 4.13% in 2007, or 57 basis points.

Average Earning Assets to Total Average Assets

2008	2007	2006
88.76%	88.96%	88.60%

Average earning assets as a percentage of total average assets are shown above for the years ended December 31, 2008, 2007 and 2006. The tax equivalent yields on earning assets were 6.22%, 7.24% and 7.10% for 2008, 2007 and 2006, respectively.

Loans and Loan Interest Income

Loans, excluding mortgage loans held for sale, are the Company s most significant earning asset, comprising 68.11%, 71.61% and 69.95% of total assets at December 31, 2008, 2007 and 2006, respectively. The table below sets forth loans outstanding, according to loan type, net of unearned income, at December 31:

	2008	2007	2006	2005	2004
Commercial, financial, agricultural	**$ 312,648**	$ 317,866	$ 236,741	$ 226,203	$ 175,571
Lease financing	**1,746**	2,557	4,234	7,468	10,809
Real estate construction	**241,818**	386,184	242,669	169,543	96,404
Real estate 1-4 family mortgage	**886,380**	850,658	636,060	566,455	375,698
Real estate commercial mortgage	**1,015,894**	948,322	629,354	597,273	395,048
Installment loans to individuals	**72,400**	81,006	77,704	79,281	87,950
Total loans, net of unearned income	**$ 2,530,886**	$ 2,586,593	$ 1,826,762	$ 1,646,223	$ 1,141,480

In the above table, loans to fund residential real estate land development totaling $179,175 and $188,425 were included under the caption Real estate 1-4 family mortgage at December 31, 2008 and 2007, respectively. Loans to fund commercial real estate land development totaling $99,260 and $99,078 were included under the caption Real estate commercial mortgage at December 31, 2008 and 2007, respectively. We refer to loans to fund real estate land development, whether residential or commercial, as land development loans .

As the table above shows, at December 31, 2008 loans decreased $55,707, or 2.15%, from December 31, 2007. The decrease in total loans is a result of an overall slowdown in economic activity in our markets and a focus by management on diversifying the loan portfolio. As the general economic environment began to decline in the last half of 2007, management responded by implementing a strategy to diversify our loan portfolio. Management reduced our exposure to construction and land development loans by applying more stringent levels of underwriting on new originations of construction and land development loans and requiring principal reductions of these loans at time of renewal. Our construction loan portfolio was also reduced as construction loans were refinanced into permanent financing arrangements due to the completion of the construction phase of underlying projects and thus reclassified to commercial or residential real estate loans.

During 2008, loans in our Tennessee region grew $44,972 while loans in our Alabama and Mississippi regions decreased $59,554 and $41,125, respectively. At December 31, 2008, 82% of our loans originated in our key

Table of Contents

Index to Financial Statements

markets as compared to 81% at December 31, 2007. At December 31, 2007 loans increased $759,831, or 41.59%, from December 31, 2006, which includes $515,982 in loans acquired in connection with our merger with Capital. Organic loan growth in our Tennessee, Alabama and Mississippi region was $94,418, $87,127, and $62,304, respectively.

Our loan portfolio yield decreased to 6.48% in 2008 from 7.64% in 2007. The decrease in the loan yields was driven by a lower interest rate environment in 2008 as compared to 2007, as the interest rate indices declined beginning in the fourth quarter of 2007 and continued to decline through the fourth quarter of 2008. A higher interest rate environment in 2007 as compared to 2006 resulted in our loan portfolio yields increasing to 7.64% in 2007 from 7.58% in 2006.

Mortgage loans held for sale were $41,805 at December 31, 2008 compared to $37,468 at December 31, 2007. Originations of mortgage loans to be sold totaled $742,090 for 2008 as compared to $605,594 for 2007. The increase in originations of mortgage loans to be sold is due in part to our expansion of our mortgage operations. Mortgage loans to be sold are locked in at a contractual rate with third party private investors, and the Company is obligated to sell the mortgages to such investors only if the mortgages are closed and funded. Gains and losses are realized at the time consideration is received and all other criteria for sales treatment have been met. These loans are typically sold within thirty days after the loan is funded. Although loan fees and some interest income are derived from mortgage loans held for sale, the main source of income is gains from the sale of mortgage loans in the secondary market. The Company does not actively market or originate subprime mortgage loans. During 2008 we did not originate any subprime loans; in 2007, originations of subprime mortgage loans constituted .04% of the aggregate originations of mortgage loans. As such, our ability to sell loans in the secondary market was not significantly impacted by the national concerns regarding subprime mortgage loans. Further, we do not foresee these concerns affecting our ability to sell loans we originate to sale in the secondary market in the future.

Investments and Investment Interest Income

Investment income is the second largest component of interest income. The securities portfolio is used to provide a source for meeting liquidity needs and to supply securities to be used in collateralizing certain deposits and other types of borrowings. The following table shows the carrying value of our securities portfolio by investment type, and the percentage of such investment type relative to the entire securities portfolio, as of December 31:

	2008		**2007**		**2006**	
Obligations of other U.S. Government agencies and corporations	**$ 59,920**	**9%**	$ 116,412	21%	$ 90,950	21%
Mortgage-backed securities	**448,967**	**64**	262,047	49	203,962	48
Obligations of states and political subdivisions	**112,734**	**16**	119,550	22	110,914	26
Trust preferred securities	**20,543**	**3**	4,907	1	4,986	1
Other equity securities	**52,942**	**8**	36,674	7	17,253	4
	$ 695,106	**100%**	$ 539,590	100%	$ 428,065	100%

In 2008, investment income, on a tax equivalent basis, increased $8,622 to $36,232 from investment income on a tax equivalent basis for 2007. The average balance in the investment portfolio was $677,497, up $174,053, or 34.57%, over 2007. The tax equivalent yield on the investment portfolio was 5.35%, down 13 basis points from 2007.

The balance of our investment portfolio at December 31, 2008 increased $155,516 to $695,106 compared to $539,590 at December 31, 2007. During 2008, we purchased $326,064 in investment securities. The purchases were primarily mortgage-backed securities and collateralized mortgage obligations (CMO s), which in the aggregate made up approximately 77.00% of the purchases. CMO s are included in the Mortgage-backed securities line item in the above table. The mortgage-backed securities and CMO s held in our investment portfolio are primarily issued by government sponsored entities. U.S. Government Agency securities purchased accounted for approximately 6.10%, with the remainder of the purchases being primarily municipal securities. Maturities and calls of securities during 2008 totaled $159,506. At December 31, 2008, our investment portfolio mix changed from prior periods as a result of purchases during the year of primarily mortgage-backed securities. We favor investments in mortgage-backed securities and CMO s because these securities provide monthly cash flow streams and the yields on these securities, although taxable, are generally higher than yields on U.S. Government Agency securities. The change in portfolio mix was also impacted by the maturity and call of $76,890 in obligations of other U.S.

Table of Contents

Index to Financial Statements

Government agencies and corporations. At December 31, 2008, unrealized losses of $18,326 were recorded on investment securities with a carrying value of $91,484.

The Company holds investments in pooled trust preferred securities. At December 31, 2008, this portfolio had a cost basis of $29,669 and a fair value of $17,537. The investment in pooled trust preferred securities consists of four securities representing interests in various tranches of trusts collateralized by debt issued by over 308 financial institutions. As of December 31, 2008, management determined that there is not sufficient evidence to conclude that the decline in value of these securities is due to adverse changes that are likely to result in a permanent reduction in future cash flow. Management s determination is based on the current credit ratings, the known deferrals and defaults by the underlying issuing banks and the degree to which future deferrals and defaults would be required to occur before the cash flow for our tranches is negatively impacted.

The Company also holds investments in mortgage-backed securities and CMO s of institutions not sponsored by government entities, commonly referred to as private-label securities. At December 31, 2008, this portfolio had a cost basis of $32,860 and a fair value of $27,978. As of December 31, 2008, management determined that there is not sufficient evidence to conclude that the decline in value of these securities is due to adverse changes that are likely to result in a permanent reduction in future cash flow. Management s determination is based on the current credit ratings of the securities, analysis of the credit scores of the underlying borrowers, analysis of the loan-to-value of the underlying collateral and the geographic location of the underlying borrowers.

In 2007, investment income, on a tax equivalent basis, increased $4,639 to $27,610 from investment income on a tax equivalent basis for 2006. The average balance in the investment portfolio was $503,444, up $66,088, or 15.11%, over 2006. The tax equivalent yield on the investment portfolio was 5.48%, up 23 basis points from 2006. At December 31, 2007, the balance of our investment portfolio was $539,590, an increase of $111,525 as compared to December 31, 2006. During 2007, we purchased $167,223 in investment securities. The purchases were primarily mortgage-backed securities and CMO s, comprising approximately 61.08% of the purchases. U.S. Government Agency securities purchased accounted for approximately 18.33%, with the remainder of the purchases being primarily in municipal securities. Maturities and calls of securities during 2007 totaled $78,221.

Deposits and Deposit Interest Expense

The Company relies on deposits as its major source of funds. Total deposits were $2,344,331, $2,547,821 and $2,108,965 as of December 31, 2008, 2007 and 2006, respectively. Noninterest-bearing deposits at December 31, 2008, 2007 and 2006 were $284,227, $299,394 and $271,237, respectively, while interest-bearing deposits were $2,060,104, $2,248,427 and $1,837,728 at December 31, 2008, 2007 and 2006, respectively. The decrease in deposits at December 31, 2008 as compared to December 31, 2007 is due primarily to decreases in time deposits offset by increases in public fund transactional accounts. As competition for deposits, primarily money market accounts and time deposits, resulted in the costs of these deposits remaining higher than alternative sources of funds during 2008, the Company was more selective in pricing these deposits and instead utilized lower costing funding sources, primarily FHLB borrowings. This strategy is the primary reason for the decrease in time deposits.

The increase in deposits at December 31, 2007 as compared to December 31, 2006 is due to the merger with Capital, which increased the balance of 2007 total deposits by $490,257. Excluding deposits from Capital, deposits decreased $51,401 during 2007. The decrease in deposits occurred primarily in time deposits. We intentionally allowed $46,929 in brokered certificates of deposits acquired from Capital to expire. In addition, during the last half of 2007, rates paid on deposits, primarily time deposits, remained higher than alternative sources of funds. In response to these conditions, we were more selective in pricing time deposits and instead utilized lower costing alternative funding sources including federal funds purchased and FHLB advances. As a result, our time deposits decreased in certain regions.

Deposits in the Tennessee, Alabama and Mississippi regions decreased $115,420, $75,572 and $12,498, respectively, in 2008. Historically, rates paid on deposits have been lower in our Mississippi region than our other regions. Deposits in the Tennessee region (excluding Capital deposits) decreased $7,094 while the Alabama region decreased $27,424 during 2007. The Mississippi region s deposits grew $90,930 in 2007. At December 31, 2008, 63% of our deposits were from our key markets as compared to 67% at December 31, 2007.

Average Interest-Bearing Deposits to Total Average Deposits

2008	2007	2006
88.26%	88.44%	86.90%

31

Table of Contents

Index to Financial Statements

Interest expense on deposits was $63,509, $83,816 and $57,467 for 2008, 2007 and 2006, respectively. The cost of interest-bearing deposits was 2.89%, 3.92% and 3.31%, for the same periods. A more detailed discussion of the cost of our deposits is set forth below under the heading Liquidity and Capital Resources in this item.

From time to time, we participate in gathering public funds. Public funds may be readily obtained based on the Company s pricing bid in comparison with competitors. The source of funds that we select depends on the terms and how those terms assist us in mitigating interest rate risk and maintaining our net interest margin. Accordingly, funds are only acquired when needed and at a rate that is prudent under the circumstances. Generally, public fund time deposits are higher costing due to the volume of the deposits and because they are obtained through a bid process. Our public fund transaction accounts are principally obtained from municipalities including school boards and utilities.

Borrowed Funds and Interest Expense on Borrowings

Interest expense on total borrowings was $28,011, $18,566 and $12,763 for the years ending December 31, 2008, 2007 and 2006, respectively. Total borrowings include advances from the FHLB, junior subordinated debentures, federal funds purchased, treasury, tax and loan notes and securities sold under agreements to repurchase. FHLB advances were $768,302, $464,717 and $144,212 for the years ended December 31, 2008, 2007 and 2006, respectively. The Company had $225,000, $287,000 and $26,000 in short-term FHLB advances outstanding at December 31, 2008, 2007 and 2006, respectively. The cost of our FHLB advances was 3.43%, 4.93% and 4.52% for 2008, 2007 and 2006. At December 31, 2008, the Company had $173,099 of availability on unused lines of credit with the FHLB. As noted above, beginning in the last half of 2007 and continuing throughout most of 2008, costs of borrowings at the FHLB were lower than costs of time deposits in certain of our markets. As management anticipated, in the last few weeks of 2008, competition for deposits eased and pricing of such deposits returned to more normal conditions. Going forward, management believes it will be able to attract and garner deposits with more rational pricing strategies. Funds are borrowed from the FHLB to match-fund against certain loans, negating interest rate exposure when rates rise. Such match-funded loans are typically large commercial or real estate loans. In addition, short-term FHLB advances and federal funds purchased are used to meet day to day liquidity needs.

Interest expense on junior subordinated debentures was $4,915, $5,469 and $4,918 for the years ended December 31, 2008, 2007 and 2006, respectively. For more information about our outstanding subordinated debentures, refer to the discussion in this item below under the heading Shareholders Equity and Regulatory Matters.

The outstanding balance of treasury, tax and loan notes as of December 31, 2008, 2007 and 2006 was $4,494, $10,000 and $1,653, respectively. The balance in this account is contingent on the amount of funds we pledge as collateral as well as the Federal Reserve s need for funds.

Noninterest Income

Noninterest Income to Average Assets

2008	2007	2006
1.46%	1.66%	1.83%

Total noninterest income includes fees generated from deposit services, loan services, insurance products, trust and other wealth management products and services, security gains and all other noninterest income. Our focus over the last few years has been to develop and enhance our products that generate noninterest income in order to diversify our revenue sources. Noninterest income as a percentage of total net revenues was 32.34%, 34.41% and 34.45% for 2008, 2007 and 2006, respectively. Our mergers since 2004 are providing us with additional opportunities to further grow our noninterest income.

Noninterest income was $54,042 for the year ended December 31, 2008, an increase of $1,855, or 3.55%, as compared to 2007. For 2007, noninterest income was $52,187, an increase of $6,244, or 13.59%, over 2006. The operations of Capital contributed $3,527 to noninterest income during 2008, compared to $1,224 for the last six months of 2007.

Charges for deposit services, the primary contributor to noninterest income, were $22,645 for 2008, an increase of $2,117, or 10.31%, from 2007. Service charges on deposits in 2007 were $20,528, an increase of $2,082 from 2006. The primary reason we have experienced continued annual increases in service charges is attributable to the implementation of the High Performance Checking (HPC) program in 2003. Through the HPC program we have been able to increase the number of service-chargeable deposit accounts. Service charges include maintenance fees

on accounts, per item charges, account enhancement charges for additional packaged benefits and overdraft fees. Overdraft fees represented 90.00%, 88.51% and 86.63% of total charges for deposit services in 2008, 2007 and 2006.

Fees and commissions (which includes fees charged for both deposit services and loan services) increased 2.49% to $16,118 during 2008 as compared to $15,726 for 2007. Fees charged on loans include origination, underwriting, documentation and other administrative fees. Loan fees decreased $1,093 during 2008 to $8,124 as compared to 2007. This decrease is due to the reduction in the types of loans we retain in our portfolio, rather than sell to third parties, as reflected by the decrease in loans during the same period. With respect to fees related to deposit services, interchange fees on debit card transactions continue to be a strong source of noninterest income. For 2008, fees associated with debit card usage were $4,810, an increase of 20.18% as compared to $4,003 for 2007. Income derived from use of our debit cards made up 29.84% of the total fees and commissions for 2008. We expect income from use of our debit cards to continue to grow as we make a direct effort to encourage usage by our customers.

Fees and commissions increased $1,872 to $15,726 during 2007 as compared to $13,854 for 2006. Loan fees increased 13.86% during 2007 to $9,217 as compared to $8,095 for 2006. The increase in loan fees during 2007 is attributable to loan growth during the same period. For 2007, fees associated with debit card usage were $4,003, an increase of 24.74% as compared to $3,209 for 2006.

Income earned on insurance products was $3,483, $3,549 and $3,533 for the years ended December 31, 2008, 2007 and 2006, respectively. Through Renasant Insurance, we offer a range of commercial and personal insurance products through major insurance carriers. Contingency income is a bonus received from the insurance underwriters and is based both on commission income and claims experience on our client s policies during the previous year. Increases and decreases in contingency income are reflective of corresponding increases and decreases in the amount of claims paid by insurance carriers. Contingency income, which is included in Other noninterest income in the Consolidated Statements of Income, was $323, $265 and $152 for 2008, 2007 and 2006, respectively.

Trust department revenue is reported in the Consolidated Statements of Income in the noninterest income section in the line account Trust revenue. Trust revenue was $2,444 for 2008 compared to $2,859 for 2007. The market value of trust assets under management as of December 31, 2008 and 2007 was $461,881 and $526,347, respectively. The decline in the stock market during 2008 resulted in the reduction in trust revenue and in the market value of assets under management. Trust revenue increased $344 to $2,859 for 2007 compared to $2,515 for 2006.

The Company did not sell any securities during 2008. Gains of $78 for 2007 resulted from the sale of approximately $54,944 in securities compared to gains of $25 from the sale of approximately $35,660 in securities for 2006.

Gains on the sale of mortgage loans held for sale for 2008 were $5,447, an increase of $584, or 12.01%, from 2007. Originations of mortgage loans to be sold totaled $742,090 for 2008 as compared to $605,594 for 2007. Gains on the sale of mortgage loans held for sale for 2007 were $4,863, an increase of $1,366 from 2006.

Other noninterest income for 2008 includes a $409 gain related to the redemption of shares as a result of the Visa initial public offering. In comparison, other noninterest income for 2007 includes a $499 gain recognized from the sale of other real estate, a $141 gain resulting from insurance proceeds that exceeded the write-off of premises and equipment due to a fire and a $314 nontaxable death benefit from our life insurance policies.

Noninterest Expense

Noninterest Expense to Average Assets

2008	2007	2006
2.91%	3.13%	3.55%

Total noninterest expense includes salaries and employee benefits, data processing, net occupancy, equipment and other noninterest expense. Noninterest expense was $107,968, $98,000 and $89,006 for 2008, 2007 and 2006, respectively. Noninterest expense increased $9,968, or 10.17%, during 2008 as compared to 2007. The full year impact of the operations of Capital increased noninterest expenses by $12,376 during 2008 as compared to $6,142 for the last six months of 2007.

Salaries and employee benefits is the largest component of noninterest expenses and represented 53.16%, 56.11%, and 55.91% of total noninterest expense at December 31, 2008, 2007 and 2006, respectively. During 2008, salaries and employee benefits increased $2,410, or 4.38%, to $57,400 as compared to $54,990 for 2007. The operations of

Table of Contents

Index to Financial Statements

Capital contributed $5,680 to salaries and employee benefits expense during 2008 offset by a reduction in performance-based incentive payments in 2008 as compared to 2007.

During 2007, salaries and employee benefits increased $5,230, or 10.51%, to $54,990 as compared to $49,760 for 2006. The additional salaries and employee benefits expense from Capital were $3,285 for 2007. Nonrecurring expense due to duplicate staff at our headquarters and in our Nashville operations needed to facilitate the consolidation of back office functions related to the merger totaled $148. The remaining increase in salaries and employee benefits was primarily due to normal annual salary increases and increases in health care benefits.

The compensation expense recorded in connection with grants of stock options and awards of restricted stock, which is included within salaries and employee benefits, was $1,014, $1,444 and $1,471 at December 31, 2008, 2007 and 2006, respectively.

Data processing costs increased $324, or 6.63%, to $5,209 for 2008 from 2007. Data processing costs increased $604, or 14.11%, to $4,885 for 2007 from 2006. The increase in data processing costs for 2007 is reflective of increased loan and deposit processing from growth in the number of loans and deposits. In 2007, data processing costs were further increased by the merger with Capital.

Net occupancy expense in 2008 was $8,592, up $593 from 2007. The increase is due primarily to the full year inclusion of Capital in the Company s operations. Our strategic focus is to evaluate opportunities to expand our footprint throughout our markets and, thus, we expect to continue to experience gradual increases in our occupancy and equipment expense as expansion occurs. Occupancy expense in 2007 was $7,999, up $843 from 2006 primarily due the acquisition of Capital.

Computer and equipment expense in 2008 was $4,703, an increase of $495, or 11.76%, over 2007. Computer and equipment expense in 2007 was $4,208, an increase of $329 over 2006. The increase in computer and equipment expense is associated with additional equipment expense from the operations of Capital.

Professional fees include fees we paid our directors as well as fees for legal and accounting services. Professional fees were $3,509 for 2008 as compared to $2,705 for 2007 and $2,478 for 2006.

Amortization of intangible assets increased $464 to $2,455 for 2008 compared to $1,991 for 2007. In connection with the Capital, Heritage and Renasant Bancshares, Inc. mergers, we recorded $5,974, $5,224 and $5,801, respectively, in finite-lived intangible assets. These intangible assets are being amortized over their estimated useful lives, which range between 5-10 years. Amortization of intangible assets increased $352 to $1,991 for 2007 compared to $1,639 for 2006.

Efficiency Ratio

2008	2007	2006
64.60%	64.62%	66.75%

One measure of productivity in the banking industry is sometimes referred to as the efficiency ratio . This ratio is calculated to measure the cost of generating one dollar of revenue. That is, the ratio is designed to reflect the percentage of one dollar which must be expended to generate that dollar of revenue. The Company calculates this ratio by dividing noninterest expense by the sum of net interest income on a fully taxable equivalent basis and noninterest income. Our continued improvement in the efficiency ratio is attributable to growing our net interest income and noninterest income at a greater rate than the growth in our noninterest expenses. We remain committed to aggressively managing our costs within the framework of our business model.

Income Taxes

Income tax expense for 2008, 2007 and 2006 was $8,660, $14,069 and $11,467, respectively. The effective tax rates for those years were 26.47%, 31.15% and 29.71%, respectively. The effective tax rate for these periods is less than the combined federal and state statutory rates due to our continued investment in tax-exempt securities and tax-free leases and loans. In both 2007 and 2006, we recorded nontaxable death benefits from life insurance.

Risk Management

The management of risk is an on-going process. Primary risks that are associated with the Company include credit, interest rate and liquidity risk. Credit and interest rate risk are discussed below, while liquidity risk is discussed in the next subsection under the heading Liquidity and Capital Resources.

Table of Contents

Index to Financial Statements

Credit Risk and Allowance for Loan Losses

Inherent in any lending activity is credit risk, that is, the risk of loss should a borrower default. Credit risk is monitored and managed by a credit administration department, loan committees and a loss management committee. Credit quality and policies are major concerns of credit administration and these committees. We try to maintain diversification within our loan portfolio in order to minimize the effect of economic conditions within a particular industry.

The allowance for loan losses is available to absorb probable credit losses inherent in the entire loan portfolio. The appropriate level of the allowance is based on a quarterly analysis of the loan portfolio and represents an amount that management deems adequate to provide for inherent losses, including collective impairment as recognized under Statement 5. The collective impairment is calculated based on loans grouped by grade. Another component of the allowance is losses on loans assessed as impaired under Statement 114. The balance of these loans determined as impaired under Statement 114 and their related allowance is included in management s estimation and analysis of the allowance for loan losses. Other considerations in establishing the allowance for loan losses include economic conditions reflected within industry segments, the unemployment rate in our markets, loan segmentation and historical losses that are inherent in the loan portfolio. If the allowance is deemed inadequate, management provides additional reserves through the provision for loan losses. The allowance for loan losses was $34,905, $26,372 and $19,534 at December 31, 2008, 2007 and 2006, respectively.

We have a number of documented loan policies and procedures that set forth the approval and monitoring process of the lending function. Adherence to these policies and procedures is monitored by management and the Board of Directors. A number of committees and an underwriting staff oversee the lending operations of the Company. These include in-house loan and loss management committees and a Board of Directors loan committee. In addition, we maintain a loan review staff.

In compliance with policy, the lending staff is given lending limits based on their knowledge and experience. In addition, each lending officer s prior performance is evaluated for credit quality and compliance as a tool for establishing and enhancing lending limits. Before funds are advanced on consumer and commercial loans below certain dollar thresholds, loans are reviewed and scored by the underwriters. Grades are assigned based upon certain factors, which include the scoring of the loans. This information is used to assist management in monitoring the credit quality. Loan requests of amounts greater than the officers lending limits are reviewed by senior credit officers, in-house loan committees or the Board of Directors.

The allowance for loan losses is established after input from management, loan review and the Loss Management Committee. An evaluation of the adequacy of the allowance is calculated quarterly based on the types of loans, the credit risk in the portfolio, economic conditions and trends within each of these factors.

Grades are assigned by lending personnel based on the scoring of the loans that are funded. Loan grades range from 1 to 9, with 1 being loans with the least credit risk. Allowance factors established by management are applied to each grade to determine the amount needed in the allowance for loan losses. The allowance factors are established based on our loss experience by loan type (i.e. commercial, mortgage, consumer, etc.) and adjusted for trends and expectations about losses inherent in our existing portfolios. In making these adjustments to the allowance factors, management takes into consideration factors which it believes are causing, or are likely in the future to cause, losses within our loan portfolio but which may not be fully reflected in our historical loss ratios. In 2008, these factors included changes in economic conditions, changes in our loan portfolio composition and concentrations in certain loan types and/or collateral. For impaired loans, a specific reserve is established to adjust the carrying value of the loan to its estimated net realizable value.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for problem loans of $50 or greater by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price or the fair value of the collateral if the loan is collateral dependent. When the ultimate collectibility of a loan s principal is in doubt, wholly or partially, the loan is placed on nonaccrual.

Loan review personnel monitor the grades assigned to loans through periodic examination. The Loss Management Committee monitors loans that are past due or those that have been downgraded due to a decline in the collateral value or cash flow of the debtor and adjusts the loan grade accordingly. This information is used to assist management in monitoring credit quality.

Table of Contents

Index to Financial Statements

Foreclosure proceedings are initiated after all collection efforts have failed. The collateral is purchased from the borrower at public auction for fair market value, with fees associated with the foreclosure being deducted from the sales price. The purchase price is applied to the outstanding loan balance. If the loan balance is greater than the sales proceeds, the deficient balance is sent to the loan committee (comprised of the Board of Directors) for charge-off approval. These charge-offs reduce the allowance for loan losses.

On a regular basis, management and the Board of Directors review loan ratios. These ratios include the allowance for loan losses as a percentage of total loans, net charge-offs as a percentage of average loans, the provision for loan losses as a percentage of average loans, nonperforming loans as a percentage of total loans and the allowance coverage on nonperforming loans. In addition, management reviews past due ratios by officer, community bank and the Company as a whole.

Charge-offs reflect the realization of losses in the portfolio that were recognized previously through the provision for loan losses. Net charge-offs for the year ended December 31, 2008 were $14,271, or 0.55% as a percentage of average loans. The increase in net charge-offs during 2008 as compared to prior years is a direct result of the current economic environment s effect on the quality of our loan portfolio, specifically with respect to construction and land development loans. Although many of the markets in which we operate did not experience the extreme appreciation in home values as experienced in other national markets over the past few years, the housing market in all of our markets began to slow down significantly in 2008. The large inventories of both completed residential homes and land that had been developed for future residential home construction, coupled with declining consumer demand for residential real estate, caused a severe decline in the values of both homes and developed land. As a result, the credit quality of some of our loans in the construction and land development portfolios deteriorated. Of the net charge-offs incurred in 2008, $2,257 or 15.82% were related to construction loans, $6,449, or 45.19% were related to residential land development loans and $50 or .40% were related to commercial land development loans. Net charge-offs for the year ended December 31, 2007 were $3,253, or 0.14% as a percentage of average loans. Two loans which had been on nonperforming status since 2006 and had been fully reserved for in the allowance for loan losses when they were placed on nonperforming status were charged-off in the fourth quarter of 2007, resulting in charge-offs of $1,870, or 0.08% of average loans.

The table below reflects the activity in the allowance for loan losses, in thousands, for the years ended December 31. Net charge-offs related to residential land development loans are included in the category Real estate 1-4 family mortgages while commercial land development loans are included in the category Real estate commercial mortgages in the table below. Furthermore, we have omitted lease financing from the table, as there were no charge-offs or recoveries of such financing for the periods presented.

	2008	**2007**	**2006**	**2005**	**2004**
Balance at beginning of year	**$ 26,372**	$ 19,534	$ 18,363	$ 14,403	$ 13,232
Additions from business combinations		5,253		4,214	2,845
Provision for loan losses	**22,804**	4,838	2,408	2,990	1,547
Charge-offs					
Commercial, financial, agricultural	**623**	253	659	467	1,685
Real estate construction	**2,383**	1,939	222	141	
Real estate 1-4 family mortgage	**11,224**	1,293	1,762	2,027	1,083
Real estate commercial mortgage	**1,077**	2	217	419	125
Installment loans to individuals	**376**	612	222	832	724
Total charge-offs	**15,683**	4,099	3,082	3,886	3,617
Recoveries					
Commercial, financial, agricultural	**207**	278	501	71	132
Real estate construction	**126**	29		32	
Real estate 1-4 family mortgage	**237**	229	249	279	66
Real estate commercial mortgage	**41**	156	1,014	35	8
Installment loans to individuals	**801**	154	81	225	190
Total recoveries	**1,412**	846	1,845	642	396
Net charge-offs	**14,271**	3,253	1,237	3,244	3,221

Balance at end of year	**$ 34,905**	$ 26,372	$ 19,534	$ 18,363	$ 14,403

Table of Contents

Index to Financial Statements

Net charge-offs to:					
Loans-average	**0.55%**	0.14%	0.07%	0.20%	0.32%
Allowance for loan losses	**40.89%**	12.34%	6.33%	17.67%	22.36%
Allowance for loan losses to:					
Loans-year end	**1.38%**	1.02%	1.07%	1.12%	1.26%
Nonperforming loans	**87.45%**	162.02%	173.05%	291.94%	166.11%
Nonperforming loans to:					
Loans-year end	**1.58%**	0.63%	0.62%	0.38%	0.76%
Loans-average	**1.54%**	0.72%	0.64%	0.39%	0.87%

The allowance for loan losses as a percentage of loans was 1.38% at December 31, 2008 as compared to 1.02% at December 31, 2007 and 1.07% at December 31, 2006. The increase in the allowance for loan losses as a percentage of total loans at December 31, 2008 as compared to December 31, 2007 is attributable to the increased provision for loan losses recorded as a result of credit deterioration identified by the Company in the loan portfolio, primarily related to the construction and land development loan segment of the portfolio. The decrease in the allowance for loan losses as a percentage of loans at December 31, 2007 as compared to December 31, 2006 is due to organic loan growth of $243,849, the merger with Capital, whose allowance for loan losses as a percentage of loans was lower than ours, and the aforementioned charge-off of two loans totaling $1,870 which had been provided for in previous years.

The SOP 03-3 loans acquired in the Capital and Heritage mergers are carried at values which, in management s opinion, reflect the estimated future cash flows, based on the facts and circumstances surrounding each respective loan at the date of acquisition. We continually monitor these loans as part of our normal credit review and monitoring procedures for changes in the estimated future cash flows. The Company did not increase the provision for loan losses for loans accounted for under SOP 03-3 during 2008 or 2007. Management believes that as of December 31, 2008 the credit quality of the loans accounted for under SOP 03-3 has not deteriorated further since the date of acquisition and, thus, the carrying value of these loans at December 31, 2008 continues to reflect the future cash flows.

The following table presents the allocation of the allowance for loan losses by loan category at December 31 for each of the years presented.

(In Thousands)	**2008**	2007	2006	2005	2004
Commercial, financial, agricultural	**$ 5,238**	$ 5,583	$ 4,570	$ 4,484	$ 3,437
Lease financing	**8**	12	19	22	97
Real estate construction	**6,590**	2,613	982	577	447
Real estate 1-4 family mortgage	**10,514**	8,219	6,481	6,199	4,638
Real estate commercial mortgage	**10,775**	8,756	6,498	6,216	4,854
Installment loans to individuals	**1,780**	1,189	984	865	930
Total	**$ 34,905**	$ 26,372	$ 19,534	$ 18,363	$ 14,403

The following table quantifies the amount of the specific reserves component of the allowance for loan losses and the amount of the allowance determined by applying allowance factors to graded loans at December 31 for each of the years presented:

(In Thousands)	**2008**	2007	2006	2005	2004
Specific reserves	**$ 8,769**	$ 3,625	$ 4,377	$ 3,985	$ 2,786
Allocated reserves based on loan grades	**26,136**	22,747	15,157	14,378	11,617
Total	**$ 34,905**	$ 26,372	$ 19,534	$ 18,363	$ 14,403

Table of Contents

Index to Financial Statements

Nonperforming loans are those on which the accrual of interest has stopped or loans which are contractually past due 90 days, on which interest continues to accrue. Generally, the accrual of income is discontinued when the full collection of principal or interest is in doubt or when the payment of principal or interest has been contractually 90 days past due, unless the obligation is both well secured and in the process of collection. Management, the Loss Management Committee and our loan review staff closely monitor loans that are considered to be nonperforming. Restructured loans are those for which concessions have been granted to the borrower due to a deterioration of the borrower s financial condition. Such concessions may include reduction in interest rates or deferral of interest or principal payments. The following table shows the principal amounts of nonperforming and restructured loans at December 31:

(In Thousands)	**2008**	2007	2006	2005	2004
Nonperforming loans:					
Nonaccruing	**$ 35,661**	$ 14,231	$ 7,821	$ 3,984	$ 6,443
Accruing loans past due 90 days or more	**4,252**	2,046	3,467	2,306	2,228
Total nonperforming loans	**39,913**	16,277	11,288	6,290	8,671
Restructured loans	**1,270**	543	768	116	760
Total nonperforming and restructured loans	**$ 41,183**	$ 16,820	$ 12,056	$ 6,406	$ 9,431
Interest income recognized on nonaccruing and restructured loans	**$ 1,597**	$ 807	$ 233	$ 231	$ 126
Interest income foregone on nonaccruing and restructured loans	**$ 538**	$ 277	$ 486	$ 216	$ 296

The following table presents nonperforming loans by loan category at December 31 for each of the years presented.

(In Thousands)	**2008**	2007	2006	2005	2004
Commercial, financial, agricultural	**$ 1,612**	$ 140	$ 574	$ 652	$ 677
Lease financing				74	162
Real estate construction	**6,451**	3,671	3,721	178	794
Real estate 1-4 family mortgage	**25,517**	9,199	5,160	2,804	5,520
Real estate commercial mortgage	**6,191**	3,133	1,630	2,355	1,293
Installment loans to individuals	**142**	134	203	227	225
Total	**$ 39,913**	$ 16,277	$ 11,288	$ 6,290	$ 8,671

All loans where information exists about possible credit problems that would cause us to have serious doubts about the borrower s ability to comply with the current repayment terms of the loan have been reflected in the table above. As of December 31, 2008, we do not hold any other interest-bearing assets that would be included in the table above if such assets were loans.

As shown in the above tables, nonperforming loans were $39,913 at December 31, 2008 as compared to $16,277 at December 31, 2007. The increase in nonperforming loans at December 31, 2008 as compared to December 31, 2007 is primarily attributable to continued credit deterioration in our construction and residential land development loans. Nonperforming residential land development loans are included in the category Real estate 1-4 family mortgages in the above table and have a balance of $18,144, or 45.46% of total nonperforming loans, at December 31, 2008 compared to $3,915, or 24.05% of total nonperforming loans, at December 31, 2007. There were no commercial land development loans classified as nonperforming loans at December 31, 2007 or 2008. Overall, the increase in nonperforming loans at December 31, 2007 as compared to December 31, 2006 is reflective of loans, primarily construction loans and real estate loans to fund land development, which experienced cash flow problems in the second half of 2007. As the housing slowdown began to impact the economy, management required the senior credit officers to review and inspect all construction loans and commercial and residential real estate loans to fund land development. Several of the loans included in nonperforming loans as of December 31, 2007 were identified during this review. The merger with Capital increased nonperforming loans $1,496 at December 31, 2007. Management has evaluated the aforementioned loans and other loans classified as nonperforming and concluded that all nonperforming loans have been adequately reserved for in the allowance for loan losses at December 31, 2008.

Table of Contents

Index to Financial Statements

Management also continually monitors loans past due 30-89 days for potential credit quality deterioration. Total loans past due 30-89 days were $48,473, $28,330 and $13,125 at December 31, 2008, 2007 and 2006, respectively.

Provision for Loan Losses to Average Loans

2008	2007	2006
0.88%	0.21%	0.14%

The provision for loan losses charged to operating expense is an amount which, in the judgment of management, is necessary to maintain the allowance for loan losses at a level that is adequate to meet the inherent risks of losses in our loan portfolio. The provision for loan losses was $22,804, $4,838 and $2,408 for 2008, 2007 and 2006, respectively. Factors considered in management s assessment for the periods presented include the internal risk rating of individual credits, the size and diversity of our loan portfolio, historical and current trends in net charge-offs, trends in nonperforming loans, trends in loans past due 30-89 days and current economic conditions in the markets in which we operate. Specifically, management increased the provision for loan losses during 2008 as compared to 2007 as a result of credit deterioration identified by management and reflected in the increase in net charge-offs, nonperforming loans and loans past due 30-89 days. The increase in the provision for loan losses for 2007 as compared to 2006 is due to the Company providing for organic loan growth, replenishing the reserve for loan charge-offs during the year and providing for loans placed on nonperforming status.

Loan Concentrations

The following table presents the percentage of loans, by category, to total loans at December 31 for each of the years presented:

	2008	2007	2006	2005	2004
Commercial, financial, agricultural	**12.35%**	12.29%	12.96%	13.74%	15.38%
Lease financing	**0.07**	0.10	0.23	0.45	0.95
Real estate construction	**9.56**	14.93	13.28	10.30	8.45
Real estate 1-4 family mortgage	**35.02**	32.89	34.82	34.41	32.91
Real estate commercial mortgage	**40.14**	36.66	34.45	36.28	34.61
Installment loans to individuals	**2.86**	3.13	4.26	4.82	7.70
Total	**100.00%**	100.00%	100.00%	100.00%	100.00%

Loan concentrations are considered to exist when there are amounts loaned to a number of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. At December 31, 2008, there were no concentrations of loans exceeding 10% of total loans which are not disclosed as a category of loans separate from the categories listed above.

Interest Rate Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The majority of assets and liabilities of a financial institution are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets and inventories. Our market risk arises primarily from interest rate risk inherent in lending and deposit-taking activities. Management believes the most significant impact on the Company s financial results stems from our ability to react to changes in interest rates. To that end, management actively monitors and manages our interest rate risk exposure.

We have an Asset/Liability Committee (ALCO) which is authorized by the Board of Directors to monitor our interest rate sensitivity and to make decisions relating to that process. The ALCO s goal is to structure our asset-liability composition to maximize net interest income while managing interest rate risk so as to minimize the adverse impact of changes in interest rates on net interest income and capital. Profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact our earnings because the interest rates borne by assets and liabilities do not change at the same speed, to the same extent or on the same basis. We monitor the impact of changes in interest rates on our net interest income and economic value of equity (EVE) using rate shock analysis. Net interest income simulations measure the short-term earnings exposure from changes in market rates of interest in a more rigorous and explicit fashion. Our current financial position is combined with assumptions regarding future business to calculate net interest income under varying hypothetical rate scenarios. The EVE measures our long-term earnings exposure from changes in market rates of interest. EVE is defined as the present value of assets minus the present value of liabilities at a point in time. A decrease in EVE due to a specified

Table of Contents

Index to Financial Statements

rate change indicates a decline in the long-term earnings capacity of the balance sheet assuming that the rate change remains in effect over the life of the current balance sheet.

The following rate shock analysis depicts the estimated impact on net interest income and EVE of immediate changes in interest rates at the specified levels at December 31:

Change in Interest Rates (In Basis Points)	Percentage Change In: Net Interest Income [(1)]		Economic Value of Equity [(2)]	
	2008	2007	2008	2007
+200	**8.9%**	(10.7%)	**10.8%**	6.6%
+100	**5.0%**	(5.2%)	**8.5%**	5.8%
-100	**(4.1%)**	3.2%	**(9.0%)**	(8.4%)
-200	**(5.9%)**	3.9%	**(17.0%)**	(11.1%)

(1) The percentage change in this column represents net interest income for 12 months in a stable interest rate environment versus the net interest income in the various rate scenarios.

(2) The percentage change in this column represents our EVE in a stable interest rate environment versus the EVE in the various rate scenarios.

The preceding measures assume no change in asset/liability compositions. Thus, the measures do not reflect actions the ALCO may undertake in response to such changes in interest rates. The balance sheet structure as of December 31, 2008 indicates we are asset sensitive, while we were liability sensitive at December 31. 2007. This shift is primarily a result of the current interest rate environment, as management believes interest rates will not appreciably decrease further. The above results of the interest rate shock analysis are within the limits set by the Board of Directors. The scenarios assume instantaneous movements in interest rates in increments of 100 and 200 basis points. With the present position of the target federal funds rate, the declining rate scenarios seem improbable. Further, it has been the Federal Reserve s policy to adjust the target federal funds rate incrementally over time. As interest rates are adjusted over a period of time, it is our strategy to proactively change the volume and mix of our balance sheet in order to mitigate our interest rate risk. The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions regarding characteristics of new business and the behavior of existing positions. These business assumptions are based upon our experience, business plans and published industry experience. Key assumptions employed in the model include asset prepayment speeds, competitive factors, the relative price sensitivity of certain assets and liabilities and the expected life of non-maturity deposits. Because these assumptions are inherently uncertain, actual results will differ from simulated results.

To mitigate our interest rate risk, we entered into an interest rate swap in December 2007. The swap has a notional amount of $31,000 whereby we receive a variable rate of interest based on the three-month LIBOR plus 187 basis points and pay a fixed rate of 5.70%. The effective date of this swap was December 5, 2007 and its maturity date is March 15, 2010. The interest rate swap is a designated cash flow hedge designed to convert the variable interest rate on $31,000 of our junior subordinated debentures to a fixed rate. At December 31, 2008, the rate paid to us by the third-party was 114 basis points lower than the rate we paid on this swap.

The Company enters into mortgage loan commitments with its customers. Under the mortgage loan commitments, interest rates for a mortgage loan are locked in with the customer for a period of time, typically thirty days. Once a mortgage loan commitment is entered into with a customer, the Company enters into a sales agreement with an investor in the secondary market to sell such loan on a best efforts basis. As such, the Company does not incur risk if the mortgage loan commitment in the pipeline fails to close. Other than mortgage loan commitments and the interest rate swaps, we have not entered into any other derivative activities.

Liquidity and Capital Resources

Liquidity management is the ability to meet the cash flow requirements of customers who may be either depositors wishing to withdraw funds or borrowers needing assurance that sufficient funds will be available to meet their credit needs.

Core deposits, which are deposits excluding time deposits, are a major source of funds used by the Bank to meet cash flow needs. Maintaining the ability to acquire these funds as needed in a variety of markets is the key to

Table of Contents

Index to Financial Statements

assuring the Bank s liquidity. Management continues to monitor the liquidity and potentially volatile liabilities ratios to ensure compliance with ALCO targets. As previously discussed, beginning in the last half of 2007 and continuing throughout most of 2008, the cost of borrowings from the FHLB was lower than the cost of certain types of deposits in our markets. As management anticipated, in the last few weeks of 2008, competition for deposits eased and pricing of such deposits returned to more normal levels. Going forward, management believes it will be able to attract and garner deposits by offering rates that are favorable compared to the cost of FHLB borrowings.

Our securities portfolio is another alternative for meeting liquidity needs. These assets have readily available markets that offer conversions to cash as needed. Within the next twelve months the securities available for sale portfolio is forecasted to generate cash flow through maturities equal to 48.72% of the carrying value of the total securities portfolio. Securities within our investment portfolio are also used to secure certain deposit types and short-term borrowings. At December 31, 2008, securities with a carrying value of approximately $468,640 were pledged to secure government, public and trust deposits and as collateral for short-term borrowings as compared to $414,361 at December 31, 2007. Other sources available for meeting liquidity needs include federal funds purchased and advances from the FHLB. Interest is charged at the market federal funds rate on federal funds purchased and FHLB advances. Federal funds purchased at December 31, 2008 totaled $63,800. Funds obtained from the FHLB are used primarily to match-fund real estate loans and other longer-term fixed rate loans in order to minimize interest rate risk and may be used to meet day to day liquidity needs (primarily when the cost of such borrowing compares favorably to the rates that we would be required to pay to attract deposits). As of December 31, 2008, the balance of our outstanding short-term and long-term advances with the FHLB was $768,302. The total amount of the remaining credit available to us from the FHLB at December 31, 2008 was $173,099. We also maintain lines of credits with other commercial banks totaling $75,500. These are unsecured lines of credit maturing at various times within the next twelve months. At December 31, 2008 and 2007, there were no amounts outstanding under these lines of credit.

At December 31, 2008, our total cost of funds, including noninterest bearing demand deposit accounts, was 2.81%, compared to 3.71% at December 31, 2007 and 3.14% at December 31, 2006. Noninterest bearing demand deposit accounts made up approximately 8.96% of our average total deposits and borrowed funds at that date, compared to 10.13% at December 31, 2007 and 11.70% at December 31, 2006. Interest bearing transaction accounts, money market accounts and savings accounts made up approximately 28.18% of our funds for 2008 and had an average cost of 1.64%, comparable to 31.42% of our funds with an average cost of 2.63% for 2007 and 33.28% of our funds with an average cost of 2.16% for 2006. Another significant source of funds was time deposits, which are the highest costing deposit in our deposit mix. Time deposits made up 39.16% of the total deposits and borrowed funds with an average cost of 3.80% at December 31, 2008, compared to 46.12% of the total with an average cost of 4.80% at December 31, 2007 and 44.37% of the total with an average cost of 4.18% at December 31, 2006. FHLB advances, typically used for clients who prefer longer-term fixed rate loans, made up approximately 19.76%, 8.77% and 6.79% of our average total deposits and borrowed funds with an average cost of 3.43%, 4.93% and 4.52% in 2008, 2007 and 2006, respectively.

Our strategy in choosing funds is focused on attempting to mitigate interest rate risk, and thus we utilize funding sources that are commensurate with the interest rate risk associated with the assets. Accordingly, management targets growth of non-interest bearing deposits. While we do not control the types of deposit instruments our clients choose, we do influence those choices with the rates we offer and with the deposit specials we offer. For example, we have been able to obtain public funds based on our aggressiveness in pricing. We constantly monitor our funds position and evaluate the effect various funding sources have on our financial position.

Our cost of funds in 2008 decreased due to management specifically employing the strategy to utilize lower costing alternative funding sources rather than competing for high-cost deposits in our markets. Also, in the second half of 2007, customers began moving funds into short-term (less than one year) time deposits as short-term interest rates were the same or higher than longer term rates. As such, 69.80% of our time deposits have a maturity of less than 12 months at December 31, 2008.

Cash and cash equivalents were $100,394 at December 31, 2008, compared to $99,793 at December 31, 2007 and $98,201 at December 31, 2006. Cash used in investing activities for the year ended December 31, 2008, was $156,224, compared to $353,805 for the same period of 2007 and $215,717 in 2006. Cash used in investing activities for the year ended December 31, 2007 includes the net cash paid for the Capital merger of $52,606. During 2008, the Company used $14,400 to fund loan growth as compared to $262,016 for 2007 and $185,774 in

2006. The Company used $326,064 to purchase investment securities in 2008. In 2008, we received proceeds of $159,506 from the maturity of our securities in our investment portfolio.

Cash provided by financing activities for the year ended December 31, 2008 was $94,224 compared to $312,129 for the same period of 2007 and $183,992 in 2006. Cash provided by financing activities for 2007 includes the proceeds from the issuance of 2.76 million shares of the Company s common stock in a public equity offering. The proceeds from the equity offering totaled $58,126 and were used to the fund the cash portion of the merger consideration for the Capital merger. Short-term and long-term borrowings increased $309,798 during 2008 which was used to offset deposit runoff of $203,345 during 2008.

The Company completed the merger with Capital on July 1, 2007. The aggregate transaction value, including transaction expenses and the dilutive impact of Capital s options assumed by the Company, was approximately $131,400. In accordance with the merger agreement, the Company delivered to Capital shareholders either cash, Company common stock or a combination of cash and Company common stock, in exchange for the shares of Capital common stock owned by a shareholder. The cash portion of the merger consideration was $56,055 and was funded with the proceeds of the Company s equity offering. The Company issued 2,797,238 shares of its common stock in the transaction, totaling approximately $67,497. These shares were registered under the Securities Act of 1933, as amended.

The Company s liquidity and capital resources are substantially dependent on the ability of the Bank to transfer funds to the Company in the form of dividends, loans and advances. Please refer to Note L, Restrictions on Cash, Bank Dividends, Loans or Advances, in the Notes to Consolidated Financial Statements of the Company in Item 8, Financial Statements and Supplementary Data, for a detailed discussion of the federal and state restrictions on the Bank s ability to transfer funds to the Company.

Off-Balance Sheet Transactions

The Company enters into loan commitments and standby letters of credit in the normal course of its business. Loan commitments are made to accommodate the financial needs of the Company s customers. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. Both arrangements have credit risk essentially the same as that involved in extending loans to customers and are subject to the Company s normal credit and underwriting policies. Collateral (e.g. securities, receivables, inventory and equipment) is obtained based on management s credit assessment of the customer.

Loan commitments and standby letters of credit do not necessarily represent future cash requirements of the Company in that while the borrower has the ability to draw upon these commitments at any time, these commitments often expire without being drawn upon. The Company s unfunded loan commitments and standby letters of credit outstanding at December 31, 2008, 2007 and 2006 are as follows:

	2008	**2007**	**2006**
Loan commitments	**$ 614,311**	$ 794,592	$ 577,439
Standby letters of credit	**27,497**	27,843	23,245

As discussed above under the heading Risk Management Interest Rate Risk, we entered into an interest rate swap with a notional amount of $31,000 whereby we receive a variable rate of interest based on the three-month LIBOR plus 187 basis points and pay a fixed rate based of 5.70%. The effective date of this swap was December 5, 2007 and its maturity date is March 15, 2010.

For more information about the Company s off-balance sheet transactions, see Note I, Commitments, Contingent Liabilities and Financial Instruments with Off-Balance Sheet Risk, in the Notes to Consolidated Financial Statements of the Company in Item 8, Financial Statements and Supplementary Data.

Table of Contents

Index to Financial Statements

Contractual Obligations

The following table presents, as of December 31, 2008, significant fixed and determinable contractual obligations to third parties by payment date. The Note Reference below refers to the applicable footnote in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data.

		Payments Due In:				
	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Operating leases	D	$ 2,122	$ 3,425	$ 3,298	$ 8,781	$ 17,626
Deposits without a stated maturity[1]	F	1,142,955				1,142,955
Time deposits	F	838,721	306,501	56,021	133	1,201,376
Federal funds purchased	G	63,800				63,800
Treasury, tax and loan notes	G	4,494				4,494
Securities sold under agreements to repurchase	G	21,247				21,247
Federal Home Loan Bank advances	G/H	305,663	321,749	72,608	68,282	768,302
Junior subordinated debentures	H				76,133	76,133

[1] Excludes interest.

Shareholders Equity and Regulatory Matters

Total shareholders equity of the Company was $400,371 and $399,073 at December 31, 2008 and 2007, respectively. Book value per share was $19.00 and $19.15 at December 31, 2008 and 2007, respectively. The growth in shareholders equity was attributable to earnings retention offset by dividends declared and changes in accumulated other comprehensive income.

To improve the liquidity and trading volume of the Company s common stock, the Company issued a three-for-two stock split during the third quarter of 2006. Although certain components of shareholders equity were adjusted, the stock split did not result in a change to total shareholders equity.

The Company had a share repurchase plan in place at the beginning of 2008. The plan was adopted in September 2002 and authorized the repurchase of 2,595,031 shares of the Company s common stock, subject to a monthly purchase limit of $2.0 million. This plan was terminated by the Board of Directors in January 2008. Shares repurchased are held for reissue in connection with stock compensation plans and for general corporate purposes. Approximately 96,000 shares of stock were purchased during 2008 for a total purchase price of $2,004. The Company repurchased approximately 384,000 shares during 2007 for a total purchase price of $7,810.

In connection with the Capital merger, we assumed $12,372 in junior subordinated debentures issued by Capital which pay interest quarterly at a fixed rate of 5.64% through June 30, 2010 and will reprice quarterly equal to the three-month LIBOR plus 150 basis points thereafter. The principal amount of the junior subordinated debentures is due in 2035. During January 2005, we formed PHC Statutory Trust II for the purpose of issuing corporation-obligated mandatory redeemable capital securities to third-party investors and investing the proceeds from the sale of such capital securities solely in floating rate junior debentures of the Company. The $31,959 issue provided us with funds for the cash portion of the Heritage merger. The 30-year junior subordinated debentures pay interest quarterly equal to the three-month LIBOR plus 187 basis points. In connection with the Heritage merger, we assumed $10,310 in junior subordinated debentures issued by Heritage which pay interest quarterly at a fixed rate of 10.20%. The principal amount of the junior subordinated debentures is due in 2031. During 2003, we formed PHC Statutory Trust I for the purpose of issuing corporation-obligated mandatory redeemable capital securities to third party investors and investing the proceeds from the sale of such capital securities in floating rate junior debentures of the Company. The $20,619 issue provided us with funds for the cash portion of the Renasant Bancshares, Inc. merger. The 30-year junior subordinated debentures pay interest quarterly equal to the three-month LIBOR plus 285 basis points.

All of the junior subordinated debentures described in the above paragraph are included in Tier I capital at December 31, 2008. The Federal Reserve Board issued guidance in March 2005 providing more strict quantitative limits on the amount of securities, similar to our junior subordinated debentures, that are includable in Tier 1 capital.