GREEN BANKSHARES, INC.
Form 10-K
March 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

OR

o **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 0-14289

GREEN BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Tennessee	**62-1222567**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 North Main Street, Greeneville, Tennessee	**37743-4992**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: **(423) 639-5111**.

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

Common Stock $2.00 par value

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES o NO þ

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 þ NO o

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if you are a smaller reporting Company)	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2007, the last business day of the registrant s most recently completed second fiscal quarter, was $369 million. The market value calculation was determined using the closing sale price of the registrant s common stock on June 30, 2007, as reported on the Nasdaq Global Select Market. For purposes of this calculation, the term affiliate refers to all directors, executive officers and 10% shareholders of the registrant. As of the close of business on March 14, 2008 13,001,321 shares of the registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following lists the documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated:

1. Portions of Proxy Statement for 2008 Annual Meeting of Shareholders. (Part III)

PART I

Forward-Looking Statements

The information contained herein contains forward-looking statements that involve a number of risks and uncertainties. A number of factors, including those discussed herein, could cause results to differ materially from those anticipated by such forward-looking statements which are within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition, such forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Forward-looking statements can be identified by, among other things, the use of forward-looking terminology such as intends, believes, expects, may, will, should, seeks, pro forma or anticipates, or the neg other variations thereon of comparable terminology, or by discussions of strategy or intentions. Such statements may include, but are not limited to, projections of income or loss, expenditures, acquisitions, plans for future operations, financing needs or plans relating to services of the Company, as well as assumptions relating to the foregoing. The Company s actual results may differ materially from the results anticipated in forward-looking statements due to a variety of factors, including, but not limited to those identified in Item 1A. Risk Factors in this Form 10-K and (1) unanticipated deterioration in the financial condition of borrowers resulting in significant increases in loan losses and provisions for those losses; (2) lack of sustained growth in the economy in the markets that the Bank serves; (3) increased competition with other financial institutions in the markets that the Bank serves; (4) changes in the legislative and regulatory environment; (5) the Company s failure to successfully implement its growth strategy; and (6) the loss of key personnel. All forward-looking statements herein are based on information available to us as of the date this Annual Report on Form 10-K was filed with the Securities and Exchange Commission (SEC).

ITEM 1. BUSINESS.

Presentation of Amounts

All dollar amounts set forth below, other than per-share amounts, are in thousands unless otherwise noted.

The Company

Green Bankshares, Inc. (the Company) was formed in 1985 and serves as the bank holding company for GreenBank (the Bank), which is a Tennessee-chartered commercial bank that conducts the principal business of the Company. At December 31, 2007, and based upon relevant information available at that time, the Company believes it was the third largest bank holding company headquartered in the state of Tennessee. At December 31, 2007, the Company maintained a main office in Greeneville, Tennessee and 65 full-service bank branches (of which eleven are in leased operating premises), a location for mortgage banking and nine separate locations operated by the Bank s subsidiaries. The Company s assets consist primarily of its investment in the Bank and liquid investments. Its primary activities are conducted through the Bank. At December 31, 2007, the Company s consolidated total assets were $2,947,741, its consolidated net loans were $2,356,376, its total deposits were $1,986,793 and its total shareholders equity was $322,477.

The Company s net income is dependent primarily on its net interest income, which is the difference between the interest income earned on its loans, investment assets and other interest-earning assets and the interest paid on deposits and other interest-bearing liabilities. To a lesser extent, the Company s net income also is affected by its noninterest income derived principally from service charges and fees as well as the level of noninterest expenses such as salaries and employee benefits.

The operations of the Company are significantly affected by prevailing economic conditions, competition and the monetary, fiscal and regulatory policies of governmental agencies. Lending activities are influenced by the general credit needs of individuals and small and medium-sized businesses in the Company s market areas, competition among lenders, the level of interest rates and the availability of funds. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily the rates paid on competing investments, account maturities and the levels of personal income and savings in the Company s market areas.
The principal executive offices of the Company are located at 100 North Main Street, Greeneville, Tennessee 37743-4992 and its telephone number is (423) 639-5111.

The Bank and its Subsidiaries

The Bank is a Tennessee-chartered commercial bank established in 1890 which has its principal executive offices in Greeneville, Tennessee. The principal business of the Bank consists of attracting deposits from the general public and investing those funds, together with funds generated from operations and from principal and interest payments on loans, primarily in commercial and residential real estate loans, commercial loans and installment consumer loans. At December 31, 2007, the Bank had 64 full-service banking offices located in Greene, Blount, Cocke, Hamblen, Hawkins, Knox, Loudon, McMinn, Monroe, Sullivan, and Washington Counties in East Tennessee and in Davidson, Lawrence, Macon, Montgomery, Rutherford, Smith, Sumner and Williamson Counties in Middle Tennessee. The Bank also operates two other full service branches one located in nearby Madison County, North Carolina and the other in nearby Bristol, Virginia. Further, the Bank operates a mortgage banking operation in Knox County, Tennessee.
The Bank also offers other financial services through three wholly-owned subsidiaries. Through Superior Financial Services, Inc. (Superior Financial), the Bank operates eight consumer finance company offices located in Greene, Blount, Hamblen, Washington, Sullivan, Sevier, Knox and Bradley Counties, Tennessee. Through GCB Acceptance Corporation (GCB Acceptance), the Bank operates a sub-prime automobile lending company with a sole office in Johnson City, Tennessee. Through Fairway Title Co., the Bank operates a title company headquartered in Knox County, Tennessee. At December 31, 2007, these three subsidiaries had total combined assets of $37,992 and total combined loans, net of unearned interest and loan loss reserve, of $35,273.
Deposits of the Bank are insured by the Bank Insurance Fund (BIF) of the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to supervision and regulation by the Tennessee Department of Financial Institutions (the Banking Department) and the FDIC. See Regulation, Supervision and Governmental Policy.
On October 7, 2005, the Company purchased five bank branches in Montgomery County, Tennessee. This purchase (the Clarksville transaction) also added to the Bank s presence in Middle Tennessee.
On May 18, 2007, the Company completed its acquisition of Franklin, Tennessee-based Civitas BankGroup, Inc. (CVBG). The Company was the surviving corporation of the merger with CVBG. CVBG was the bank holding company for Cumberland Bank which had 12 offices in the Nashville Metropolitan Statistical Area (MSA). Cumberland Bank was subsequently merged with the Bank, with the Bank as the surviving entity. The aggregate purchase price was $164,268, including $45,793 in cash and 3,091,495 shares of the Company s common stock.

Growth and Business Strategy

The Company expects that, over the intermediate term, its growth from mergers and acquisitions, including acquisitions of both entire financial institutions and selected branches of financial institutions, will continue. De novo branching is also expected to be a method of growth, particularly in high-growth and other demographically-desirable markets.
The Company s strategic plan outlines geographic expansion within a 300-mile radius of its headquarters in Greene County, Tennessee. This could result in the Company expanding westward and eastward up to and including Nashville, Tennessee and Roanoke, Virginia, respectively, east/southeast up to and including the Piedmont area of North Carolina and western North Carolina, southward to northern Georgia and northward into eastern and central Kentucky. In particular, the Company believes the markets in and around Knoxville, Nashville and Chattanooga, Tennessee are highly desirable areas with respect to expansion and growth plans.

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The Bank had historically operated under a single bank charter while conducting business under 18 bank brands with a distinct community-based brand in almost every market. On March 31, 2007 the Bank announced that it had changed all brand names to GreenBank throughout all the communities it serves to better enhance recognition and customer convenience. The Bank continues to offer local decision making through the presence of its regional executives in each of its markets, while maintaining a cost effective organizational structure in its back office and support areas.

The Bank focuses its lending efforts predominately on individuals and small to medium-sized businesses while it generates deposits primarily from individuals in its local communities. To aid in deposit generation efforts, the Bank offers its customers extended hours of operation during the week as well as Saturday and Sunday banking. The Bank also offers free online banking along with its High Performance Checking Program which since its inception has generated a significant number of core transaction accounts.

In addition to the Company s business model, which is summarized in the paragraphs above entitled The Company and The Bank and its Subsidiaries , the Company is continuously investigating and analyzing other lines and areas of business. Conversely, the Company frequently evaluates and analyzes the profitability, risk factors and viability of its various business lines and segments and, depending upon the results of these evaluations and analyses, may conclude to exit certain segments and/or business lines. Further, in conjunction with these ongoing evaluations and analyses, the Company may decide to sell, merge or close certain branch facilities.

Lending Activities

General. The loan portfolio of the Company is comprised of commercial real estate, residential real estate, commercial and consumer loans. Such loans are primarily originated within the Company s market areas of East and Middle Tennessee and are generally secured by residential or commercial real estate or business or personal property located in its market footprint.

Loan Composition. The following table sets forth the composition of the Company s loans at December 31 for each of the periods indicated:

	2007	2006	2005	2004	2003
Commercial real estate	$ 1,549,457	$ 921,190	$ 729,254	$ 484,088	$ 445,104
Residential real estate	398,779	281,629	319,797	319,713	295,528
Commercial	320,264	258,998	245,285	165,975	134,823
Consumer	97,635	87,111	90,682	82,532	81,624
Other	3,871	2,203	3,476	4,989	6,134
Unearned interest	(13,630)	(11,502)	(9,852)	(10,430)	(10,988)
Loans, net of unearned interest	$ 2,356,376	$ 1,539,629	$ 1,378,642	$ 1,046,867	$ 952,225
Allowance for loan losses	$ (34,111)	$ (22,302)	$ (19,739)	$ (15,721)	$ (14,564)

Loan Maturities. The following table reflects at December 31, 2007 the dollar amount of loans maturing based on their contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and loans having no stated maturity are reported as due in one year or less.

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years	Total
Commercial real estate	$ 866,485	$ 591,190	$ 91,782	$ 1,549,457

Residential real estate [1]	72,041	119,053	202,184	393,278
Commercial	186,528	123,045	10,691	320,264
Consumer [1]	27,212	58,961	3,333	89,506
Other	3,341	382	148	3,871
Total	$ 1,155,607	$ 892,631	$ 308,138	$ 2,356,376

[1] Net of unearned interest

The following table sets forth the dollar amount of the loans maturing subsequent to the year ending December 31, 2008 distinguished between those with predetermined interest rates and those with floating, or variable, interest rates.

	Fixed Rate	Variable Rate	Total
Commercial real estate	$ 494,423	$ 188,549	$ 682,972
Residential real estate	169,696	151,541	321,237
Commercial	101,174	32,562	133,736
Consumer	61,512	782	62,294
Other	426	104	530
Total	$ 827,231	$ 373,538	$ 1,200,769

Commercial Real Estate Loans. The Company originates commercial loans, generally to existing business customers, secured by real estate located in the Company s market area. At December 31, 2007, commercial real estate loans totaled $1,549,457, or 66%, of the Company s net loan portfolio. Commercial real estate loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary source of repayment, financial strength of any guarantor, strength of the tenant (if any), liquidity, leverage, management experience, ownership structure, economic conditions and industry specific trends and collateral. Generally, the Company will loan up to 80-85% of the value of improved property, 65% of the value of raw land and 75% of the value of land to be acquired and developed. A first lien on the property and assignment of lease is required if the collateral is rental property, with second lien positions considered on a case-by-case basis.

Residential Real Estate. The Company also originates one-to-four family, owner-occupied residential mortgage loans secured by property located in the Company s primary market areas. The majority of the Company s residential mortgage loans consists of loans secured by owner-occupied, single-family residences. At December 31, 2007, the Company had $398,779, or 17%, of its net loan portfolio in residential real estate loans. Residential real estate loans generally have a loan-to-value ratio of 85% or less. These loans are underwritten by giving consideration to the ability to pay, stability of employment or source of income, credit history and loan-to-value ratio. Home equity loans make up approximately 31% of residential real estate loans. Home equity loans may have higher loan-to-value ratios when the borrower s repayment capacity and credit history conform to underwriting standards. Superior Financial extends sub-prime mortgages to borrowers who generally have a higher risk of default than mortgages extended by the Bank. Sub-prime mortgages totaled $14,656, or 4%, of the Company s residential real estate loans at December 31, 2007.

The Company sells most of its one-to-four family mortgage loans in the secondary market to Freddie Mac and other mortgage investors through the Bank s mortgage banking operation. Sales of such loans to Freddie Mac and other mortgage investors totaled $84,282 and $68,747 during 2007 and 2006, respectively, and the related mortgage servicing rights were sold together with the loans.

Commercial Loans. Commercial loans are made for a variety of business purposes, including working capital, inventory and equipment and capital expansion. At December 31, 2007, commercial loans outstanding totaled $320,264, or 14%, of the Company s net loan portfolio. Such loans are usually amortized over one to seven years and generally mature within five years. Commercial loan applications must be supported by current financial information on the borrower and, where appropriate, by adequate collateral. Commercial loans are generally underwritten by addressing cash flow (debt service coverage), primary and secondary sources of repayment, financial strength of any guarantor, liquidity, leverage, management experience, ownership structure, economic conditions and industry-specific trends and collateral. The loan to value ratio depends on the type of collateral. Generally speaking, accounts receivable are financed between 70% and 80% of accounts receivable less than 90 days past due. If other collateral is taken to support the loan, the loan to value of accounts receivable may approach 85%. Inventory financing will range between 50% and 60% depending on the borrower and nature of the inventory. The Company requires a first lien position for such loans. These types of loans are generally considered to be a higher credit risk than other loans originated by the Company.

Consumer Loans. At December 31, 2007, the Company s consumer loan portfolio totaled $97,635, or 4%, of the Company s total net loan portfolio. The Company s consumer loan portfolio is composed of secured and unsecured loans originated by the Bank, Superior Financial and GCB Acceptance. The consumer loans of the Bank have a higher risk of default than other loans originated by the Bank. Further, consumer loans originated by Superior Financial and GCB Acceptance, which are finance companies rather than banks, generally have a greater risk of default than such loans originated by commercial banks and, accordingly, carry a higher interest rate. Superior Financial and GCB Acceptance consumer loans totaled approximately $37,297, or 38%, of the Company s installment consumer loans at December 31, 2007. The performance of consumer loans will be affected by the local and regional economy as well as the rates of personal bankruptcies, job loss, divorce and other individual-specific characteristics.

Past Due, Special Mention, Classified and Nonaccrual Loans. The Company classifies its problem loans into three categories: past due loans, special mention loans and classified loans (both accruing and non-accruing interest).
When management determines that a loan is no longer performing and that collection of interest appears doubtful, the loan is placed on nonaccrual status. All loans that are 90 days past due are considered nonaccrual unless they are adequately secured and there is reasonable assurance of full collection of principal and interest. Management closely monitors all loans that are contractually 90 days past due, treated as special mention or otherwise classified or on nonaccrual status. Nonaccrual loans that are 120 days past due without assurance of repayment are charged off against the allowance for loan losses.
The following table sets forth information with respect to the Company s nonperforming assets at the dates indicated. At these dates, the Company did not have any troubled debt restructurings.

	At December 31,				
	2007	2006	2005	2004	2003
Loans accounted for on a non-accrual basis	$ 32,060	$ 3,479	$ 5,915	$ 6,242	$ 4,305
Accruing loans which are contractually past due 90 days or more as to interest or principal payments	18	28	809	664	224
Total non-performing loans	32,078	3,507	6,724	6,906	4,529
Real estate owned:					
Foreclosures	4,401	1,445	2,920	1,353	3,599
Other real estate held and repossessed assets	458	243	823	213	627
Total non-performing assets	$ 36,937	$ 5,195	$ 10,467	$ 8,472	$ 8,755

Total non-performing assets increased by $31,742 from December 31, 2006 to December 31, 2007. This increase was principally a function of the rapid deterioration of residential real estate construction lending during the fourth quarter of 2007 in the Company s urban markets, primarily Nashville and Knoxville, and the aggressive action taken to identify and appropriately classify these assets. The Company s continuing efforts to resolve nonperforming loans occasionally include foreclosures, which result in the Company s ownership of the real estate underlying the mortgage.
If nonaccrual loans at December 31, 2007 had been current according to their original terms and had been outstanding throughout 2007, or since origination if originated during the year, interest income on these loans would have been approximately $2,214. Interest actually recognized on these loans during 2007 was $1,977.
Foreclosed real estate increased $2,956 to $4,401 at December 31, 2007 from $1,445 at December 31, 2006. The real estate consists of 18 properties, of which 15 are single family residential properties with a carrying value of $4,150, two are multi-acre vacant land with carrying value of $29 and one consists of five lots with a carrying value of $222. Management expects to liquidate these properties during 2008. Management has recorded these properties at fair value less estimated selling costs, and the subsequent sale of such properties is not expected to result in any material adverse effect on the Company s results of operations, subject to business and marketing conditions at the time of sale. Other repossessed assets increased $215 to $458 at December 31, 2007 from $243 at December 31, 2006. The increase is due primarily to increased automobile repossessions at one of the Company s subsidiaries.
Total impaired loans, defined under Statement of Accounting Standards (SFAS) No. 114 as loans which, based upon current information and events it is considered probable that the Company will be unable to collect all amounts of contractual interest and principal as scheduled in the loan agreement, increased by $31,200 from $5,067 at December 31, 2006 to $36,267 at December 31, 2007. Under SFAS No. 114, the impairment is probable if the future

event or events confirming the fact of the loss are likely to occur. Impaired loans may, or may not, be included in non-performing loans. This increase is primarily attributable to the rapid deterioration during the fourth quarter of 2007 in residential real estate construction loans located in its urban markets.

At December 31, 2007, the Company had approximately $4,200 in loans that are not currently classified as nonaccrual or 90 days past due or otherwise restructured but which known information about possible credit problems of borrowers caused management to have concerns as to the ability of the borrowers to comply with present loan repayment terms. Such loans were considered classified by the Company and were composed primarily of various commercial, commercial real estate and consumer loans. The Company believes that these loans are adequately secured and management currently does not expect any material loss.

Allowance for Loan Losses. The allowance for loan losses is maintained at a level which management believes is adequate to absorb all probable losses on loans then present in the loan portfolio. The amount of the allowance is affected by: (1) loan charge-offs, which decrease the allowance; (2) recoveries on loans previously charged-off, which increase the allowance; and (3) the provision for possible loan losses charged to income, which increases the allowance. In determining the provision for possible loan losses, it is necessary for management to monitor fluctuations in the allowance resulting from actual charge-offs and recoveries, and to periodically review the size and composition of the loan portfolio in light of current and anticipated economic conditions in an effort to evaluate portfolio risks. If actual losses exceed the amount of the allowance for loan losses, earnings of the Company could be adversely affected. The amount of the provision is based on management s judgment of those risks. During the year ended December 31, 2007, the Company s provision for loan losses increased by $8,976 to $14,483 from $5,507 for the year ended December 31, 2006, while the allowance for loan losses increased by $11,809 to $34,111 at December 31, 2007 from $22,302 at December 31, 2006. The increase in the provision for loan losses was attributable primarily to weakened economic conditions experienced in the Company s urban markets, principally in the Nashville and Knoxville markets, during the fourth quarter of 2007 accompanied by deteriorating credit quality associated primarily with residential real estate construction loans in those markets.

The increase in the allowance for loan losses was attributable primarily to weakened economic conditions experienced in the Company s urban markets, principally the Nashville and Knoxville markets, during the fourth quarter of 2007, accompanied by deteriorating credit quality associated primarily with residential real estate construction loans in these markets along with the $9,022 allowance acquired from the CVBG acquisition. After recognizing net charge-offs of $11,696 for the year, the Company reviewed loan concentrations in the residential real estate construction category along with continued economic weaknesses in its urban markets and provided an additional $14,483 to cover estimated losses inherent in the portfolio. While the allowance for loan losses as a percentage of total loans remained constant from the prior year at 1.45% on a consolidated basis, the allowance for loan losses in our banking segment increased year over year as a result of the higher level of non-performing banking assets, and losses inherent in this segment of the Company s business, as noted in ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA NOTE 17 SEGEMENT INFORMTION . Although Management believes that the allowance for loan losses is adequate to cover estimated losses inherent in the portfolio, there can be no assurances that additional reserves may not be required in the future.

The following is a summary of activity in the allowance for loan losses for the periods indicated:

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Balance at beginning of year	$ 22,302	$ 19,739	$ 15,721	$ 14,564	$ 12,586
Reserve acquired in acquisition	9,022		1,467	363	1,340
Subtotal	31,324	19,739	17,188	14,927	13,926
Commercial real estate					
Charge-offs:					
Commercial real estate	(7,516)	(494)	(189)	(1,044)	(664)
Commercial	(2,065)	(879)	(1,500)	(1,538)	(1,007)
Subtotal	(9,581)	(1,373)	(1,689)	(2,582)	(1,671)
Residential real estate	(840)	(947)	(622)	(424)	(745)
Consumer	(3,050)	(2,009)	(3,250)	(3,962)	(4,381)
Other		(28)	(22)	(12)	
Total charge-offs	(13,471)	(4,357)	(5,583)	(6,980)	(6,797)
Recoveries:					
Commercial real estate	289	17	180	66	90
Commercial	227	171	160	304	195
Subtotal	516	188	340	370	287
Residential real estate	213	284	166	63	92
Consumer	1,038	936	1,246	1,504	1,281
Other	8	5	17	1	
Total recoveries	1,775	1,413	1,769	1,938	1,660
Net charge-offs	(11,696)	(2,944)	(3,814)	(5,042)	(5,137)
Provision for loan losses	14,483	5,507	6,365	5,836	5,775
Balance at end of year	$ 34,111	$ 22,302	$ 19,739	$ 15,721	$ 14,564
Ratio of net charge-offs to average loans outstanding, net of unearned discount, during the period	.57%	.20%	.32%	0.51%	.64%
Ratio of allowance for loan losses to non-performing loans	106.34%	635.93%	293.56%	227.64%	321.57%

Ratio of allowance for loan losses to total loans, net of unearned income	1.45%	1.45%	1.43%	1.50%	1.53%

Breakdown of allowance for loan losses by category. The following table presents an allocation among the listed loan categories of the Company s allowance for loan losses at the dates indicated and the percentage of loans in each category to the total amount of loans at the respective year-ends:

	At December 31,									
	2007		2006		2005		2004		2003	
Balance at end of period applicable to:	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Commercial real estate	$ 20,489	65.38%	$ 10,619	59.38%	$ 8,889	52.90%	$ 5,939	46.25%	$ 4,737	46.75%
Residential real estate	2,395	16.83%	1,639	18.16%	2,035	22.92%	1,922	30.11%	2,037	30.56%
Commercial	7,575	13.51%	6,645	16.70%	4,797	17.79%	3,666	15.85%	3,001	14.16%
Consumer	3,635	4.12%	3,384	5.62%	3,960	6.14%	3,856	7.31%	4,080	7.89%
Other	17	.16%	15	0.14%	58	0.25%	338	0.48%	709	0.64%
Totals	$ 34,111	100.00%	$ 22,302	100.00%	$ 19,739	100.00%	$ 15,721	100.00%	$ 14,564	100.00%

Investment Activities

General. The Company maintains a portfolio of investments to cover minimum pledging requirements for municipal deposits and borrowings.

Securities by Category. The following table sets forth the carrying value of the securities, by major categories, held by the Company at December 31, 2007, 2006 and 2005:

	At December 31, 2007	2006	2005
Securities Held to Maturity:			
Obligations of state and political subdivisions	$ 1,049	$ 1,794	$ 2,630
Corporate Securities	254	751	749
Total	$ 1,303	$ 2,545	$ 3,379
Securities Available for Sale:			
U.S. Government, corporations and agencies	$ 197,908	$ 33,814	$ 40,755
Obligations of state and political subdivisions	34,388	1,702	1,700
Trust Preferred Securities	2,977	2,224	6,413
Total	$ 235,273	$ 37,740	$ 48,868

Maturity Distributions of Securities. The following table sets forth the distributions of maturities of securities at amortized cost as of December 31, 2007:

	Due in One Year or Less	Due After One Year through Five Years	Due After Five Years through 10 Years	Due After 10 Years	Total
US Government agency obligations available for sale	$ 258	$ 5,517	$ 37,685	$ 152,091	$ 195,551
Obligations of state and political subdivisions available for sale	500	1,411	11,485	20,754	34,150
Obligations of state and political subdivisions held to maturity	385	664			1,049
Other securities available for sale				3,094	3,094
Other securities held to maturity		254			254

Subtotal	$ 1,143	$ 7,846	$ 49,170	$ 175,939	$ 234,098
Market value adjustment on available for sale securities	(7)	69	615	1,801	2,478
Total	$ 1,136	$ 7,915	$ 49,785	$ 177,740	$ 236,576
Weighted average yield (a)	4.07%	5.35%	5.71%	5.71%	5.69%

(a) Weighted average yields on tax-exempt obligations have been computed on a fully taxable-equivalent basis using a tax rate of 35%.

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Deposits

Deposits are the primary source of funds for the Company. Such deposits consist of noninterest bearing and interest-bearing demand deposit accounts, regular savings deposits, Money Market accounts and market rate Certificates of Deposit. Deposits are attracted from individuals, partnerships and corporations in the Company s market areas. In addition, the Company obtains deposits from state and local entities and, to a lesser extent, U.S. Government and other depository institutions. The Company s Asset/Liability Management Policy permits the acceptance of limited amounts of brokered deposits.

The following table sets forth the average balances and average interest rates based on daily balances for deposits for the periods indicated:

	Year Ended December 31,					
	2007		2006		2005	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Types of deposits (all in domestic offices):						
Noninterest bearing demand deposits	$ 184,529		$ 147,947		$ 125,071	
Interest-bearing demand deposits	581,340	2.78%	420,041	2.38%	355,566	1.52%
Savings deposits	73,355	.75%	72,978	.70%	68,053	0.36%
Time deposits	951,455	4.70%	641,672	3.98%	591,608	3.01%
Total deposits	$ 1,790,679		$ 1,282,638		$ 1,140,298	

The following table indicates the amount of the Company s certificates of deposit of $100 or more by time remaining until maturity as of December 31, 2007:

Maturity Period	Certificates of Deposits
Three months or less	$ 216,170
Over three through six months	217,746
Over six through twelve months	74,090
Over twelve months	44,957
Total	$ 552,963

Competition

To compete effectively, the Company relies substantially on local commercial activity; personal contacts by its directors, officers, other employees and shareholders; personalized services; and its reputation in the communities it serves.

According to data as of June 30, 2007 published by SNL Financial LC and using information from the FDIC, the Bank ranked as the largest independent commercial bank headquartered in East Tennessee, and its major market areas include Greene, Blount, Davidson, Hamblen, Hawkins, Knox, Lawrence, Loudon, Macon, McMinn, Montgomery, Rutherford, Smith, Sullivan, Sumner, Washington and Williamson Counties, Tennessee and portions of Cocke, Monroe and Jefferson Counties, Tennessee. In Greene County, in which the Company enjoyed its largest deposit share as of June 30, 2007, there were seven commercial banks and one savings bank, operating 26 branches and holding an aggregate of approximately $1.1 billion in deposits as of June 30, 2007. The following table sets forth the Bank s deposit share, excluding credit unions, in each county in which it has a full-service branch(s) as of June 30, 2007, according to data published by the FDIC:

County	Deposit Share
Greene, TN	39.83%
Hawkins, TN	14.33%
Sumner, TN	13.57%
Lawrence, TN	13.39%
Smith, TN	13.25%
Blount, TN	10.73%
Macon, TN	10.24%
Montgomery, TN	9.45%
Hamblen, TN	7.27%
Cocke, TN	7.18%
Williamson, TN	6.56%
McMinn, TN	6.16%
Madison, NC	5.35%
Washington, TN	3.85%
Loudon, TN	3.36%
Bristol, VA[1]	2.24%
Rutherford, TN	2.20%
Sullivan, TN	1.63%
Monroe, TN	0.94%
Davidson, TN	0.65%
Knox, TN	0.45%

[1] Bristol, VA is deemed a city.

Employees

As of December 31, 2007 the Company employed 789 full-time equivalent employees. None of the Company s employees are presently represented by a union or covered under a collective bargaining agreement. Management considers relations with employees to be good.

Regulation, Supervision and Governmental Policy

The following is a brief summary of certain statutes, rules and regulations affecting the Company and the Bank. A number of other statutes and regulations have an impact on their operations. The following summary of applicable statutes and regulations does not purport to be complete and is qualified in its entirety by reference to such statutes and regulations.

Bank Holding Company Regulation. The Company is registered as a bank holding company under the Bank Holding Company Act (the Holding Company Act) and, as such, is subject to supervision, regulation and examination by the Board of Governors of the FRB.

Acquisitions and Mergers. Under the Holding Company Act, a bank holding company must obtain the prior approval of the FRB before (1) acquiring direct or indirect ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, the bank holding company would directly or indirectly own or control more than 5% of such shares; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company. Also, any company must obtain approval of the FRB prior to acquiring control of the Company or the Bank. For purposes of the Holding Company Act, control is defined as ownership of more than 25% of any class of voting securities of the Company or the Bank, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of the Company or the Bank.

The Change in Bank Control Act and the related regulations of the FRB require any person or persons acting in concert (except for companies required to make application under the Holding Company Act), to file a written notice with the FRB before such person or persons may acquire control of the Company or the Bank. The Change in Bank Control Act defines control as the power, directly or indirectly, to vote 25% or more of any voting securities or to direct the management or policies of a bank holding company or an insured bank.

Bank holding companies like the Company are currently prohibited from engaging in activities other than banking and activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. The FRB s regulations contain a list of permissible nonbanking activities that are closely related to banking or managing or controlling banks. A bank holding company must file an application or notice with the FRB prior to acquiring more than 5% of the voting shares of a company engaged in such activities. The Gramm-Leach-Bliley Act of 1999 (the GLB Act), however, greatly broadened the scope of activities permissible for bank holding companies. The GLB Act permits bank holding companies, upon election and classification as financial holding companies, to engage in a broad variety of activities financial in nature. The Company has not filed an election with the FRB to be a financial holding company, but may chose to do so in the future.

Capital Requirements. The Company is also subject to FRB guidelines that require bank holding companies to maintain specified minimum ratios of capital to total assets and capital to risk-weighted assets. See Capital Requirements.

Dividends. The FRB has the power to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The FRB has issued a policy statement expressing its view that a bank holding company should pay cash dividends only to the extent that the company s net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company s capital needs, asset quality, and overall financial condition. The Company does not believe compliance with this policy statement will limit the Company s ability to maintain its dividend payment rate.

Support of Banking Subsidiaries. Under FRB policy, the Company is expected to act as a source of financial strength to its banking subsidiaries and, where required, to commit resources to support each of such subsidiaries. Further, if the Bank s capital levels were to fall below minimum regulatory guidelines, the Bank would need to develop a capital plan to increase its capital levels and the Company would be required to guarantee the Bank s compliance with the capital plan in order for such plan to be accepted by the federal regulatory authority.

Under the cross guarantee provisions of the Federal Deposit Insurance Act (the FDI Act), any FDIC-insured subsidiary of the Company such as the Bank could be liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of any other FDIC-insured subsidiary also controlled by the Company or (ii) any assistance provided by the FDIC to any FDIC-insured subsidiary of the Company in danger of default.

Transactions with Affiliates. The Federal Reserve Act, as amended by Regulation W, imposes legal restrictions on the quality and amount of credit that a bank holding company or its non-bank subsidiaries (affiliates) may obtain from bank subsidiaries of the holding company. For instance, these restrictions generally require that any such extensions of credit by a bank to its affiliates be on non-preferential terms and be secured by designated amounts of specified

collateral. Further, a bank s ability to lend to its affiliates is limited to 10% per affiliate (20% in the aggregate to all affiliates) of the bank s capital and surplus.

Bank Regulation. As a Tennessee banking institution, the Bank is subject to regulation, supervision and regular examination by the Tennessee Department of Financial Institutions. Tennessee and federal banking laws and regulations control, among other things, required reserves, investments, loans, mergers and consolidations, issuance of securities, payment of dividends, and establishment of branches and other aspects of the Bank s operations. Supervision, regulation and examination of the Company and the Bank by the bank regulatory agencies are intended primarily for the protection of depositors rather than for holders of the Common Stock of the Company.

Extensions of Credit. Under joint regulations of the federal banking agencies, including the FDIC, banks must adopt and maintain written policies that establish appropriate limits and standards for extensions of credit that are secured by liens or interests in real estate or are made for the purpose of financing permanent improvements to real estate. These policies must establish loan portfolio diversification standards, prudent underwriting standards, including loan-to-value limits that are clear and measurable, loan administration procedures and documentation, approval and reporting requirements. A bank s real estate lending policy must reflect consideration of the Interagency Guidelines for Real Estate Lending Policies (the Interagency Guidelines) that have been adopted by the federal banking regulators. The Interagency Guidelines, among other things, call upon depository institutions to establish internal loan-to-value limits for real estate loans that are not in excess of the loan-to-value limits specified in the Guidelines for the various types of real estate loans. The Interagency Guidelines state that it may be appropriate in individual cases to originate or purchase loans with loan-to-value ratios in excess of the supervisory loan-to-value limits. The aggregate amount of loans in excess of the supervisory loan-to-value limits, however, should not exceed 100% of total capital, and the total of such loans secured by commercial, agricultural, multifamily and other non-one-to-four family residential properties should not exceed 30% of total capital.

Federal Deposit Insurance. The deposits of the Bank are insured by the FDIC to the maximum extent provided by law, and the Bank is subject to FDIC deposit insurance assessments. The FDIC has adopted a risk-based assessment system for insured depository institutions that takes into account the risks attributable to different categories and concentrations of assets and liabilities. In early 2006, Congress passed the Federal Deposit Insurance Reform Act of 2005, which made certain changes to the Federal deposit insurance program. These changes included merging the Bank Insurance Fund and the Savings Association Insurance Fund, increasing retirement account coverage to $250,000 and providing for inflationary adjustments to general coverage beginning in 2010, providing the FDIC with authority to set the fund s reserve ratio within a specified range, and requiring dividends to banks if the reserve ratio exceeds certain levels. The new statute grants banks an assessment credit based on their share of the assessment base on December 31, 1996, and the amount of the credit can be used to reduce assessments in any year subject to certain limitations. The Company does not anticipate this new assessment system will have a material affect on its operating results or financial condition.

Safety and Soundness Standards. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required the federal bank regulatory agencies to prescribe, by regulation, non-capital safety and soundness standards for all insured depository institutions and depository institution holding companies. The FDIC and the other federal banking agencies have adopted guidelines prescribing safety and soundness standards pursuant to FDICIA. The safety and soundness guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. Among other things, the guidelines require banks to maintain appropriate systems and practices to identify and manage risks and exposures identified in the guidelines.

Capital Requirements. The FRB has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies, and the FDIC has established similar guidelines for state-chartered banks, such as the Bank, that are not members of the FRB. The regulations of the FRB and FDIC impose two sets of capital adequacy requirements: minimum leverage rules, which require the maintenance of a specified minimum ratio of capital to total assets, and risk-based capital rules, which require the maintenance of specified minimum ratios of capital to risk-weighted assets. At December 31, 2007, the Company and the Bank satisfied the minimum required regulatory capital requirements. See Note 11 of Notes to Consolidated Financial Statements.

The FDIC has issued final regulations that classify insured depository institutions by capital levels and require the appropriate federal banking regulator to take prompt action to resolve the problems of any insured institution that fails

to satisfy the capital standards. Under such regulations, a well-capitalized bank is one that is not subject to any regulatory order or directive to meet any specific capital level and that has or exceeds the following capital levels: a total risk-based capital ratio of 10%, a Tier 1 risk-based capital ratio of 6%, and a leverage ratio of 5%. As of December 31, 2007, the Bank was well-capitalized as defined by the regulations. See Note 11 of Notes to Consolidated Financial Statements for further information.

Legislative, Legal and Regulatory Developments: The banking industry is generally subject to extensive regulatory oversight. The Company, as a publicly held bank holding company, and the Bank, as a state-chartered bank with deposits insured by the FDIC, are subject to a number of laws and regulations. Many of these laws and regulations have undergone significant change in recent years. These laws and regulations impose restrictions on activities, minimum capital requirements, lending and deposit restrictions and numerous other requirements. Future changes to these laws and regulations, and other new financial services laws and regulations, are likely and cannot be predicted with certainty. Future legislative or regulatory change, or changes in enforcement practices or court rulings, may have a dramatic and potentially adverse impact on the Company and its bank and other subsidiaries.

USA Patriot Act. The President of the United States signed the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the Patriot Act), into law on October 26, 2001. The Patriot Act establishes a wide variety of new and enhanced ways of combating international terrorism. The provisions that affect banks (and other financial institutions) most directly are contained in Title III of the act. In general, Title III amended existing law primarily the Bank Secrecy Act to provide the Secretary of Treasury (the Treasury) and other departments and agencies of the federal government with enhanced authority to identify, deter, and punish international money laundering and other crimes.

Among other things, the Patriot Act prohibits financial institutions from doing business with foreign shell banks and requires increased due diligence for private banking transactions and correspondent accounts for foreign banks. In addition, financial institutions will have to follow new minimum verification of identity standards for all new accounts and will be permitted to share information with law enforcement authorities under circumstances that were not previously permitted. These and other provisions of the Patriot Act became effective at varying times and the Treasury and various federal banking agencies are responsible for issuing regulations to implement the new law.

Additional Information

The Company maintains a website at www.mybankconnection.com and is not including the information contained on this website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. The Company makes available free of charge (other than an investor s own internet access charges) through its website its Annual Report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the Securities and Exchange Commission.

ITEM 1A. RISK FACTORS.

The Company s business is subject to the success of the local economies where it operates.

The Company s success significantly depends upon the growth in population, income levels, deposits, residential real estate stability and housing starts in its market areas. If the communities in which the Company operates do not grow or if prevailing economic conditions locally or nationally are unfavorable, the Company s business may not succeed. Adverse economic conditions in the Company s specific market areas could reduce its growth rate, affect the ability of its customers to repay their loans to the Company and generally affect its financial condition and results of operations. Moreover, the Company cannot give any assurance that it will benefit from any market growth or favorable economic conditions in its primary market areas if they do occur.

Any adverse market or economic conditions in the state of Tennessee may increase the risk that the Company s borrowers will be unable to timely make their loan payments. In addition, the market value of the real estate securing loans as collateral could be adversely affected by unfavorable changes in market and economic conditions. As of December 31, 2007, approximately 82.45% of the Company s loans held for investment were secured by real estate. Of this amount, approximately 35.89% were commercial real estate loans, 18.23% were residential real estate loans and 45.89% were construction and development loans. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in the state of Tennessee could adversely affect the value of the Company s assets, revenues, results of operations and financial condition.

The Company could sustain losses if its asset quality declines further.

The Company s earnings are affected by its ability to properly originate, underwrite and service loans. The Company could sustain losses if it incorrectly assesses the creditworthiness of its borrowers or fails to detect or respond to deterioration in asset quality in a timely manner. Recent problems with asset quality have caused, and could continue to cause, the Company s interest income and net interest margin to decrease and its provisions for loan losses to increase, which could adversely affect the Company s results of operations and financial condition. Further increases in non-performing loans would reduce net interest income below levels that would exist if such loans were performing.

An inadequate allowance for loan losses would reduce the Company s earnings.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a collateralized loan, the value and marketability of the collateral for the loan. Management maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and takes a charge against earnings with respect to specific loans when their ultimate collectibility is considered questionable. If management s assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb losses, or if the bank regulatory authorities require the Bank to increase the allowance for loan losses as a part of their examination process, the Company s earnings and capital could be significantly and adversely affected.

Continued problems in residential real estate construction markets could adversely affect the Company s loan portfolio quality.

During adverse general economic conditions, such as the Company believes is now being experienced in residential real estate construction nationwide, borrowers may suffer above normal financial strain and, as a result, the Company s loans to these borrowers have deteriorated and may deteriorate further and may result in additional charge-offs.

The Company s business strategy includes the continuation of growth plans, and its financial condition and results of operations could be affected if its business strategies are not effectively executed.

The Company intends to continue pursuing a growth strategy for its business through acquisitions and de novo branching. The Company s prospects must be considered in light of the risks, expenses and difficulties occasionally encountered by financial services companies in growth stages, which may include the following:

- Maintaining loan quality;
- Maintaining adequate management personnel and information systems to oversee such growth; and
- Maintaining adequate control and compliance functions.

Operating Results. There is no assurance that existing offices or future offices will maintain or achieve deposit levels, loan balances or other operating results necessary to avoid losses or produce profits. The Company s growth and de novo branching strategy necessarily entails growth in overhead expenses as it routinely adds new offices and staff. The Company s historical results may not be indicative of future results or results that may be achieved as the Company continue to increase the number and concentration of its branch offices.

Development of Offices. There are considerable costs involved in opening branches, and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, the Company s de novo branches may be expected to negatively impact its earnings during this period of time until the branches reach certain economies of scale.

Expansion into New Markets. Much of the Company s growth overt the last three years has been focused in the highly competitive Nashville, Knoxville and Clarksville metropolitan markets. The customer demographics and financial services offerings in these markets are unlike those found in the East Tennessee markets that the Company has historically served. In the Nashville, Knoxville and Clarksville markets, the Company faces competition from a wide array of financial institutions. The Company s expansion into these new markets may be impacted if it is unable to meet customer demands or compete effectively with the financial institutions operating in these markets.
Regulatory and Economic Factors. The Company s growth and expansion plans may be adversely affected by a number of regulatory and economic developments or other events. Failure to obtain required regulatory approvals, changes in laws and regulations or other regulatory developments and changes in prevailing economic conditions or other unanticipated events may prevent or adversely affect the Company s continued growth and expansion.
Failure to successfully address the issues identified above could have a material adverse effect on the Company s business, future prospects, financial condition or results of operations, and could adversely affect the Company s ability to successfully implement its business strategy.
Liquidity needs could adversely affect the Company s results of operations and financial condition.
The Company relies on dividends from the Bank as its primary source of funds. The primary source of funds of the Bank are customer deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments and general economic conditions. Accordingly, the Company may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include Federal Home Loan Bank advances and federal funds lines of credit from correspondent banks. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands. The Company may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.
Competition from financial institutions and other financial service providers may adversely affect the Company s profitability.
The banking business is highly competitive and the Company experiences competition in each of its markets from many other financial institutions. The Company competes with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other community banks and super-regional and national financial institutions that operate offices in the Company s primary market areas and elsewhere.
Additionally, the Company faces competition from de novo community banks, including those with senior management who were previously affiliated with other local or regional banks or those controlled by investor groups with strong local business and community ties. These de novo community banks may offer higher deposit rates or lower cost loans in an effort to attract the Company s customers, and may attempt to hire the Company s management and employees.
The Company competes with these other financial institutions both in attracting deposits and in making loans. In addition, the Company has to attract its customer base from other existing financial institutions and from new residents. The Company expects competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. The Company s profitability depends upon its continued ability to successfully compete with an array of financial institutions in its market areas.

The Company may face risks with respect to future expansion.

From time to time the Company may engage in additional de novo branch expansion as well as the acquisition of other financial institutions or parts of those institutions. The Company may also consider and enter into new lines of business or offer new products or services. Acquisitions and mergers involve a number of risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions and merger partners;
- inaccuracies in the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- the Company s ability to finance an acquisition and possible dilution to its existing shareholders;
- the diversion of the Company s management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;
- entry into new markets where the Company lacks experience;
- the introduction of new products and services into the Company s business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on the Company s results of operations; and
- the risk of loss of key employees and customers.

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

Changes in interest rates could adversely affect the Company s results of operations and financial condition.

Changes in interest rates may affect the Company s level of interest income, the primary component of its gross revenue, as well as the level of its interest expense. Interest rates are highly sensitive to many factors that are beyond the Company s control, including general economic conditions and the policies of various governmental and regulatory authorities. Accordingly, changes in interest rates could decrease the Company s net interest income. Changes in the level of interest rates also may negatively affect the Company s ability to originate real estate loans, the value of the Company s assets and the Company s ability to realize gains from the sale of its assets, all of which ultimately affects the Company s earnings.

The Company relies heavily on the services of key personnel.

The Company depends substantially on the strategies and management services of R. Stan Puckett, its Chairman of the Board and Chief Executive Officer. Although the Company has entered into an employment agreement with him, the loss of the services of Mr. Puckett could have a material adverse effect on the Company s business, results of operations and financial condition. The Company is also dependent on certain other key officers who have important customer relationships or are instrumental to its operations. Changes in key personnel and their responsibilities may be disruptive to the Company s business and could have a material adverse effect on the Company s business, financial condition and results of operations.

The Company believes that its future results will also depend in part upon its attracting and retaining highly skilled and qualified management and sales and marketing personnel, particularly in those areas where the Company may open new branches. Competition for such personnel is intense, and the Company cannot assure you that it will be successful in attracting or retaining such personnel.

The Company is subject to extensive regulation that could limit or restrict its activities.

The Company operates in a highly regulated industry and is subject to examination, supervision, and comprehensive regulation by various federal and state agencies including the Board of Governors of the FRB, the FDIC and the Tennessee Department of Financial Institutions. The Company s regulatory compliance is costly and restricts certain of its activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. The Company is also subject to capitalization guidelines established by its regulators, which require it to maintain adequate capital to support its growth.

The laws and regulations applicable to the banking industry could change at any time, and the Company cannot predict the effects of these changes on its business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, the Company s cost of compliance could adversely affect its ability to operate profitably.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission and Nasdaq that are applicable to the Company, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices. As a result, the Company has experienced, and may continue to experience, greater compliance costs.

The Company s recent results may not be indicative of its future results.

The Company may not be able to sustain its historical rate of growth or may not even be able to grow its business at all. In addition, the Company s recent growth may distort some of its historical financial ratios and statistics. In the future, the Company may not have the benefit of historically favorable factors, such as a strong population in-migration in the State of Tennessee, a reasonable residential real estate market, or the ability to find suitable expansion opportunities. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit the Company s ability to expand its market presence.

The Company is subject to Tennessee anti-takeover statutes and certain charter provisions which could decrease its chances of being acquired even if the acquisition is in the Company s shareholders best interests.

As a Tennessee corporation, the Company is subject to various legislative acts which impose restrictions on and require compliance with procedures designed to protect shareholders against unfair or coercive mergers and acquisitions. These statutes may delay or prevent offers to acquire the Company and increase the difficulty of consummating any such offers, even if the acquisition of the Company would be in its shareholders best interests. The Company s amended and restated charter also contains provisions which may make it difficult for another entity to acquire it without the approval of a majority of the disinterested directors on its board of directors.

The amount of common stock owned by, and other compensation arrangements with, the Company s officers and directors may make it more difficult to obtain shareholder approval of potential takeovers that they oppose.

As of March 14, 2008, directors and executive officers beneficially owned approximately 10.56% of the Company s common stock. Agreements with selected members of the Company s senior management also provide for certain payments under various circumstances following a change in control. These compensation arrangements, together with the common stock and option ownership of the Company s board of directors and management, could make it difficult or expensive to obtain majority support for shareholder proposals or potential acquisition proposals.

The Company s continued pace of growth may require it to raise additional capital in the future, but that capital may not be available when it is needed.

The Company is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. While the Company s capital resources will satisfy its capital requirements for the foreseeable future, the Company may at some point, however, need to raise additional capital to support its continued growth.

The Company s ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside its control, and on its financial performance. Accordingly, the Company cannot assure its shareholders that it will be able to raise additional capital if needed on terms acceptable to it. If the Company cannot raise additional capital when needed, its ability to further expand its operations through internal growth and acquisitions could be materially impaired.

The success and growth of the Company s business will depend on its ability to adapt to technological changes.

The banking industry and the ability to deliver financial services is becoming more dependent on technological advancement, such as the ability to process loan applications over the Internet, accept electronic signatures, provide process status updates instantly and on-line banking capabilities and other customer expected conveniences that are cost efficient to the Company s business processes. As these technologies are improved in the future, the Company may, in order to remain competitive, be required to make significant capital expenditures.

Even though the Company s common stock is currently traded on The Nasdaq Global Select Market, the trading volume in its common stock has been thin and the sale of substantial amounts of the Company s common stock in the public market could depress the price of its common stock.

The Company cannot say with any certainty when a more active and liquid trading market for its common stock will develop or be sustained. Because of this, the Company s shareholders may not be able to sell their shares at the volumes, prices, or times that they desire.

The Company cannot predict the effect, if any, that future sales of its common stock in the market, or availability of shares of its common stock for sale in the market, will have on the market price of the Company s common stock. The Company, therefore, can give no assurance that sales of substantial amounts of its common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of its common stock to decline or impair its ability to raise capital through sales of its common stock.

The market price of the Company s common stock may fluctuate in the future, and these fluctuations may be unrelated to its performance. General market price declines or overall market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

The Company may issue additional common stock or other equity securities in the future which could dilute the ownership interest of existing shareholders.

In order to maintain its capital at desired levels or required regulatory levels, or to fund future growth, the Company s board of directors may decide from time to time to issue additional shares of common stock, or securities convertible into, exchangeable for or representing rights to acquire shares of its common stock. The sale of these shares may significantly dilute the Company s shareholders ownership interest as a shareholder and the per share book value of its common stock. New investors in the future may also have rights, preferences and privileges senior to its current shareholders which may adversely impact its current shareholders.

The Company s ability to declare and pay dividends is limited by law and it may be unable to pay future dividends.

The Company derives its income solely from dividends on the shares of common stock of the Bank. The Bank s ability to declare and pay dividends is limited by its obligations to maintain sufficient capital and by other general restrictions on its dividends that are applicable to banks that are regulated by the FDIC and the Tennessee Department of Financial Institutions. In addition, the FRB may impose restrictions on the Company s ability to pay dividends on its common stock. As a result, the Company cannot assure its shareholders that it will declare or pay dividends on shares of its common stock in the future.

Holders of the Company s junior subordinated debentures have rights that are senior to those of its common shareholders.

The Company has supported its continued growth through the issuance of trust preferred securities from special purpose trusts and accompanying junior subordinated debentures. At December 31, 2007, the Company had outstanding trust preferred securities and accompanying junior subordinated debentures totaling $88.7 million. Payments of the principal and interest on the trust preferred securities of these trusts are conditionally guaranteed by the Company. Further, the accompanying junior subordinated debentures the Company issued to the trusts are senior to its shares of common stock. As a result, the Company must make payments on the junior subordinated debentures before any dividends can be paid on its common stock and, in the event of its bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on its common stock. The Company has the right to defer distributions on its junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on its common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

At December 31, 2007, the Company maintained a main office in Greeneville, Tennessee in a building it owns, 65 full-service bank branches (of which 54 are owned premises and 11 are leased premises) and a building for mortgage lending operations which it owns. In addition, the Bank s subsidiaries operate from nine separate locations, all of which are leased.

ITEM 3. LEGAL PROCEEDINGS.

The Company and its subsidiaries are subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of these pending claims and legal proceedings will not have a material adverse effect on the Company s results of operations.

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

No matters were submitted during the fourth quarter of 2007 to a vote of security holders of the Company through a solicitation of proxies or otherwise.

PART II

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

On March 14, 2008, Green Bankshares had 13,001,321 shares of common stock outstanding. The Company s shares are traded on The Nasdaq Global Select Market, under the symbol GRNB . As of March 14, 2008, the Company estimates that it had approximately 6,000 shareholders, including approximately 2,900 shareholders of record and approximately 3,100 beneficial owners holding shares in nominee or street name.

The following table shows the high and low sales price and closing price for the Company s common stock as reported by The Nasdaq Global Select Market for 2007 and 2006. The table also sets forth the dividends per share paid each quarter during 2007 and 2006.

	High/Low Sales Price During Quarter	Closing Price	Dividends Paid Per Share
2007:			
First quarter	$ 40.50 / 32.83	$ 33.91	$ 0.13
Second quarter	35.86 / 31.19	31.26	0.13
Third quarter	38.63 / 29.84	36.45	0.13
Fourth quarter	37.49 / 16.76	19.20	0.29
			$ 0.68
2006:			
First quarter	$ 29.93 / 27.01	$ 29.21	$ 0.12
Second quarter	32.20 / 27.90	30.96	0.12
Third quarter	37.77 / 29.28	36.56	0.12
Fourth quarter	39.73 / 35.06	39.73	0.28
			$ 0.64

Holders of the Company s common stock are entitled to receive dividends when, as and if declared by the Company s board of directors out of funds legally available for dividends. Historically, the Company has paid quarterly cash dividends on its common stock, and its board of directors presently intends to continue to pay regular quarterly cash dividends. The Company s ability to pay dividends to its shareholders in the future will depend on its earnings and financial condition, liquidity and capital requirements, the general economic and regulatory climate, the Company s ability to service any equity or debt obligations senior to its common stock, including its outstanding trust preferred securities and accompanying junior subordinated debentures, and other factors deemed relevant by the Company s board of directors. In order to pay dividends to shareholders, the Company must receive cash dividends from the Bank. As a result, the Company s ability to pay future dividends will depend upon the earnings of the Bank, its financial condition and its need for funds.

Moreover, there are a number of federal and state banking policies and regulations that restrict the Bank s ability to pay dividends to the Company and the Company s ability to pay dividends to its shareholders. In particular, because the Bank is a depository institution and its deposits are insured by the FDIC, it may not pay dividends or distribute capital assets if it is in default on any assessment due to the FDIC. In addition, the Tennessee Banking Act prohibits the Bank from declaring dividends in excess of net income for the calendar year in which the dividend is declared plus retained net income for the preceding two years without the approval of the Commissioner of the Tennessee Department of Financial Institutions. Also, the Bank is subject to regulations which impose certain minimum regulatory capital and minimum state law earnings requirements that affect the amount of cash available for distribution to the Company. Lastly, under Federal Reserve policy, the Company is required to maintain adequate

regulatory capital, is expected to serve as a source of financial strength to the Bank and to commit resources to support the Bank. These policies and regulations may have the effect of reducing or eliminating the amount of dividends that the Company can declare and pay to its shareholders in the future. For information regarding restrictions on the payment of dividends by the Bank to the Company, see MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Liquidity and Capital Resources in this Annual Report. See also Note 11 of Notes to Consolidated Financial Statements.

The Company made no repurchases of its common stock during the quarter ended December 31, 2007.

ITEM 6. SELECTED FINANCIAL DATA.

	2007[(1)]	2006	2005	2004	2003
Total interest income	$ 176,626	$ 117,357	$ 87,191	$ 65,076	$ 56,737
Total interest expense	81,973	45,400	28,405	16,058	15,914
Net interest income	94,653	71,957	58,786	49,018	40,823
Provision for loan losses	(14,483)	(5,507)	(6,365)	(5,836)	(5,775)
Net interest income after provision for loan losses	80,170	66,450	52,421	43,182	35,048
Noninterest income	27,678	20,778	14,756	13,028	11,588
Noninterest expense	(69,328)	(52,776)	(44,340)	(36,983)	(30,618)
Income before income taxes	38,520	34,452	22,837	19,227	16,018
Income tax expense	(14,146)	(13,190)	(8,674)	(7,219)	(5,781)
Net income	$ 24,374	$ 21,262	$ 14,163	$ 12,008	$ 10,237
Per Share Data:					
Net income, basic	$ 2.07	$ 2.17	$ 1.73	$ 1.57	$ 1.48
Net income, assuming dilution	$ 2.07	$ 2.14	$ 1.71	$ 1.55	$ 1.47
Dividends declared	$ .68	$ .64	$ .62	$ 0.61	$ .59
Book value	$ 24.94	$ 18.80	$ 17.20	$ 14.22	$ 13.31
Tangible book value[2]	$ 12.73	$ 14.87	$ 13.15	$ 11.12	$ 10.57
Financial Condition Data:					
Assets	$ 2,947,741	$ 1,772,654	$ 1,619,989	$ 1,233,403	$ 1,108,522
Loans, net of unearned interest	$ 2,356,376	$ 1,539,629	$ 1,378,642	$ 1,046,867	$ 952,225
Cash and investments	$ 314,615	$ 91,997	$ 104,872	$ 76,637	$ 80,910
Federal funds sold	$	$ 25,983	$ 28,387	$ 39,921	$ 5,254
Deposits	$ 1,986,793	$ 1,332,505	$ 1,295,879	$ 988,022	$ 907,115
FHLB advances and notes payable	$ 318,690	$ 177,571	$ 105,146	$ 85,222	$ 63,030
Subordinated debentures	$ 88,662	$ 13,403	$ 13,403	$ 10,310	$ 10,310
Federal funds purchased and repurchase agreements	$ 194,525	$ 42,165	$ 17,498	$ 13,868	$ 12,896
Shareholders equity	$ 322,477	$ 184,471	$ 168,021	$ 108,718	$ 101,935
Tangible shareholders equity[2]	$ 164,650	$ 145,931	$ 128,399	$ 85,023	$ 80,965
Selected Ratios:					
Interest rate spread	3.83%	4.32%	4.30%	4.53%	4.59%
Net interest margin[3]	4.25%	4.77%	4.61%	4.75%	4.83%
Return on average assets	0.98%	1.28%	1.02%	1.06%	1.12%
Return on average equity	8.96%	11.91%	11.09%	11.23%	12.59%
Return on average tangible equity[2]	15.41%	15.25%	14.04%	13.95%	13.38%

Average equity to average assets	10.91%	10.78%	9.20%	9.47%	8.87%
Dividend payout ratio	32.85%	29.49%	35.84%	38.85%	39.86%
Ratio of nonperforming assets to total assets assets	1.25%	0.29%	0.65%	0.69%	0.79%
Ratio of allowance for loan losses to nonperforming loans	106.34%	635.93%	293.56%	227.64%	321.57%
Ratio of allowance for loan losses to total loans, net of unearned income loans	1.45%	1.45%	1.43%	1.50%	1.53%

[1] Information for the 2007 fiscal year includes the operations of CVBG, with which the Company merged on May 18, 2007.

[2] Tangible shareholders equity is shareholders equity less goodwill and intangible assets.

[3] Net interest margin is the net yield on interest earning assets and is the difference between the Fully Taxable Equivalent yield earned on interest-earning assets less the effective cost of supporting liabilities.

GAAP Reconciliation and Management Explanation of Non-GAAP Financial Measures

Certain financial information included in the selected financial data is determined by methods other than in accordance with accounting principles generally accepted within the United States (GAAP). These non-GAAP financial measures are tangible book value per share, tangible shareholders equity, and return on average tangible equity. The Company s management, the entire Financial Services Sector, Bank Stock Analysts, and Bank Regulators use these non-GAAP measures in their analysis of the Company s performance.

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

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

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

These disclosures should not be viewed as a substitute for results determined in accordance with GAAP, and are not necessarily comparable to non-GAAP performance measures which may be presented by other companies. The following reconciliation table provides a more detailed analysis of these non-GAAP performance measures:

	At and for the Fiscal Years Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Book value per share	$ 24.93	$ 18.80	$ 17.20	$ 14.22	$ 13.31
Effect of intangible assets per share	$ (12.20)	$ (3.93)	$ (4.05)	$ (3.10)	$ (2.74)
Tangible book value per share	$ 12.73	$ 14.87	$ 13.15	$ 11.12	$ 10.57
Return on average equity	8.96%	11.91%	11.09%	11.23%	12.59%
Effect of intangible assets	6.45%	3.34%	2.95%	2.72%	0.79%
Return on average tangible equity	15.41%	15.25%	14.04%	13.95%	13.38%

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Despite the significantly higher loan loss provision of $14,483 in 2007 compared with $5,507 in 2006, net income increased by approximately 15% over 2006 levels and totaled $24,374 for the full year 2007. The rise in net income was driven by an increase in earning assets, primarily resulting from the Company s acquisition of CVBG in the second quarter of 2007 together with organic loan growth. On a diluted per share basis, net income was $2.07 for 2007 compared with $2.14 for the same period a year ago, a decrease of 3%.

Net interest income for 2007 totaled $94,653, an improvement of 32% over the same period a year ago. The increase in net interest income was due to the impact of an increase in average earning assets, primarily loans and investment securities, stemming from the CVBG acquisition in the second quarter of 2007 which was partially offset by the incremental impact of the increase in average interest-bearing liabilities from the CVBG acquisition. The Company experienced a contraction throughout 2007 in the net interest margin moving from 4.78% in 2006 to 4.25% in 2007. This contraction was a result of the initial, higher costing interest-bearing liability structure associated with the CVBG acquisition resulting from philosophical market pricing differences, the impact of local market competition and the actions undertaken by the Federal Open Market Committee (FOMC) during the fourth quarter to significantly reduce market interest rates. Noninterest income grew by $6,900, or 33%, and totaled $27,678 for 2007. The continued success of a deposit gathering program and to a lesser extent the impact of the CVBG acquisition in the second quarter of 2007 all contributed to this improvement. Noninterest expenses totaled $69,328 for the year, up $16,552 from the prior year principally as a result of the increased noninterest expenses resulting from the acquisition of CVBG.

Critical Accounting Policies and Estimates

The Company s consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported periods.

Management continually evaluates the Company s accounting policies and estimates it uses to prepare the consolidated financial statements. In general, management s estimates are based on current and projected economic conditions, historical experience, information from regulators and third party professionals and various assumptions that are believed to be reasonable under the then existing set of facts and circumstances. Actual results could differ from those estimates made by management.

The Company believes its critical accounting policies and estimates include the valuation of the allowance for loan losses and the fair value of financial instruments and other accounts. Based on management s calculation, an allowance of $34,111, or 1.45%, of total loans, net of unearned interest was an adequate estimate of losses inherent in the loan portfolio as of December 31, 2007. This estimate resulted in a provision for loan losses on the income statement of $14,483 during 2007. If the mix and amount of future charge-off percentages differ significantly from those assumptions used by management in making its determination, the allowance for loan losses and provision for loan losses on the income statement could be materially affected. For further discussion of the allowance for loan losses and a detailed description of the methodology management uses in determining the adequacy of the allowance, see ITEM 1. BUSINESS Lending Activities Allowance for Loan Losses located above, and Changes in Results of Operations Provision for Loan Losses located below.

The consolidated financial statements include certain accounting and disclosures that require management to make estimates about fair values. Estimates of fair value are used in the accounting for securities available for sale, loans held for sale, goodwill, other intangible assets, and acquisition purchase accounting adjustments. Estimates of fair values are used in disclosures regarding securities held to maturity, stock compensation, commitments, and the fair values of financial instruments. Fair values are estimated using relevant market information and other assumptions such as interest rates, credit risk, prepayments and other factors. The fair values of financial instruments are subject to change as influenced by market conditions.

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Changes in Results of Operations

Net income. Net income for 2007 was $24,374, an increase of $3,112, or 15%, compared to net income of $21,262 for 2006. The increase is primarily attributable to an increase in net interest income of $22,696, or 32%, to $94,653 in 2007 from $71,957 in 2006 and resulted principally from higher average balances of loans from the CVBG acquisition in the second quarter of 2007 and continued organic loan growth during 2007. In addition, total noninterest income increased by $6,900, or 33%, to $27,678 in 2007 from $20,778 in 2006. The increase in noninterest income can be primarily attributed to higher fee income associated with further development of the Company s High Performance Checking Account product. Offsetting, in part, these positive effects on net income was an increase in the loan loss provision of $8,976 over 2006 levels due to deteriorating economic conditions impacting residential real estate construction lending during the fourth quarter of 2007 and an increase in noninterest expense of $16,552, or 31%, to $69,328 in 2007 from $52,776 in 2006. The increase in noninterest expense resulted primarily from the Company s CVBG acquisition in the second quarter of 2007.

Net income for 2006 was $21,262, an increase of $7,099, or 50%, compared to net income of $14,163 for 2005. The increase was primarily attributable to an increase in net interest income of $13,171, or 22%, to $71,957 in 2006 from $58,786 in 2005 and resulted principally from higher average balances of loans due to organic loan growth in 2006 as well as loans added from the Clarksville transaction in the first part of the fourth quarter-2005. In addition, total noninterest income increased by $6,022, or 41%, to $20,778 in 2006 from $14,756 in 2005. The increase in noninterest income was the result of higher fee income associated with further development of the Company s High Performance Checking Account product. Offsetting, in part, these positive effects on net income was an increase in noninterest expense of $8,436, or 19%, to $52,776 in 2006 from $44,340 in 2005. The increase in noninterest expense resulted primarily as a result of the Company s Clarksville transaction during the first part of the fourth quarter of 2005.

Net Interest Income. The largest source of earnings for the Company is net interest income, which is the difference between interest income on earning assets and interest paid on deposits and other interest-bearing liabilities. The primary factors that affect net interest income are changes in volumes and rates on earning assets and interest-bearing liabilities, which are affected in part by management s anticipatory responses to changes in interest rates through asset/liability management. During 2007, net interest income was $94,653 as compared to $71,957 in 2006, an increase of 32%. The Company experienced solid growth in average balances of interest-earning assets, with average total interest-earning assets increasing by $730,979, or 48%, to $2,239,446 in 2007 from $1,508,467 in 2006. Most of the growth occurred in loans, with average loan balances increasing by $609,203, or 42%, to $2,059,719 in 2007 from $1,450,516 in 2006. Average investment securities also increased $123,521, or 224%, to $178,673 in 2007 from $55,152 in 2006. Both of these increases are attributable to the CVBG acquisition that took place in the second quarter of 2007. Average balances of total interest-bearing liabilities also increased in 2007 from 2006, with average total interest-bearing deposit balances increasing by $471,460, or 42%, to $1,606,151 in 2007 from $1,134,691 in 2006, average securities sold under repurchase agreements and short-term borrowings, subordinated debentures and FHLB advances and notes payable increased by $226,810, or 128%, to $403,452 in 2007 from $176,642 in 2006. These increases are primarily related the Company s CVBG acquisition which closed May 18, 2007 and in which the Company acquired approximately $631,000 in loans, $200,000 in investment securities, $699,000 in deposits and $145,000 in securities sold under repurchase agreements and short-term borrowings, subordinated debentures and FHLB advances and notes payable. These balances had approximately a seven and one-half month effect on full year average balances of interest-earning assets and interest-bearing liabilities.

During 2006, net interest income was $71,957 as compared to $58,786 in 2005, an increase of 22%. The Company experienced solid growth in average balances of interest-earning assets, with average total interest-earning assets increasing by $232,676, or 18%, to $1,508,467 in 2006 from $1,275,791 in 2005. Most of the growth occurred in loans, with average loan balances increasing by $259,439, or 22%, to $1,450,516 in 2006 from $1,191,077 in 2005. In order to fund the growth in assets, average balances of total interest-bearing liabilities also increased in 2006 from 2005, with average total interest-bearing deposit balances increasing by $119,464, or 12%, to $1,134,691 in 2006 from $1,015,227 in 2005 and average FHLB advances and note payable increasing by $54,726, or 61%, to $144,155 in 2006 from $89,429 in 2005. The Company emphasized various types of deposits while utilizing FHLB advances

and overnight borrowings to optimize its funding sources. The Clarksville transaction, closed on October 7, 2005 and the Company acquired approximately $112,000 in loans and $173,000 in deposits. Most of the increase in net interest income in 2006 compared to 2005 related to the increased loan volume resulting primarily from the Company s organic loan growth bolstered by the late-2005 Clarksville branch acquisitions. The positive net interest income impact of the increase in average loan volumes was partially offset by rising costs associated with both deposits and borrowed funds as the FOMC continued its trend of increasing market interest rates through the second quarter of 2006.

Average Balances, Interest Rates and Yields. Net interest income is affected by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (interest rate spread) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Company s interest rate spread is affected by regulatory, economic and competitive factors that influence interest rates, loan demand and deposit flows. When the total of interest-earning assets approximates or exceeds the total of interest-bearing liabilities, any positive interest rate spread will generate net interest income. An indication of the effectiveness of an institution s net interest income management is its net yield on interest-earning assets, which is net interest income on a fully taxable equivalent basis divided by average interest-earning assets.

The following table sets forth certain information relating to the Company s consolidated average interest-earning assets and interest-bearing liabilities and reflects the average fully taxable equivalent yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average daily balance of assets or liabilities, respectively, for the periods presented.

	2007			2006			2005		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets:									
Loans[(1)(4)]									
Real estate loans	$ 1,661,640	$ 127,459	7.67%	$ 1,104,471	$ 82,857	7.50%	$ 896,485	$ 59,026	6.58%
Commercial loans	303,799	24,180	7.96%	259,264	20,214	7.80%	208,964	13,683	6.55%
Consumer and other loans- net[(2)]	94,280	10,903	11.56%	86,781	9,746	11.23%	85,628	9,319	10.88%
Fees on loans		4,217			1,768			2,136	
Total loans (including fees)	$ 2,059,719	$ 166,759	8.10%	$ 1,450,516	$ 114,585	7.90%	$ 1,191,077	$ 84,164	7.07%
Investment securities[(3)]									
Taxable	$ 146,642	$ 8,415	5.76%	$ 45,446	$ 2,273	5.00%	$ 48,774	$ 1,920	3.94%
Tax-exempt[(4)]	22,227	1,334	6.00%	2,922	166	5.68%	3,668	212	5.78%
FHLB and other stock	9,804	617	6.29%	6,784	345	5.09%	6,308	282	4.47%
Total investment securities	$ 178,673	$ 10,366	5.80%	$ 55,152	$ 2,784	5.05%	$ 58,750	$ 2,414	4.11%
Other short-term investments	1,054	54	5.12%	2,799	138	4.93%	25,964	777	2.99%
Total interest-earning assets	$ 2,239,446	$ 177,179	7.91%	$ 1,508,467	$ 117,507	7.79%	$ 1,275,791	$ 87,355	6.85%

Noninterest-earning assets:			
Cash and due from banks	$ 47,436	$ 39,068	$ 32,971
Premises and equipment	73,176	53,304	38,891
Other, less allowance for loan losses	135,296	55,939	40,943
Total noninterest-earning assets	$ 255,908	$ 148,311	$ 112,805
Total assets	$ 2,495,354	$ 1,656,778	$ 1,388,596

[1] Average loan balances include nonaccrual loans. Interest income collected on nonaccrual loans has been included.

[2] Installment loans are stated net of unearned income.

[3] The average balance of and the related yield associated with securities available for sale are based on the cost of such securities.

[4] Fully Taxable Equivalent (FTE) at the rate of 35%. The FTE basis adjusts for the tax benefits of income on certain

tax-exempt loans and investments using the federal statutory rate of 35% for each period presented. The Company believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts.

	2007			2006			2005		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-bearing liabilities:									
Deposits									
Savings, interest checking, and money market accounts	$ 654,696	$ 16,703	2.55%	$ 493,019	$ 10,524	2.13%	$ 423,619	$ 5,654	1.33%
Time deposits	951,455	44,669	4.69%	641,672	25,566	3.98%	591,608	17,827	3.01%
Total deposits	$ 1,606,151	$ 61,372	3.82%	$ 1,134,691	$ 36,090	3.18%	$ 1,015,227	$ 23,481	2.31%
Securities sold under repurchase agreements and short-term borrowings	95,715	4,183	4.37%	32,487	1,469	4.52%	15,695	414	2.64%
Subordinated debentures	60,730	4,512	7.43%	13,403	1,043	7.78%	11,878	729	6.14%
FHLB advances and notes payable	247,007	11,906	4.82%	130,752	6,798	5.20%	77,551	3,781	4.88%
Total interest-bearing liabilities	$ 2,009,603	$ 81,973	4.08%	$ 1,311,333	$ 45,400	3.46%	$ 1,120,351	$ 28,405	2.54%
Noninterest bearing liabilities:									
Demand deposits	$ 184,529			$ 147,947			$ 125,071		
Other liabilities	29,067			18,952			15,460		
Total non-interest-bearing liabilities	$ 213,596			$ 166,899			$ 140,531		
Shareholders equity	272,155			178,546			127,714		
Total liabilities and shareholders equity	$ 2,495,354			$ 1,656,778			$ 1,388,596		

Net interest income	$ 95,206	$ 72,107	$ 58,950
Margin analysis:			
Interest rate spread	3.83%	4.33%	4.31%
Net yield on interest-earning assets (net interest margin)	4.25%	4.78%	4.62%

Rate/Volume Analysis. The following table analyzes net interest income in terms of changes in the volume of interest-earning assets and interest-bearing liabilities and changes in yields and rates. The table reflects the extent to which changes in the interest income and interest expense are attributable to changes in volume (changes in volume multiplied by prior year rate) and changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been separately identified.

	2007 vs. 2006				2006 vs. 2005			
	Volume	Rate	Rate/ Volume	Total Change	Volume	Rate	Rate/ Volume	Total Change
Interest income:								
Loans, net of unearned income	$ 48,133	$ 2,846	$ 1,195	$ 52,174	$ 18,329	$ 9,929	$ 2,163	$ 30,421
Investment securities:								
Taxable	5,030	346	766	6,142	(131)	520	(36)	353
Tax-exempt	1,097	9	62	1,168	(42)	(5)	1	(46)
FHLB and other stock, at cost	170	65	37	272	16	45	2	63
Other short-term investments	(86)	5	(3)	(84)	(693)	503	(449)	(639)
Total interest income	54,344	3,271	2,057	59,672	17,479	10,992	1,681	30,152