

RENASANT CORP  
Form 10-Q  
November 10, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

**FORM 10-Q**

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended September 30, 2008

Or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-13253

**RENASANT CORPORATION**

(Exact name of registrant as specified in its charter)

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**MISSISSIPPI**  
(State or other jurisdiction of

**64-0676974**  
(I.R.S. Employer

incorporation or organization)

Identification Number)

**209 Troy Street, Tupelo, Mississippi 38804**

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: 662-680-1001**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$5.00 Par Value, 21,015,958 shares outstanding as of October 31, 2008.

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## Renasant Corporation and Subsidiaries

## Condensed Consolidated Balance Sheets

*(In Thousands, Except Share Data)*

|                                                                                                                                                                                                     | (unaudited)<br>September 30,<br>2008 | December 31,<br>2007 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                                       |                                      |                      |
| Cash and due from banks                                                                                                                                                                             | \$ 91,041                            | \$ 84,391            |
| Interest-bearing balances with banks                                                                                                                                                                | 15,007                               | 15,402               |
| Cash and cash equivalents                                                                                                                                                                           | 106,048                              | 99,793               |
| Securities available for sale                                                                                                                                                                       | 708,406                              | 539,590              |
| Mortgage loans held for sale                                                                                                                                                                        | 35,976                               | 37,468               |
| Loans, net of unearned income                                                                                                                                                                       | 2,525,424                            | 2,586,593            |
| Allowance for loan losses                                                                                                                                                                           | (28,024)                             | (26,372)             |
| Net loans                                                                                                                                                                                           | 2,497,400                            | 2,560,221            |
| Premises and equipment, net                                                                                                                                                                         | 47,527                               | 47,553               |
| Intangible assets, net                                                                                                                                                                              | 194,022                              | 197,314              |
| Other assets                                                                                                                                                                                        | 135,830                              | 130,348              |
| <b>Total assets</b>                                                                                                                                                                                 | <b>\$ 3,725,209</b>                  | <b>\$ 3,612,287</b>  |
| <b>Liabilities and shareholders' equity</b>                                                                                                                                                         |                                      |                      |
| <b>Liabilities</b>                                                                                                                                                                                  |                                      |                      |
| Deposits                                                                                                                                                                                            |                                      |                      |
| Noninterest-bearing                                                                                                                                                                                 | \$ 287,850                           | \$ 299,394           |
| Interest-bearing                                                                                                                                                                                    | 2,124,318                            | 2,248,427            |
| Total deposits                                                                                                                                                                                      | 2,412,168                            | 2,547,821            |
| Short-term borrowings                                                                                                                                                                               | 201,795                              | 370,456              |
| Long-term debt                                                                                                                                                                                      | 592,377                              | 177,717              |
| Junior subordinated debentures                                                                                                                                                                      | 76,154                               | 76,215               |
| Other liabilities                                                                                                                                                                                   | 36,448                               | 41,005               |
| <b>Total liabilities</b>                                                                                                                                                                            | <b>3,318,942</b>                     | <b>3,213,214</b>     |
| <b>Shareholders' equity</b>                                                                                                                                                                         |                                      |                      |
| Preferred stock, \$.01 par value 5,000,000 shares authorized; no shares issued and outstanding                                                                                                      |                                      |                      |
| Common stock, \$5.00 par value 75,000,000 shares authorized,<br>22,790,797 shares issued; 21,013,427 and 20,841,365 shares outstanding at September 30, 2008 and<br>December 31, 2007, respectively | 113,954                              | 113,954              |
| Treasury stock, at cost                                                                                                                                                                             | (29,094)                             | (31,413)             |
| Additional paid-in capital                                                                                                                                                                          | 185,010                              | 184,856              |
| Retained earnings                                                                                                                                                                                   | 145,865                              | 132,774              |
| Accumulated other comprehensive loss                                                                                                                                                                | (9,468)                              | (1,098)              |

|                                                   |                     |                     |
|---------------------------------------------------|---------------------|---------------------|
| <b>Total shareholders' equity</b>                 | <b>406,267</b>      | 399,073             |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 3,725,209</b> | <b>\$ 3,612,287</b> |

*See notes to condensed consolidated financial statements.*

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## Renasant Corporation and Subsidiaries

## Condensed Consolidated Statements of Income (Unaudited)

*(In Thousands, Except Share Data)*

|                                                            | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                |
|------------------------------------------------------------|-------------------------------------|---------------|------------------------------------|----------------|
|                                                            | 2008                                | 2007          | 2008                               | 2007           |
| <b>Interest income</b>                                     |                                     |               |                                    |                |
| Loans                                                      | \$ 40,955                           | \$ 49,712     | \$ 129,116                         | \$ 123,038     |
| Securities                                                 |                                     |               |                                    |                |
| Taxable                                                    | 7,822                               | 5,428         | 20,830                             | 14,110         |
| Tax-exempt                                                 | 1,115                               | 1,239         | 3,466                              | 3,456          |
| Other                                                      | 112                                 | 257           | 440                                | 1,283          |
| <b>Total interest income</b>                               | <b>50,004</b>                       | <b>56,636</b> | <b>153,852</b>                     | <b>141,887</b> |
| <b>Interest expense</b>                                    |                                     |               |                                    |                |
| Deposits                                                   | 14,358                              | 24,486        | 50,184                             | 61,538         |
| Borrowings                                                 | 7,705                               | 5,452         | 21,068                             | 11,471         |
| <b>Total interest expense</b>                              | <b>22,063</b>                       | <b>29,938</b> | <b>71,252</b>                      | <b>73,009</b>  |
| <b>Net interest income</b>                                 | <b>27,941</b>                       | <b>26,698</b> | <b>82,600</b>                      | <b>68,878</b>  |
| Provision for loan losses                                  | 3,000                               | 1,313         | 7,825                              | 2,863          |
| <b>Net interest income after provision for loan losses</b> | <b>24,941</b>                       | <b>25,385</b> | <b>74,775</b>                      | <b>66,015</b>  |
| <b>Noninterest income</b>                                  |                                     |               |                                    |                |
| Service charges on deposit accounts                        | 5,861                               | 5,239         | 17,044                             | 15,002         |
| Fees and commissions                                       | 4,198                               | 4,104         | 12,444                             | 11,892         |
| Insurance commissions                                      | 920                                 | 930           | 2,615                              | 2,658          |
| Trust revenue                                              | 597                                 | 806           | 1,893                              | 2,053          |
| Securities gains                                           |                                     |               |                                    | 78             |
| BOLI income                                                | 398                                 | 570           | 1,150                              | 1,499          |
| Gains on sales of mortgage loans                           | 1,352                               | 1,201         | 4,184                              | 3,572          |
| Other                                                      | 318                                 | 596           | 1,961                              | 2,236          |
| <b>Total noninterest income</b>                            | <b>13,644</b>                       | <b>13,446</b> | <b>41,291</b>                      | <b>38,990</b>  |
| <b>Noninterest expense</b>                                 |                                     |               |                                    |                |
| Salaries and employee benefits                             | 15,250                              | 15,010        | 44,817                             | 41,020         |
| Data processing                                            | 1,289                               | 1,425         | 3,899                              | 3,892          |
| Net occupancy                                              | 2,219                               | 2,163         | 6,633                              | 5,788          |
| Equipment                                                  | 1,180                               | 1,106         | 3,552                              | 3,048          |
| Professional fees                                          | 897                                 | 645           | 2,631                              | 1,937          |
| Advertising and marketing                                  | 863                                 | 887           | 2,419                              | 2,443          |
| Intangible amortization                                    | 610                                 | 610           | 1,772                              | 1,395          |
| Other                                                      | 5,476                               | 4,843         | 16,557                             | 13,034         |
| <b>Total noninterest expense</b>                           | <b>27,784</b>                       | <b>26,689</b> | <b>82,280</b>                      | <b>72,557</b>  |
| <b>Income before income taxes</b>                          | <b>10,801</b>                       | <b>12,142</b> | <b>33,786</b>                      | <b>32,448</b>  |

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|                                        |                 |                 |                  |                  |
|----------------------------------------|-----------------|-----------------|------------------|------------------|
| Income taxes                           | 3,243           | 3,845           | 9,966            | 10,102           |
| <b>Net income</b>                      | <b>\$ 7,558</b> | <b>\$ 8,297</b> | <b>\$ 23,820</b> | <b>\$ 22,346</b> |
| <b>Basic earnings per share</b>        | <b>\$ 0.36</b>  | <b>\$ 0.39</b>  | <b>\$ 1.14</b>   | <b>\$ 1.25</b>   |
| <b>Diluted earnings per share</b>      | <b>\$ 0.36</b>  | <b>\$ 0.39</b>  | <b>\$ 1.13</b>   | <b>\$ 1.23</b>   |
| <b>Cash dividends per common share</b> | <b>\$ 0.17</b>  | <b>\$ 0.17</b>  | <b>\$ 0.51</b>   | <b>\$ 0.49</b>   |

*See notes to condensed consolidated financial statements.*

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## Renasant Corporation and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(In Thousands)

|                                                                  | Nine Months Ended<br>September 30, |                  |
|------------------------------------------------------------------|------------------------------------|------------------|
|                                                                  | 2008                               | 2007             |
| <b>Operating activities</b>                                      |                                    |                  |
| Net cash provided by operating activities                        | \$ 55,592                          | \$ 52,549        |
| <b>Investing activities</b>                                      |                                    |                  |
| Purchases of securities available for sale                       | (316,575)                          | (149,051)        |
| Proceeds from sales of securities available for sale             |                                    | 51,986           |
| Proceeds from call/maturities of securities available for sale   | 134,545                            | 53,203           |
| Net decrease (increase) in loans                                 | 34,743                             | (252,117)        |
| Proceeds from sales of premises and equipment                    | 39                                 | 144              |
| Purchases of premises and equipment                              | (3,569)                            | (4,802)          |
| Net cash paid in business combination                            |                                    | (52,712)         |
| <b>Net cash used in investing activities</b>                     | <b>(150,817)</b>                   | <b>(353,349)</b> |
| <b>Financing activities</b>                                      |                                    |                  |
| Net (decrease) increase in noninterest-bearing deposits          | (11,544)                           | 4,611            |
| Net (decrease) increase in interest-bearing deposits             | (123,964)                          | 59,782           |
| Net (decrease) increase in short-term borrowings                 | (168,661)                          | 182,522          |
| Proceeds from long-term debt                                     | 438,940                            | 70,100           |
| Repayment of long-term debt                                      | (24,184)                           | (68,836)         |
| Purchases of treasury stock                                      | (2,004)                            | (4,005)          |
| Cash paid for dividends                                          | (10,729)                           | (9,022)          |
| Cash received on exercise of stock-based compensation            | 2,830                              | 713              |
| Excess tax benefit from stock-based compensation                 | 796                                | 256              |
| Proceeds from equity offering                                    |                                    | 58,126           |
| <b>Net cash provided by financing activities</b>                 | <b>101,480</b>                     | <b>294,247</b>   |
| <b>Net increase (decrease) in cash and cash equivalents</b>      | <b>6,255</b>                       | <b>(6,553)</b>   |
| <b>Cash and cash equivalents at beginning of period</b>          | <b>99,793</b>                      | <b>98,201</b>    |
| <b>Cash and cash equivalents at end of period</b>                | <b>\$ 106,048</b>                  | <b>\$ 91,648</b> |
| <b>Supplemental disclosures</b>                                  |                                    |                  |
| Transfers of loans to other real estate                          | \$ 21,564                          | \$ 2,103         |
| <i>See notes to condensed consolidated financial statements.</i> |                                    |                  |

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### **Renasant Corporation and Subsidiaries**

#### **Notes to Condensed Consolidated Financial Statements (Unaudited)**

##### **Note 1 Summary of Significant Accounting Policies**

**Business:** Renasant Corporation (referred to herein as the Company), a Mississippi corporation, owns and operates Renasant Bank, a Mississippi-chartered bank with operations in Mississippi, Tennessee and Alabama, and Renasant Insurance, Inc., a Mississippi corporation and a wholly-owned subsidiary of Renasant Bank with operations in Mississippi. The Company offers a diversified range of financial and insurance services to its retail and commercial customers through its full service offices located throughout north and north central Mississippi, west and middle Tennessee and north and north central Alabama.

**Basis of Presentation:** The accompanying unaudited condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information regarding the Company's accounting policies, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

On July 1, 2007, the Company completed its merger with Capital Bancorp, Inc. (Capital). The financial condition and results of operation for Capital are included in the Company's financial statements since the date of the merger.

**New accounting pronouncements:** In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (Statement) No. 157, Fair Value Measurements (Statement 157), which provides guidance for using fair value to measure assets and liabilities. This statement also requires expanded disclosures about the extent to which a company measures assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. This statement applies whenever other standards require or permit assets and liabilities to be measured at fair value. This statement does not mandate the use of fair value in any circumstance. The Company adopted Statement 157 on January 1, 2008. The adoption of Statement 157 did not have a material impact on the Company. See Note 8, Fair Value of Financial Instruments, in these Notes to Condensed Consolidated Financial Statements for further disclosures regarding the Company's adoption of Statement 157.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (Statement 159). Statement 159 allows entities to voluntarily choose, at specified election dates, to measure financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, Statement 159 specifies that all subsequent changes in fair value for that instrument must be reported in earnings. The Company adopted the provisions of Statement 159 on January 1, 2008. Since adoption, the Company has not elected the fair value option for eligible financial assets or financial liabilities not previously recorded at fair value.

In December 2007, the FASB issued Statement No. 141(R), Business Combinations (Statement 141R), which replaces FASB Statement No. 141, Business Combinations (Statement 141). Statement 141R retains the fundamental requirements in Statement 141 that the acquisition method of accounting (formerly referred to as the purchase method) be used for all business combinations and that an acquirer be identified for each business combination. Statement 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. Statement 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their respective fair values. Statement 141R requires the acquirer to recognize acquisition-related costs and restructuring costs separately from the business combination as period expense. Statement 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of Statement 141R will impact the Company's accounting for and reporting of acquisitions on or after January 1, 2009.

In December 2007, the FASB issued Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements - an Amendment to ARB No. 51 (Statement 160). Statement 160 establishes new accounting and



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### **Renasant Corporation and Subsidiaries**

#### **Notes to Condensed Consolidated Financial Statements (Unaudited)**

reporting standards that require the ownership interests in subsidiaries held by parties other than the parent to be clearly identified, labeled, and presented in the consolidated statement of financial position within equity, but separate from the parent's equity. Statement 160 also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of income. In addition, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary must be initially measured at fair value, with the gain or loss on the deconsolidation of the subsidiary measured using the fair value of any noncontrolling equity investment rather than the carrying amount of that retained investment. Statement 160 also clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. Statement 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. Statement 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Early adoption is prohibited. The Company is currently in the process of evaluating the impact of adopting Statement 160 on its financial statements.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*—an Amendment to FASB Statement No. 133 (Statement 161). Statement 161 amends and expands the disclosure requirements for derivative instruments and hedging activities as provided by FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133). Statement 161 requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedging activities are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedging activities affect an entity's financial position, financial performance, and cash flows. To meet these objectives, Statement 161 requires qualitative disclosures regarding the objectives and strategies for using derivative instruments and engaging in hedging activities in the context of an entity's overall risk exposure, quantitative disclosures presented in tabular format of the fair values of and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative instruments. Statement 161 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008, with early adoption permitted. The Company is currently in the process of evaluating the impact of adopting Statement 161 on its financial statements.

In October 2008, the FASB issued Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (Staff Position 157-3). Staff Position 157-3 clarifies the application of Statement 157 in a market that is not active and addresses the following application issues: the manner in which the reporting entity's assumptions (that is, expected cash flows and appropriately risk-adjusted discount rates) should be considered when measuring fair value when relevant observable inputs do not exist; the manner in which available observable inputs in an inactive market should be considered when measuring fair value; and the manner in which the use of market quotes should be considered when assessing the relevance of observable and unobservable inputs available to measure fair value. Staff Position 157-3 was immediately effective, including prior periods for which financial statements have not been issued. The Company applied the guidance provided in Staff Position 157-3 in determining the fair value for the Company's trust preferred securities held in its securities portfolio. See Note 8, *Fair Value of Financial Instruments*, in these Notes to Condensed Consolidated Financial Statements for further disclosures regarding the Company's application of Staff Position 157-3.

#### **Note 2 Shareholders' Equity**

In September 2002, the Company's board of directors adopted a share buy-back plan which allowed the Company to purchase up to 2,595,031 shares of its outstanding common stock, subject to a monthly purchase limit of \$2,000 of the Company's common stock. The board of directors discontinued the buy-back plan on January 24, 2008. As of that date, 2,310,030 shares had been repurchased under the plan. Reacquired common shares are held as treasury shares and may be reissued for various corporate purposes. During the nine months ended September 30, 2008, the Company reissued 268,047 shares from treasury in connection with the vesting and exercise of stock-based compensation.

The Company declared a cash dividend for the third quarter of 2008 of \$0.17 per share as compared to \$0.17 per share for the third quarter of 2007. Total cash dividends paid to shareholders by the Company were \$10,729 and \$9,022 for the nine month periods ended September 30, 2008 and 2007, respectively.

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## Renasant Corporation and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Unaudited)

In January 2008, the Company granted 184,500 stock options which generally vest and become exercisable in equal installments of 33 1/3% upon completion of one, two and three years of service measured from the grant date. In addition, the Company awarded 3,000 shares of time-based restricted stock and 26,750 shares of performance-based restricted stock in the first quarter of 2008. The time-based restricted stock is earned 100% upon completion of three years of service measured from the grant date. The performance-based restricted stock is earned, in part, if the Company meets or exceeds financial performance results defined by the board of directors. The Company recorded stock-based compensation expense of \$1,083 and \$1,287 for the nine months ended September 30, 2008 and 2007, respectively.

The fair value of stock option grants is estimated on the grant date using the Black-Scholes option-pricing model. The Company employed the following assumptions with respect to its stock option grants in 2008 and 2007 for the nine month periods ended September 30, 2008 and 2007:

|                                 | Nine Months Ended<br>September 30, |          |
|---------------------------------|------------------------------------|----------|
|                                 | 2008                               | 2007     |
| Dividend yield                  | 3.86%                              | 2.40%    |
| Expected volatility             | 21%                                | 21%      |
| Risk-free interest rate         | 3.45%                              | 4.70%    |
| Expected lives                  | 6 years                            | 6 years  |
| Weighted average exercise price | \$ 17.63                           | \$ 30.63 |
| Weighted average fair value     | \$ 2.66                            | \$ 6.90  |

**Note 3 Loans**

The Company applied the provisions of the American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, on certain loans acquired in connection with the mergers with Capital and Heritage Financial Holding Corporation ( Heritage ). At the date of acquisition, there was evidence of deterioration of the credit quality of these loans since origination, and it was probable that all contractually required payments would not be collected. The amount of such loans included in the balance sheet heading Loans, net of unearned income at September 30, 2008 is as follows:

|                           |          |
|---------------------------|----------|
| Commercial                | \$ 4,692 |
| Consumer                  | 138      |
| Mortgage                  | 694      |
| Total outstanding balance | \$ 5,524 |
| Total carrying amount     | \$ 3,645 |

Changes in the accretable yield of these loans are as follows:

|                                                 |        |
|-------------------------------------------------|--------|
| Balance as of January 1, 2008                   | \$ 578 |
| Additions                                       |        |
| Reclassifications from nonaccretable difference | 38     |
| Accretion                                       | (581)  |
| Balance as of September 30, 2008                | \$ 35  |

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The Company did not increase the allowance for loan losses for these loans during the nine months ended September 30, 2008.

Nonaccrual loans at September 30, 2008 were \$20,578 as compared to \$14,231 at December 31, 2007. Loans past due 90 days or more and still accruing interest were \$9,077 at September 30, 2008 as compared to \$2,046 at December 31, 2007. Impaired loans recognized in conformity with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, were as follows:

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## Renasant Corporation and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Unaudited)

|                                                               | September 30,<br>2008 | December 31,<br>2007 |
|---------------------------------------------------------------|-----------------------|----------------------|
| Impaired loans with an allocated allowance for loan losses    | \$ 19,987             | \$ 11,656            |
| Impaired loans without an allocated allowance for loan losses | 365                   | 15                   |
| <b>Total impaired loans</b>                                   | <b>\$ 20,352</b>      | <b>\$ 11,671</b>     |
| Allocated allowance on impaired loans                         | \$ 4,335              | \$ 1,610             |

**Note 4 Goodwill**

The changes in the carrying amount of intangible assets during the first nine months of 2008 are as follows:

|                                            | Goodwill   | Core<br>Deposits<br>Intangible | Other<br>Intangibles |
|--------------------------------------------|------------|--------------------------------|----------------------|
| Balance as of December 31, 2007            | \$ 186,420 | \$ 10,500                      | \$ 394               |
| Amortization expense                       |            | (1,554)                        | (218)                |
| Adjustment to previously recorded goodwill | (1,520)    |                                |                      |
| Balance as of September 30, 2008           | \$ 184,900 | \$ 8,946                       | \$ 176               |

The adjustment to previously recorded goodwill primarily reflects tax benefits associated with the exercise of stock options assumed in connection with the acquisitions of Capital, Heritage and Renasant Bancshares, Inc.

**Note 5 Derivative Instruments**

In December 2007, the Company entered into an interest rate swap with a notional amount of \$31,000 whereby it receives a variable rate of interest based on the three-month LIBOR plus 187 basis points and pays a fixed rate of 5.70%. The interest rate swap is a designated cash flow hedge designed to convert the variable interest rate on \$31,000 of its junior subordinated debentures to a fixed rate. The swap is considered to be effective and the assessment of the hedging relationship is evaluated under the hypothetical derivative method. At September 30, 2008, the swap had a fair value of \$(349) which has been recorded in Other Liabilities.

In March 2008, the Company terminated an interest rate swap designated as a cash flow hedge designed to convert the variable interest rate on \$100,000 of loans to a fixed rate. As of September 30, 2008, there were \$1,725 of deferred gains related to the swap, which will be amortized into net interest income over the designated hedging period ending in May 2009.

**Note 6 Comprehensive Income**

The components of comprehensive income, net of related tax, are as follows:

| Three Months Ended<br>September 30,<br>2008 | September 30,<br>2007 | Nine Months Ended<br>September 30,<br>2008 | September 30,<br>2007 |
|---------------------------------------------|-----------------------|--------------------------------------------|-----------------------|
|---------------------------------------------|-----------------------|--------------------------------------------|-----------------------|

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|                                                                         |          |           |           |           |
|-------------------------------------------------------------------------|----------|-----------|-----------|-----------|
| Net income                                                              | \$ 7,558 | \$ 8,297  | \$ 23,820 | \$ 22,346 |
| Other comprehensive income:                                             |          |           |           |           |
| Unrealized holding gains (losses) on securities available for sale      | (2,079)  | 4,152     | (8,327)   | (191)     |
| Reclassification adjustment for gains realized in net income            |          |           |           | (48)      |
| Unrealized gains (losses) on interest rate swaps                        | (499)    | 652       | (232)     | 277       |
| Net change in defined benefit pension and post-retirement benefit plans | 67       | 72        | 189       | 217       |
| Other comprehensive income (loss)                                       | (2,511)  | 4,876     | (8,370)   | 255       |
| Comprehensive income                                                    | \$ 5,047 | \$ 13,173 | \$ 15,450 | \$ 22,601 |

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## Renasant Corporation and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Unaudited)

**Note 7 Employee Benefit Plans**

The following table provides the components of net pension cost and other benefit cost recognized for the three and nine month periods ended September 30, 2008 and 2007:

|                                | Three Months Ended<br>September 30, |        |                |       |
|--------------------------------|-------------------------------------|--------|----------------|-------|
|                                | Pension Benefits                    |        | Other Benefits |       |
|                                | 2008                                | 2007   | 2008           | 2007  |
| Service cost                   | \$                                  | \$     | \$ 8           | \$ 11 |
| Interest cost                  | 256                                 | 250    | 20             | 17    |
| Expected return on plan assets | (333)                               | (356)  |                |       |
| Prior service cost recognized  | 8                                   | 7      |                |       |
| Recognized loss                | 78                                  | 93     | 24             | 16    |
| Net periodic benefit cost      | \$ 9                                | \$ (6) | \$ 52          | \$ 44 |

|                                | Nine Months Ended<br>September 30, |         |                |        |
|--------------------------------|------------------------------------|---------|----------------|--------|
|                                | Pension Benefits                   |         | Other Benefits |        |
|                                | 2008                               | 2007    | 2008           | 2007   |
| Service cost                   | \$                                 | \$      | \$ 30          | \$ 33  |
| Interest cost                  | 768                                | 749     | 54             | 51     |
| Expected return on plan assets | (999)                              | (1,068) |                |        |
| Prior service cost recognized  | 23                                 | 22      |                |        |
| Recognized loss                | 233                                | 280     | 51             | 49     |
| Net periodic benefit cost      | \$ 25                              | \$ (17) | \$ 135         | \$ 133 |

**Note 8 Fair Value of Financial Instruments**

Statement 157 provides guidance for using fair value to measure assets and liabilities and also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to a valuation based on quoted prices in active markets for identical assets and liabilities (Level 1), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable in the market (Level 2), and the lowest priority to a valuation based on assumptions that are not observable in the market (Level 3). The following methods and assumptions are used by the Company to estimate the fair values of the Company's financial assets and liabilities on a recurring basis:

**Securities available for sale:** Securities available for sale consists primarily of debt securities such as obligations of U.S. Government agencies and corporations, mortgage-backed securities, obligations of states and political subdivisions and trust preferred securities. The fair values of these instruments are based on quoted market prices of similar instruments or a discounted cash flow model as permitted under Staff Position 157-3. Securities available for sale also include equity securities that are not traded in an active market. The fair value of these securities approximates their historical cost.

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Derivative instruments: Derivative instruments consist of an interest rate swap. Interest rate swaps are extensively traded in over-the-counter markets at prices based upon projections of future cash payments/receipts discounted at market rates. The fair value of the Company's interest rate swap is determined based upon its discounted cash flows.

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## Renasant Corporation and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table presents assets and liabilities that are measured at fair value on a recurring basis:

|                               | Fair Value Measurements at September 30, 2008: |                                                                              |    |                                               |                                           |
|-------------------------------|------------------------------------------------|------------------------------------------------------------------------------|----|-----------------------------------------------|-------------------------------------------|
|                               |                                                | Quoted Prices in Active Markets for Identical Assets (Liabilities) (Level 1) |    | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|                               | Totals                                         |                                                                              |    |                                               |                                           |
| Securities available for sale | \$ 708,406                                     | \$                                                                           | \$ | 635,851                                       | \$ 72,555                                 |
| Derivative instruments        | (349)                                          |                                                                              |    | (349)                                         |                                           |
|                               | \$ 708,057                                     | \$                                                                           | \$ | 635,502                                       | \$ 72,555                                 |

The following table provides a reconciliation for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 inputs, during the nine months ended September 30, 2008:

|                                                         | Securities available for sale |
|---------------------------------------------------------|-------------------------------|
| Balance as of January 1, 2008                           | \$ 36,674                     |
| Realized gains included in net income                   | 792                           |
| Unrealized gains included in other comprehensive income | (9,657)                       |
| Purchases, sales, issuances, and settlements (net)      | 42,797                        |
| Transfers in and/or out of Level 3                      | 1,949                         |
| Balance as of September 30, 2008                        | \$ 72,555                     |

Certain assets may be recorded at fair value on a nonrecurring basis. These nonrecurring fair value adjustments typically are a result of the application of the lower of cost or market accounting or a write-down occurring during the period. The following methods and assumptions are used by the Company to estimate the fair values of the Company's financial assets and liabilities on a nonrecurring basis:

**Mortgage loans held for sale:** Mortgage loans held for sale are carried at the lower of cost or fair value. If fair value is used, it is determined using current secondary market prices for loans with similar characteristics. Mortgage loans held for sale were carried at cost on the consolidated balance sheet at September 30, 2008 and December 31, 2007.

The Company also uses fair value measurements on a nonrecurring basis for certain nonfinancial instruments such as other real estate owned. In accordance with FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, the Company will delay application of Statement 157 for nonfinancial assets and liabilities until January 1, 2009.

**Note 9 Net Income Per Common Share**

Basic net income per common share is calculated by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted net income per common share reflects the pro forma dilution assuming outstanding stock options and warrants were exercised into common shares, calculated in accordance with the treasury stock method. Basic and diluted net income per common share calculations are

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as follows (in thousands, except share data):

|                                       | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                       | 2008                                | 2007       | 2008                               | 2007       |
| <b>Basic:</b>                         |                                     |            |                                    |            |
| Net income applicable to common stock | \$ 7,558                            | \$ 8,297   | \$ 23,820                          | \$ 22,346  |
| Average common shares outstanding     | 20,980,557                          | 21,096,156 | 20,926,567                         | 17,913,783 |
| Net income per common share-basic     | \$ 0.36                             | \$ 0.39    | \$ 1.14                            | \$ 1.25    |

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## Renasant Corporation and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Unaudited)

**Diluted:**

|                                             |            |            |            |            |
|---------------------------------------------|------------|------------|------------|------------|
| Net income applicable to common stock       | \$ 7,558   | \$ 8,297   | \$ 23,820  | \$ 22,346  |
| Average common shares outstanding           | 20,980,557 | 21,096,156 | 20,926,567 | 17,913,783 |
| Effect of dilutive stock based compensation | 194,908    | 341,692    | 220,311    | 299,126    |
| Average common shares outstanding-diluted   | 21,175,465 | 21,437,848 | 21,146,878 | 18,212,909 |
| Net income per common share-diluted         | \$ 0.36    | \$ 0.39    | \$ 1.13    | \$ 1.23    |

**Note 10 Segment Reporting**

FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, requires public companies to report certain financial and descriptive information about their reportable operating segments (as defined by management) and certain enterprise-wide financial information about products and services, geographic areas and major customers.

The Company's internal reporting process is organized into four segments that account for the Company's principal activities: the delivery of financial services through its community banks in Mississippi, Tennessee and Alabama and the delivery of insurance services through its insurance agency. The increase in the Tennessee region for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007 set forth in the table below primarily reflects the acquisition of Capital. In order to give our regional management a more precise indication of the income and expenses they can control, the results of operations for the geographic regions of the community banks and for the insurance company reflect the direct revenues and expenses of each respective segment. The Company believes this management approach will enable our regional management to focus on serving customers through loan originations and deposit gathering. Indirect revenues and expenses, including but not limited to income from our investment portfolio, certain costs associated with other data processing and back office functions, are not allocated to our segments. Rather these revenues and expenses are shown in the Other column along with the operations of the holding company and eliminations which are necessary for purposes of reconciling to the consolidated amounts.

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## Renasant Corporation and Subsidiaries

## Notes to Condensed Consolidated Financial Statements (Unaudited)

|                                               | Community Banks |              |            |           |             |              |
|-----------------------------------------------|-----------------|--------------|------------|-----------|-------------|--------------|
|                                               | Mississippi     | Tennessee    | Alabama    | Insurance | Other       | Consolidated |
| <b>Three Months Ended September 30, 2008:</b> |                 |              |            |           |             |              |
| Net interest income                           | \$ 11,532       | \$ 7,988     | \$ 5,309   | \$ 28     | \$ 3,084    | \$ 27,941    |
| Provision for loan losses                     | 676             | 1,164        | 1,160      |           |             | 3,000        |
| Noninterest income                            | 9,318           | 1,172        | 2,408      | 1,049     | (303)       | 13,644       |
| Noninterest expense                           | 8,994           | 5,071        | 4,373      | 823       | 8,523       | 27,784       |
| Income before income taxes                    | 11,180          | 2,925        | 2,184      | 254       | (5,742)     | 10,801       |
| Income taxes                                  | 3,438           | 900          | 672        | 98        | (1,865)     | 3,243        |
| Net income (loss)                             | \$ 7,742        | \$ 2,025     | \$ 1,512   | \$ 156    | \$ (3,877)  | \$ 7,558     |
| Total assets                                  | \$ 1,630,485    | \$ 1,350,713 | \$ 731,412 | \$ 8,212  | \$ 4,387    | \$ 3,725,209 |
| Goodwill                                      | 2,265           | 133,322      | 46,530     | 2,783     |             | 184,900      |
| <b>Three Months Ended September 30, 2007:</b> |                 |              |            |           |             |              |
| Net interest income                           | \$ 13,878       | \$ 8,893     | \$ 5,187   | \$ 22     | \$ (1,282)  | \$ 26,698    |
| Provision for loan losses                     | 488             | 160          | 665        |           |             | 1,313        |
| Noninterest income                            | 7,747           | 945          | 2,356      | 1,075     | 1,323       | 13,446       |
| Noninterest expense                           | 7,890           | 5,262        | 4,264      | 789       | 8,484       | 26,689       |
| Income before income taxes                    | 13,247          | 4,416        | 2,614      | 308       | (8,443)     | 12,142       |
| Income taxes                                  | 4,322           | 1,441        | 853        | 112       | (2,883)     | 3,845        |
| Net income (loss)                             | \$ 8,925        | \$ 2,975     | \$ 1,761   | \$ 196    | \$ (5,560)  | \$ 8,297     |
| Total assets                                  | \$ 1,537,611    | \$ 1,267,742 | \$ 767,658 | \$ 7,735  | \$ 3,773    | \$ 3,584,519 |
| Goodwill                                      | 2,265           | 133,270      | 46,834     | 2,783     |             | 185,152      |
| <b>Nine Months Ended September 30, 2008:</b>  |                 |              |            |           |             |              |
| Net interest income                           | \$ 36,503       | \$ 23,242    | \$ 16,003  | \$ 81     | \$ 6,771    | \$ 82,600    |
| Provision for loan losses                     | 2,082           | 2,979        | 2,764      |           |             | 7,825        |
| Noninterest income                            | 23,998          | 3,295        | 7,173      | 3,045     | 3,780       | 41,291       |
| Noninterest expense                           | 24,147          | 14,639       | 12,799     | 2,405     | 28,290      | 82,280       |
| Income before income taxes                    | 34,272          | 8,919        | 7,613      | 721       | (17,739)    | 33,786       |
| Income taxes                                  | 10,368          | 2,698        | 2,303      | 279       | (5,682)     | 9,966        |
| Net income (loss)                             | \$ 23,904       | \$ 6,221     | \$ 5,310   | \$ 442    | \$ (12,057) | \$ 23,820    |
| Total assets                                  | \$ 1,630,485    | \$ 1,350,713 | \$ 731,412 | \$ 8,212  | \$ 4,387    | \$ 3,725,209 |
| Goodwill                                      | 2,265           | 133,322      | 46,530     | 2,783     |             | 184,900      |
| <b>Nine Months Ended September 30, 2007:</b>  |                 |              |            |           |             |              |
| Net interest income                           | \$ 41,546       | \$ 15,075    | \$ 15,300  | \$ 64     | \$ (3,107)  | \$ 68,878    |
| Provision for loan losses                     | 1,090           | 515          | 1,258      |           |             | 2,863        |
| Noninterest income                            | 23,392          | 1,759        | 7,258      | 3,063     | 3,518       | 38,990       |
| Noninterest expense                           | 23,395          | 9,674        | 13,069     | 2,312     | 24,107      | 72,557       |
| Income before income taxes                    | 40,453          | 6,645        | 8,231      | 815       | (23,696)    | 32,448       |

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|                   |              |              |            |          |             |              |
|-------------------|--------------|--------------|------------|----------|-------------|--------------|
| Income taxes      | 12,934       | 2,125        | 2,632      | 296      | (7,885)     | 10,102       |
| Net income (loss) | \$ 27,519    | \$ 4,520     | \$ 5,599   | \$ 519   | \$ (15,811) | \$ 22,346    |
| Total assets      | \$ 1,537,611 | \$ 1,267,742 | \$ 767,658 | \$ 7,735 | \$ 3,773    | \$ 3,584,519 |
| Goodwill          | 2,265        | 133,270      | 46,834     | 2,783    |             | 185,152      |

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### **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*(In Thousands, Except Share Data)*

This Form 10-Q may contain, or incorporate by reference, statements regarding Renasant Corporation (referred to herein as the "Company", "we", "our", or "us") 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. Such forward-looking statements usually include words such as "expects", "projects", "proposes", "anticipates", "believes", "intends", "estimates", "strategy", "plan", "potential", "possible" and other similar expressions. We are cautioned that any such forward-looking statements are not guarantees for 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 (1) the effect of economic conditions and interest rates on a national, regional or international basis; (2) the timing of the implementation of changes in operations to achieve enhanced earnings or effect cost savings; (3) competitive pressures in the consumer finance, commercial finance, insurance, financial services, asset management, retail banking, mortgage lending and auto lending industries; (4) the financial resources of, and products available to, competitors; (5) changes in laws and regulations, including changes in accounting standards; (6) changes in policy by regulatory agencies; (7) changes in the securities and foreign exchange markets; (8) the Company's potential growth, including its entrance or expansion into new markets, and the need for sufficient capital to support that growth; (9) changes in the quality or composition of the Company's loan or investment portfolios, including adverse developments in borrower industries or in the repayment ability of individual borrowers; (10) an insufficient allowance for loan losses as a result of inaccurate assumptions; (11) general economic, market or business conditions; (12) changes in demand for loan products and financial services; (13) concentration of credit exposure; (14) changes or the lack of changes in interest rates, yield curves and interest rate spread relationship; and (15) other circumstances, many of which are beyond management's control. Management undertakes 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.

#### **Overview**

Renasant Corporation, a Mississippi corporation, owns and operates Renasant Bank, a Mississippi-chartered bank with operations in Mississippi, Tennessee and Alabama, and Renasant Insurance, Inc., a Mississippi corporation with operations in Mississippi. Renasant Insurance, Inc. is a wholly-owned subsidiary of Renasant Bank. The Company has full service offices located throughout north and north central Mississippi, west and middle Tennessee and north and north central Alabama.

On July 1, 2007, the Company acquired Capital Bancorp, Inc. ("Capital"), the parent of Capital Bank & Trust Company by merger and expanded its footprint into the Nashville-Davidson-Murfreesboro, Tennessee Metropolitan Statistical Area. On the same date, Renasant Bank acquired Capital Bank & Trust Company by merger. The financial condition and results of operation for Capital are included in the Company's financial statements since the date of the merger.

#### **Financial Condition**

Total assets for the Company increased to \$3,725,209 on September 30, 2008 from \$3,612,287 on December 31, 2007, representing an increase of 3.13%.

Cash and cash equivalents increased \$6,255 from \$99,793 at December 31, 2007 to \$106,048 at September 30, 2008. Cash and cash equivalents represented 2.85% of total assets at September 30, 2008 compared to 2.76% of total assets at December 31, 2007. Our investment portfolio increased to \$708,406 at September 30, 2008 from \$539,590 at December 31, 2007. During the first half of 2008, we implemented a leveraging strategy in which the Company purchased approximately \$200,000 in investment securities. The transaction was funded with borrowings of approximately \$200,000 from the Federal Home Loan Bank ("FHLB") in which the maturity dates of the borrowings closely matched the expected future cash flows of the securities purchased. These purchases, offset by maturities of securities, were the main contributor to the net increase in our investment portfolio.

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Mortgage loans held for sale were \$35,976 at September 30, 2008 compared to \$37,468 at December 31, 2007. Originations of mortgage loans to be sold totaled \$568,824 for the first nine months of 2008 as compared to \$457,636 for the same period in 2007. In the first nine months of 2008, the Company was able to grow its levels of mortgage originations in an environment in which mortgage activity nationally slowed as compared to prior years. A majority of the growth in mortgage originations is the result of third party mortgages being refinanced with the Company, with the remainder of the growth attributable to new originations. 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 from the sale of the loans and all other criteria for sales treatment have been met. These loans are typically sold within thirty days after the loan is funded. Although some interest income is derived from mortgage loans held for sale, the main source of income is gains from the sale of mortgage loans in the secondary market. Because the Company does not actively market or originate subprime mortgage loans, the Company has not experienced any negative impact on its ability to sell mortgage loans at prices and within the time periods consistent with prior periods.

The loan balance, net of unearned income, at September 30, 2008 was \$2,525,424, representing a decrease of \$61,169 from \$2,586,593 at December 31, 2007. Loans in our Tennessee region grew \$34,736 while loans in our Mississippi and Alabama regions decreased \$34,203 and \$61,702, respectively, during the first nine months of 2008 compared to the respective balances at December 31, 2007. Management expects loan growth in upcoming periods to be relatively modest across all regions until improvements in the general economic conditions occur both nationally and in the local markets in which we operate. The table below sets forth loans outstanding, according to loan type, net of unearned income.

|                                            | September 30,<br>2008 | December 31,<br>2007 |
|--------------------------------------------|-----------------------|----------------------|
| Commercial, financial, agricultural        | \$ 299,233            | \$ 317,866           |
| Lease financing                            | 1,943                 | 2,557                |
| Real estate construction                   | 241,661               | 386,184              |
| Real estate 1-4 family mortgage            | 877,045               | 850,658              |
| Real estate commercial mortgage            | 1,032,797             | 948,322              |
| Installment loans to individuals           | 72,745                | 81,006               |
| <b>Total loans, net of unearned income</b> | <b>\$ 2,525,424</b>   | <b>\$ 2,586,593</b>  |

Loan concentrations are considered to exist when there are amounts loaned to a large number of borrowers engaged in similar activities who would be similarly impacted by economic or other conditions. At September 30, 2008, we had no significant concentrations of loans other than those presented in the categories in the table above.

Intangible assets decreased \$3,292 to \$194,022 at September 30, 2008 from \$197,314 at December 31, 2007. The decrease reflects the amortization of finite-lived intangible assets recorded in connection with the Capital, Heritage Financial Holding Corporation and Renasant Bancshares, Inc. acquisitions and an adjustment to goodwill from tax benefits associated with the exercise of stock options assumed in connection with these acquisitions. The core deposits intangible and noncompete agreements are being amortized over their estimated useful lives which range from five to ten years.

Total deposits decreased \$135,653 to \$2,412,168 at September 30, 2008 from \$2,547,821 on December 31, 2007. Noninterest-bearing deposits decreased \$11,544 to \$287,850 at September 30, 2008 compared to \$299,394 at December 31, 2007. Interest-bearing deposits decreased \$124,109 to \$2,124,318 at September 30, 2008 from \$2,248,427 at December 31, 2007 due to decreases in time deposits offset by increases in public fund transactional accounts. As rates paid on deposits, primarily time deposits, remained higher than alternative sources of funds during the first nine months of 2008, the Company was more selective in pricing time deposits and instead utilized lower costing funding sources, primarily FHLB borrowings. This strategy is the primary reason for the decrease in time deposits. As a result of this strategy, the cost of the Company's interest-bearing deposits decreased 94 basis points to 3.01% for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007, and the overall cost of the Company's interest-bearing liabilities decreased by 95 basis points over the

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same period. With respect to public fund transactional accounts, management expects the balances to increase gradually through the remainder of the year as government agencies begin to receive proceeds from tax collections.

Total borrowings, which include short-term borrowings, long-term debt, and junior subordinated debentures, were \$870,326 at September 30, 2008 compared to \$624,388 at December 31, 2007. Short-term borrowings were \$201,795 at September 30, 2008 compared to \$370,456 at December 31, 2007. Short-term borrowings consist of federal funds purchased, short-term FHLB advances, and other short-term borrowings. Long-term debt, consisting of long-term FHLB advances, was \$592,377 at September 30, 2008 compared to \$177,717 at December 31, 2007. To take advantage of the decline in long-term interest rates, the Company replaced short-term borrowings with long-term debt during the first nine months of 2008. The aforementioned leveraging strategy implemented during the first nine months of 2008 increased total borrowings by approximately \$200,000.

Shareholders' equity increased 1.80% to \$406,267 at September 30, 2008 compared to \$399,073 at December 31, 2007. Factors contributing to the change in shareholders' equity include current year earnings offset by dividends and changes in other comprehensive income.

## Results of Operations – Third Quarter of 2008 as Compared to the Third Quarter of 2007

### Summary

Net income for the three month period ended September 30, 2008 was \$7,558, a decrease of \$739, or 8.91%, from net income of \$8,297 for the same period in 2007. Basic and diluted earnings per share were \$0.36 for the three month period ended September 30, 2008, as compared to basic and diluted earnings per share of \$0.39 for the comparable period a year ago.

### Net Interest Income

Net interest income is the difference between interest earned on earning assets and the cost of interest-bearing liabilities, which are two of the largest components contributing to our net income. The primary concerns in managing net interest income are the mix and the repricing of rate-sensitive assets and liabilities. Net interest income grew 4.66% to \$27,941 for the third quarter of 2008 compared to \$26,698 for the same period in 2007. On a tax equivalent basis, net interest margin for the three month period ended September 30, 2008 was 3.45% compared to 3.52% for the same period in 2007. Reductions in interest rates by the Federal Reserve in 2008, as well as higher levels of nonperforming loans and competition for deposits have had a negative impact on net interest margin.

Interest income decreased 11.71% to \$50,004 for the third quarter of 2008 from \$56,636 for the same period in 2007. The decrease in interest income was primarily due to decreases in rate while the volume of interest-earning assets remained relatively flat. The average balance of interest-earning assets for the three months ending September 30, 2008 increased \$210,924 as compared to the same period in 2007 due primarily to the purchase of investment securities. For the same reasons set forth in the immediately preceding paragraph with respect to our net interest margin, the tax equivalent yield on earning assets decreased 124 basis points to 6.08% for the third quarter of 2008 compared to the same period in 2007. Since the beginning of the year, the Federal Reserve has reduced its target federal funds rate by 225 basis points.

Interest expense decreased \$7,875, or 26.30%, to \$22,063 for the three months ended September 30, 2008 as compared to \$29,938 for the same period in 2007. This decrease primarily resulted from decreases in rate as higher costing deposits were replaced with lower costing funding sources. The average balance of interest-bearing liabilities for the three months ended September 30, 2008 increased \$240,615 as compared to the same period in 2007 due to additional borrowings used to purchase investment securities. The cost of interest-bearing liabilities decreased 137 basis points to 2.91% for the third quarter of 2008 compared to 4.28% for the same period in 2007.

### Noninterest Income

Noninterest income was \$13,644 for the three month period ended September 30, 2008 compared to \$13,446 for the same period in 2007, an increase of \$198, or 1.47%.

Service charges on deposits were \$5,861 for the third quarter of 2008, an increase of 11.87% over \$5,239 for the same period in 2007. Service charges represent the largest component of noninterest income. Overdraft fees, the

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largest component of service charges, were \$5,324 for the three month period ended September 30, 2008, an increase of \$662, or 14.20%, compared to the same period in 2007.

Fees and commissions include fees charged for both deposit services (other than service charges on deposits) and loan services. Fees and commissions were \$4,198 and \$4,104 for the three month periods ended September 30, 2008 and 2007, respectively. Interchange fees on debit card transactions continue to be a strong source of noninterest income. For the third quarter of 2008, fees associated with debit card usage were \$1,275, up 25.43% from the same period in 2007. The Company also provides specialized products and services to our customers through our Financial Services division. Specialized products include fixed and variable annuities, mutual funds, and stocks offered through a third party provider. Revenues generated from the sale of all of these products were \$419 for the third quarter of 2008 compared to \$243 for the same period in 2007. Revenues from these products are included in the Condensed Consolidated Statements of Income in the account line Fees and commissions.

The trust department operates on a custodial basis which includes administration of benefit plans, as well as accounting and money management for trust accounts. The trust department manages a number of trust accounts inclusive of personal and corporate benefit accounts, self-directed IRAs, and custodial accounts. Fees for managing these accounts are generated based on the contractual terms of the accounts, including changes in market values of assets under management. Trust revenue for the third quarter of 2008 was \$597 as compared to \$806 for the same period of 2007. The market value of assets under management as of September 30, 2008 was \$510,197, a decrease of approximately \$32,537 from the prior year. The decline in the market value of assets under management is a result of the performance of the financial markets and the overall economic conditions over this same period.

Gains from sales of mortgage loans increased to \$1,352 for the three months ended September 30, 2008 compared to \$1,201 for the same period in 2007. The increase in gains on the sale of mortgage loans is attributable to higher volumes of overall originations. Originations of mortgage loans to be sold totaled \$174,157 for the third quarter of 2008 as compared to \$150,029 for same period in 2007.

### **Noninterest Expense**

Noninterest expense was \$27,784 for the three month period ended September 30, 2008 compared to \$26,689 for the same period in 2007, an increase of \$1,095, or 4.10%.

Salaries and employee benefits for the three month period ended September 30, 2008 were \$15,250, which is \$240 greater than the same period last year. The increase was attributable to increases in the cost of employee benefits offset by decreases in incentive and performance benefits.

Data processing costs for the three month period ended September 30, 2008 were \$1,289, a decrease of \$136 compared to the same period last year. Net occupancy expense and equipment expense for the three month period ended September 30, 2008 increased \$130 to \$3,399 over the comparable period for the prior year, primarily due to additional depreciation on assets placed into service and expenses related to the acquisition of Capital.

Amortization of intangible assets was \$610 for both the three months ended September 30, 2008 and 2007. Intangible assets are amortized over their estimated useful lives, which range between five and ten years.

Noninterest expense as a percentage of average assets was 2.95% for the three month period ended September 30, 2008 and 3.01% for the comparable period in 2007. The net overhead ratio was 1.50% and 1.49% for the third quarter of 2008 and 2007, respectively. The net overhead ratio is defined as noninterest expense less noninterest income, expressed as a percent of average assets. Our efficiency ratio increased to 65.40% for the three month period ended September 30, 2008 compared to 64.97% for the same period of 2007. The efficiency ratio measures 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. We calculate this ratio by dividing noninterest expense by the sum of net interest income on a fully taxable equivalent basis and noninterest income.

Income tax expense was \$3,243 for the three month period ended September 30, 2008 (with an effective tax rate of 30.02%), compared to \$3,845 (with an effective tax rate of 31.67%) for the same period in 2007. We continually

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seek investing opportunities in assets, primarily through state and local investment securities, whose earnings are given favorable tax treatment.

### **Results of Operations – Nine Months ended September 30, 2008 as Compared to the Nine Months ended September 30, 2007**

#### **Summary**

Net income for the nine month period ended September 30, 2008 was \$23,820, an increase of \$1,474, or 6.60%, from net income of \$22,346 for the same period in 2007. Basic earnings per share were \$1.14 and diluted earnings per share were \$1.13 for the nine month period ended September 30, 2008, as compared to basic earnings per share of \$1.25 and diluted earnings per share of \$1.23 for the comparable period a year ago.

#### **Net Interest Income**

Net interest income grew 19.92% to \$82,600 for the nine months ended September 30, 2008 compared to \$68,878 for the same period in 2007. On a tax equivalent basis, net interest margin for the nine month period ended September 30, 2008 was 3.46% compared to 3.60% for the same period in 2007. Net interest income for the first nine months of 2008 includes \$581 in interest income related to loans accounted for under the American Institute of Certified Public Accountants Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, as compared to \$118 in interest income from similar loans for the first nine months of 2007. This additional interest income increased our net interest margin by 3 and 1 basis points for the first nine months of 2008 and 2007, respectively.

Interest income grew 8.43% to \$153,852 for the first nine months of 2008 from \$141,887 for the same period in 2007. The growth in interest income was driven by an increase in volume of interest-earning assets offset by a decrease in the rate earned on these assets. The average balance of interest-earning assets for the nine months ending September 30, 2008 increased \$639,133 as compared to the same period in 2007 due to the acquisition of Capital and the purchase of investment securities. Over this same period, the tax equivalent yield on earning assets decreased 93 basis points to 6.36%.

Interest expense decreased \$1,757 to \$71,252 for the nine months ended September 30, 2008 as compared to \$73,009 for the same period in 2007. The average balance of interest-bearing liabilities for the nine months ended September 30, 2008 increased \$618,897 as compared to the same period in 2007 due to the acquisition of Capital and additional borrowings used to purchase investment securities. The cost of interest-bearing deposits decreased 94 basis points to 3.01% for the nine months ended September 30, 2008 compared to 3.95% for the same period in 2007. Overall, the cost of interest-bearing liabilities decreased 95 basis points to 3.20% over this same period.

#### **Noninterest Income**

Noninterest income was \$41,291 for the nine month period ended September 30, 2008 compared to \$38,990 for the same period in 2007, an increase of \$2,301, or 5.90%. The operations of Capital increased noninterest income by \$1,891.

Service charges on deposits were \$17,044 for the first nine months of 2008, an increase of 13.61% over \$15,002 for the same period in 2007. Overdraft fees were \$15,350 for the nine month period ended September 30, 2008, an increase of \$2,132, or 16.13%, compared to the same period in 2007.

Fees and commissions were \$12,444 and \$11,892 for the nine month periods ended September 30, 2008 and 2007, respectively. Fees charged for loan services decreased \$655 to \$6,427 for the first nine months of 2008 compared to \$7,082 for the same period in 2007. For the nine month period ended September 30, 2008, fees associated with debit card usage were \$3,571, up 22.73% from the same period in 2007. Revenues generated from the sale of all specialized products by the Financial Services division totaled \$1,107 for the nine month period ended September 30, 2008 compared to \$692 for the same period in 2007. Revenue generated by the trust department for managing accounts was \$1,893 as compared to \$2,053 for the same period of 2007.

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Gains from sales of mortgage loans increased to \$4,184 for the nine months ended September 30, 2008 compared to \$3,572 for the same period in 2007. Originations of mortgage loans to be sold totaled \$568,824 for the first nine months of 2008 as compared to \$457,636 for same period in 2007.

Other noninterest income was \$1,961 and \$2,236 for the nine month periods ended September 30, 2008 and 2007, respectively. Other noninterest income for the nine months ended September 30, 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 the nine months ended September 30, 2007 includes a \$499 gain recognized on the sale of other real estate and a \$252 nontaxable death benefit from life insurance and a \$141 gain resulting from insurance proceeds that exceeded the write-off of premises and equipment due to a fire. Other noninterest income also includes contingency income of \$309 and \$261 for the nine months ended September 30, 2008 and 2007, respectively. Contingency income is a bonus received from insurance underwriters and is based on both commission income and claims experience on our client's policies during the previous year.

### **Noninterest Expense**

Noninterest expense was \$82,280 for the nine month period ended September 30, 2008 compared to \$72,557 for the same period in 2007, an increase of \$9,723, or 13.40%. The operations of Capital increased noninterest expense by \$5,909.

Salaries and employee benefits for the nine month period ended September 30, 2008 were \$44,817 which is \$3,797, or 9.26%, greater than the same period last year. The increase in salaries and employee benefits is due the acquisition of Capital and normal annual salary increases which were effective March 2008.

Data processing costs for the nine month period ended September 30, 2008 were \$3,899 compared to \$3,892 for the same period last year. Net occupancy expense and equipment expense for the nine month period ended September 30, 2008 increased \$1,349, or 15.27%, to \$10,185 over the comparable period for the prior year. In the second quarter of 2008, the Company consolidated several of its offices located throughout the metro-Birmingham, Alabama area into one location in downtown Birmingham. The new location serves as the headquarters of our Alabama operations and houses our mortgage and commercial loan operations and a full-service branch. The consolidation did not significantly change net occupancy expense and equipment expense.

Amortization of intangible assets increased to \$1,772 for the nine months ended September 30, 2008 compared to \$1,395 for the same period in 2007. The increase is due to the amortization of finite-lived intangible assets recorded as a result of the Capital acquisition.

Noninterest expense as a percentage of average assets was 2.96% for the nine month period ended September 30, 2008 and 3.26% for the comparable period in 2007. The net overhead ratio was 1.48% and 1.51% for the first nine months of 2008 and 2007, respectively. Our efficiency ratio improved to 64.96% for the nine month period ended September 30, 2008 compared to 65.67% for the same period of 2007. The improvement in the net overhead and efficiency ratios is reflective of the growth in noninterest income exceeding the growth in noninterest expenses.

Income tax expense was \$9,966 for the nine month period ended September 30, 2008 (with an effective tax rate of 29.50%), compared to \$10,102 (with an effective tax rate of 31.13%) for the same period in 2007.

### **Allowance and 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 quarterly analysis of the loan portfolio which includes consideration of such factors as the risk rating of individual credits, the size and diversity of the portfolio, economic conditions, prior loss experience, and the results of periodic credit reviews by internal loan review and regulators.

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. Factors considered in management's assessment in determining the amount of provision to charge to current period operations include the internal risk rating of individual credits, the size and diversity of our loan

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portfolio, historical and current trends in net charge-offs, trends in nonperforming loans, trends in past due loans and current economic conditions in the markets in which we operate.

For the third quarter of 2008, net charge-offs were \$1,624, or 0.25% annualized as a percentage of average loans, compared to net charge-offs for the same period in 2007 of \$377, or 0.06% annualized. For the nine months ended September 30, 2008, net charge-offs were \$6,173, or 0.32% annualized as a percentage of average loans, compared to net charge-offs for the same period in 2007 of \$856, or 0.05% annualized. The table below presents net charge-offs (recoveries) by loan type for the three and nine month periods ending September 30, 2008 and 2007:

|                                     | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                     | 2008                                | 2007     | 2008                               | 2007     |
| Commercial, financial, agricultural | \$ 92                               | \$ (136) | \$ 165                             | \$ (105) |
| Lease financing                     |                                     |          |                                    |          |
| Real estate construction            | 165                                 | 63       | 1,360                              | 109      |
| Real estate 1-4 family mortgage     | 1,929                               | 110      | 4,344                              | 448      |
| Real estate commercial mortgage     | (1)                                 | 2        | 776                                | (2)      |
| Installment loans to individuals    | (561)                               | 338      | (472)                              | 406      |
| Total net charge-offs               | \$ 1,624                            | \$ 377   | \$ 6,173                           | \$ 856   |

Loans past due 90 days or more and still accruing interest were \$9,077 at September 30, 2008 as compared to \$2,046 at December 31, 2007. Nonaccrual loans at September 30, 2008 were \$20,578 as compared to \$14,231 at December 31, 2007. Nonperforming loans (accruing loans past due 90 days or more and nonaccrual loans) as a percentage of total loans were 1.17% at September 30, 2008 compared to 0.63% at December 31, 2007. The Company's loans past due 30 to 89 days as a percentage of total loans were 1.17% at September 30, 2008 as compared to 1.08% at December 31, 2007. Management has evaluated these loans and other loans classified as nonperforming and concluded as of the date of such evaluation that all nonperforming loans have been adequately reserved for in the allowance for loan losses at September 30, 2008. The table below presents nonperforming loans by loan type as of September 30, 2008, and December 31, 2007:

|                                     | September 30,<br>2008 | December 31,<br>2007 |
|-------------------------------------|-----------------------|----------------------|
| Commercial, financial, agricultural | \$ 515                | \$ 140               |
| Lease financing                     |                       |                      |
| Real estate construction            | 8,737                 | 3,671                |
| Real estate 1-4 family mortgage     | 18,144                | 9,199                |
| Real estate commercial mortgage     | 2,152                 | 3,133                |
| Installment loans to individuals    | 107                   | 134                  |
| Total loans, net of unearned income | \$ 29,655             | \$ 16,277            |

In response to the increase in net charge-offs and nonperforming loans, the Company recorded a provision for loan losses of \$3,000 for the three months ended September 30, 2008 as compared to \$1,313 for the same period in 2007. The provision for loan losses was \$7,825 and \$2,863 for the nine months ended September 30, 2008 and 2007, respectively. The allowance for loan losses as a percentage of loans was 1.11% at September 30, 2008 as compared to 1.02% at December 31, 2007, and 1.04% at September 30, 2007.

Other real estate owned of \$21,901 and \$8,584 at September 30, 2008 and December 31, 2007, respectively, is included under the balance sheet heading Other Assets and consists of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair market value based on appraised value less estimated selling costs. Losses arising at the time of foreclosure of properties are charged against the allowance for loan losses. Reductions in the carrying value subsequent to acquisition are charged to earnings and are included in Other in the noninterest expense section on the statements of income.

The table below presents information and ratios regarding the allowance for loan losses, net charge-offs, and nonperforming assets. The quarterly increases in nonperforming assets from March 31, 2007 through September 30,



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2008 reflected in the table below are primarily attributable to the decline in the national economy and in the local economies in which the Company operates, with some increases also due to nonperforming loans acquired in connection with the Capital acquisition.

|                                            | 3 <sup>rd</sup><br>Quarter | 2008<br>2 <sup>nd</sup><br>Quarter | 1 <sup>st</sup><br>Quarter | 4 <sup>th</sup><br>Quarter | 2007<br>3 <sup>rd</sup><br>Quarter | 2 <sup>nd</sup><br>Quarter | 1 <sup>st</sup><br>Quarter |
|--------------------------------------------|----------------------------|------------------------------------|----------------------------|----------------------------|------------------------------------|----------------------------|----------------------------|
| Balance at beginning of period             | \$ 26,647                  | \$ 27,271                          | \$ 26,372                  | \$ 26,926                  | \$ 20,605                          | \$ 20,082                  | \$ 19,534                  |
| Additions from business combinations       |                            |                                    |                            | (132)                      | 5,385                              |                            |                            |
| Provision for loan losses                  | 3,000                      | 2,200                              | 2,625                      | 1,975                      | 1,313                              | 800                        | 750                        |
| Loans charged-off                          | 2,389                      | 3,120                              | 1,892                      | 2,804                      | 634                                | 338                        | 323                        |
| Recoveries of loans previously charged-off | (765)                      | (297)                              | (166)                      | (407)                      | (257)                              | (61)                       | (121)                      |
| Net charge-offs                            | 1,624                      | 2,823                              | 1,726                      | 2,397                      | 377                                | 277                        | 202                        |
| Balance at end of period                   | \$ 28,024                  | \$ 26,647                          | \$ 27,271                  | \$ 26,372                  | \$ 26,926                          | \$ 20,605                  | \$ 20,082                  |
| Nonaccruing loans                          | \$ 20,578                  | \$ 17,659                          | \$ 16,090                  | \$ 14,231                  | \$ 12,657                          | \$ 5,905                   | \$ 6,368                   |
| Accruing loans past due 90 days or more    | 9,077                      | 8,962                              | 5,888                      | 2,046                      | 2,125                              | 1,648                      | 3,913                      |
| Total nonperforming loans                  | 29,655                     | 26,621                             | 21,978                     | 16,277                     | 14,782                             | 7,553                      | 10,281                     |
| Other real estate owned and repossessions  | 21,901                     | 13,111                             | 12,802                     | 8,584                      | 3,168                              | 2,309                      | 2,897                      |
| Total nonperforming assets                 | \$ 51,556                  | \$ 39,732                          | \$ 34,780                  | \$ 24,861                  | \$ 17,950                          | \$ 9,862                   | \$ 13,178                  |
| Allowance for loan losses to:              |                            |                                    |                            |                            |                                    |                            |                            |
| Total loans                                | 1.11%                      | 1.05%                              | 1.06%                      | 1.02%                      | 1.04%                              | 1.04%                      | 1.06%                      |
| Nonperforming loans                        | 94.50                      | 100.10                             | 124.08                     | 162.02                     | 182.15                             | 272.81                     | 195.33                     |
| Net charge-offs to average loans           | 0.25                       | 0.43                               | 0.26                       | 0.36                       | 0.06                               | 0.06                       | 0.04                       |
| Nonperforming loans to total loans         | 1.17                       | 1.05                               | 0.85                       | 0.63                       | 0.57                               | 0.38                       | 0.54                       |
| Nonperforming assets to total assets       | 1.38                       | 1.05                               | 0.94                       | 0.69                       | 0.50                               | 0.35                       | 0.48                       |

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 as of September 30, 2008, and December 31, 2007:

|                                         | September 30,<br>2008 | December 31,<br>2007 |
|-----------------------------------------|-----------------------|----------------------|
| Specific reserves                       | \$ 3,246              | \$ 3,625             |
| Allocated reserves based on loan grades | 24,778                | 22,747               |
| Total reserves                          | \$ 28,024             | \$ 26,372            |

**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. 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. We constantly monitor our funds position and evaluate the effect various funding sources have on our financial position.

Deposits are our primary source of funds used to meet cash flow needs. 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 products we offer. Understanding the competitive pressures on deposits is key to maintaining the ability to acquire and retain these funds in a variety of markets. When evaluating the movement of these funds, even during large interest rate changes, it is essential that we continue to attract deposits that can be used to meet cash flow needs.

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Management continues to monitor the liquidity and volatility liabilities ratios to ensure compliance with Asset-Liability Committee targets. As rates paid on deposits, primarily time deposits, remained higher than alternative sources of funds during the first nine months of 2008, the Company was selective in pricing time deposits and instead utilized

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lower costing funding sources, such as FHLB borrowings. As a result, total deposits decreased \$135,653 to \$2,412,168 at September 30, 2008 from \$2,547,821 on December 31, 2007.

Our securities portfolio is another alternative for meeting liquidity needs. These assets generally have readily available markets that offer conversions to cash as needed. The balance of our securities portfolio was \$708,406 at September 30, 2008 as compared to \$539,590 at December 31, 2007. Securities within our investment portfolio are also used to secure certain deposit types and short-term borrowings. At September 30, 2008, securities with a carrying value of approximately \$457,986 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 prevailing market rate on federal funds purchased and FHLB advances. At September 30, 2008, we had no amounts outstanding in federal funds purchased as compared to \$59,800 at December 31, 2007. 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 also be used to meet day to day liquidity needs. As of September 30, 2008, our outstanding balance with the FHLB was \$772,377 compared to \$524,517 at December 31, 2007. The total amount of remaining credit available to us from the FHLB at September 30, 2008 was \$246,648. We also maintain lines of credits with other commercial banks totaling \$65,500. At September 30, 2008, there were no amounts outstanding under these lines of credit.

For the nine months ended September 30, 2008, our total cost of funds, including noninterest-bearing demand deposit accounts, was 2.92%, down from 3.72% for the same period in 2007. Noninterest-bearing demand deposit accounts made up approximately 8.98% of our average total deposits and borrowed funds at September 30, 2008 down from 10.37% at September 30, 2007. Interest-bearing transaction accounts, money market accounts and savings accounts made up approximately 28.63% of our average total deposits and borrowed funds and had an average cost of 1.69% for the nine months ended September 30, 2008, compared to 32.28% of the average total deposits and borrowed funds with an average cost of 2.69% for the same period in 2007. Another significant source of funds was time deposits, making up 39.57% of the average total deposits and borrowed funds with an average cost of 3.97% for the nine months ended September 30, 2008, compared to 47.06% of the average total deposits and borrowed funds with an average cost of 4.82% for the same period in 2007. FHLB advances made up approximately 18.86% of our average total deposits and borrowed funds with an average cost of 3.56%, compared to 6.92% of the average total deposits and borrowed funds with an average cost of 5.02% for the same period in 2007.

Cash and cash equivalents were \$106,048 at September 30, 2008 compared to \$91,648 at September 30, 2007. Cash used in investing activities for the nine months ended September 30, 2008 was \$150,817 compared to \$353,349 for the same period of 2007. Purchases of investment securities were \$316,575 for the nine months ending September 30, 2008 compared to \$149,051 for the nine months ending September 30, 2007. Proceeds from the sale and maturity of our investment security portfolio were \$134,545 for the nine months ending September 30, 2008 compared to \$105,189 for the nine months ending September 30, 2007. Cash provided by the decrease in loans was \$34,743 for the nine months ended September 30, 2008 compared to cash used to fund loan growth of \$252,117 for the same period in 2007. Cash used in investing activities for the nine months ended September 30, 2007 includes the net cash paid in connection with the acquisition of Capital of \$52,712.

Cash provided by financing activities for the nine months ended September 30, 2008 was \$101,480 compared to \$294,247 for the same period of 2007. Net proceeds from other borrowings of \$246,095 for the nine months ended September 30, 2008 were used primarily to fund the purchases of additional investment securities. Cash used from the decrease in deposits was \$135,508 for the nine months ended September 30, 2008 compared to cash provided of \$64,393 for the same period in 2007. Cash provided by financing activities for the nine months ended September 30, 2007 includes the net proceeds of \$58,126 from the equity offering in connection with the acquisition of Capital.

We are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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Quantitative measures established by regulation to ensure capital adequacy require us to maintain minimum balances and ratios. All banks are required to have core capital (Tier I) of at least 4% of risk-weighted assets, Tier I leverage of 4% of average assets, and total capital of 8% of risk-weighted assets (as such ratios are defined in Federal regulations). As of September 30, 2008, we met all capital adequacy requirements to which we are subject. As of September 30, 2008, the most recent notification from the Federal Deposit Insurance Corporation categorized us as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, we must maintain minimum Tier I risk-based, Tier I leverage and total risk-based ratios of 5%, 6%, and 10%, respectively. In the opinion of management, there are no conditions or events since the last notification that are likely to result in a change to our rating as well capitalized.

The following table includes our capital ratios and the capital ratios of our banking subsidiary as of September 30, 2008:

|                                          | <b>Company</b> | <b>Bank</b> |
|------------------------------------------|----------------|-------------|
| Tier I Leverage (to average assets)      | 8.30%          | 8.02%       |
| Tier I Capital (to risk-weighted assets) | 10.81%         | 10.44%      |
| Total Capital (to risk-weighted assets)  | 11.84%         | 11.47%      |

Management recognizes the importance of maintaining a strong capital base. As the above ratios indicate, we exceed the requirements for a well capitalized bank.

The Company's liquidity and capital resources, as well as its ability to pay dividends to our shareholders, are substantially dependent on the ability of Renasant Bank to transfer funds to the Company in the form of dividends, loans and advances. The approval of the Mississippi Department of Banking and Consumer Finance is required prior to Renasant Bank paying dividends, which are limited to earned surplus in excess of three times capital stock. At September 30, 2008, the unrestricted surplus for Renasant Bank was approximately \$462,728. Federal Reserve regulations also limit the amount Renasant Bank may loan to the Company unless such loans are collateralized by specific obligations. At September 30, 2008, the maximum amount available for transfer from Renasant Bank to the Company in the form of loans was \$31,219. There were no loans outstanding from Renasant Bank to the Company at September 30, 2008. These restrictions did not have any impact on the Company's ability to meet its cash obligations in the first nine months of 2008, nor does management expect such restrictions to materially impact the Company's ability to meet its currently-anticipated cash obligations.

Book value per share was \$19.33 and \$19.15 at September 30, 2008 and December 31, 2007, respectively.

**Off-Balance Sheet Arrangements**

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.

The Company's unfunded loan commitments (unfunded loans and unused lines of credit) and standby letters of credit outstanding at September 30, 2008 were approximately \$691,250 and \$27,982, respectively, compared to \$794,592 and \$27,843, respectively, at December 31, 2007.

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.

Market risk resulting from interest rate changes on particular off-balance sheet financial instruments may be offset by other on- or off-balance sheet transactions. Interest rate sensitivity is monitored by the Company for determining the net effect of potential changes in interest rates on the market value of both on- or off-balance sheet financial instruments.

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### **Contractual Obligations**

There have not been any material changes outside of the ordinary course of business to any of the contractual obligations disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in our market risk since December 31, 2007. For additional information regarding our market risk, see our Annual Report on Form 10-K for the year ended December 31, 2007.

### **Item 4. CONTROLS AND PROCEDURES**

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective to allow for timely decisions regarding the disclosure of material information required to be included in our periodic reports to the Securities and Exchange Commission. There were no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**Part II. OTHER INFORMATION**

**Item 1A. RISK FACTORS**

Information regarding risk factors appears in Part I, Item 1A, Risk Factors, of the Company's Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material changes in the risk factors previously disclosed in our Annual Report on Form 10-K.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Unregistered Sales of Equity Securities**

None.

**Issuer Purchases of Equity Securities**

The Company did not repurchase any shares of its outstanding stock during the three month period ended September 30, 2008.

Please refer to the information discussing restrictions on the Company's ability to pay dividends under the heading Liquidity and Capital Resources in Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report, which is incorporated by reference herein.

**Item 5. OTHER INFORMATION**

On October 21, 2008, the board of directors of the Company approved an amendment to the provision in the Company's Bylaws governing the procedures by which security holders of the Company may recommend nominees for election to the Company's board of directors. The changes to the Company's Bylaws effected by this amendment are described in detail under Item 5.03 of the Company's Form 8-K filed with the Securities and Exchange Commission on October 21, 2008, which description is incorporated herein by reference.

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**Item 6. EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                   |
|---------------------------|----------------------------------------------------------------------------------------------------------------------|
| 3.1                       | Articles of Incorporation of Renasant Corporation, as amended <sup>(1)</sup>                                         |
| 3.2                       | Restated Bylaws of Renasant Corporation, as amended <sup>(2)</sup>                                                   |
| 4.1                       | Articles of Incorporation of Renasant Corporation, as amended <sup>(1)</sup>                                         |
| 4.2                       | Restated Bylaws of Renasant Corporation, as amended <sup>(2)</sup>                                                   |
| 31.1                      | Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2                      | Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1                      | Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2                      | Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

<sup>(1)</sup> Filed as Exhibit 3.1 to the Company's Form 10-Q filed with the Securities and Exchange Commission on May 9, 2005 and incorporated herein by reference.

<sup>(2)</sup> Filed as Exhibit 3.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on October 21, 2008 and incorporated herein by reference.

The Company does not have any long-term debt instruments under which securities are authorized exceeding ten percent of the total assets of the Company and its subsidiaries on a consolidated basis. The Company will furnish to the Securities and Exchange Commission, upon their request, a copy of all long-term debt instruments.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

November 10, 2008

**RENASANT CORPORATION**

/s/ E. Robinson McGraw  
E. Robinson McGraw  
Chairman, President & Chief Executive Officer

(Principal Executive Officer)

/s/ Stuart R. Johnson  
Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                   |
|---------------------------|----------------------------------------------------------------------------------------------------------------------|
| 31.1                      | Certification of the Chief Executive Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2                      | Certification of the Chief Financial Officer, as required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1                      | Certification of the Chief Executive Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2                      | Certification of the Chief Financial Officer, as required pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |