CADENCE FINANCIAL CORP
Form 10-K
March 14, 2007
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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, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission File Number 1-15773

Cadence Financial Corporation

(Exact name of registrant as specified in its charter)

Mississippi	**64-0694775**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
301 East Main Street, Starkville, Mississippi	**39759**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code:

(662) 323-1341

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

Common stock, $1 par value	**The NASDAQ Global Select Market**
(Title of Class)	**(Exchange on Which Registered)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

Aggregate market value of the voting stock held by nonaffiliates as of June 30, 2006, was approximately $211,030,794, based on most recent sale.

The number of shares outstanding of the registrant s common stock as of February 28, 2007 is 11,888,932 shares.

Documents incorporated by reference

Portions of the Corporation s proxy statement for the 2007 annual meeting of shareholders are incorporated by reference into Part III and portions of the Corporation s annual report to shareholders are incorporated by reference into Part IV.

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PART I

Forward-Looking Statements

Certain information included in this report contains forward-looking statements and information that are based on management s beliefs and conclusions, drawn from certain assumptions and information currently available. The Private Securities Litigation Act of 1995 encourages the disclosure of forward-looking information by management by providing a safe harbor for such information. This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Although we believe that the expectations reflected in such forward-looking statements are reasonable, such forward-looking statements are based on numerous assumptions (some of which may prove to be incorrect) and are subject to risks and uncertainties, which could cause the actual results to differ materially from our expectations. When used in our report, the words anticipate, estimate, expect, objective, projection, forecast, goal and similar expressions are intended to identify forward-looking staten addition to any assumptions and other factors referred to specifically in connection with forward-looking statements, factors that could cause our actual results to differ materially from those contemplated in any forward-looking statements include, among others, increased competition, regulatory factors, economic conditions, changing interest rates, changing market conditions, availability or cost of capital, employee workforce factors, cost and other effects of legal and administrative proceedings, changes in federal, state or local laws and regulations and other factors identified in Item 1A, Risk Factors, and Item 7A, Quantitative and Qualitative Disclosures about Market Risk of this Annual Report and that may be discussed from time to time in our reports filed with the Securities and

Exchange Commission subsequent to this report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of changes in actual results, changes in assumptions or other factors affecting such statements.

ITEM 1 - BUSINESS

Cadence Financial Corporation

Cadence Financial Corporation (the Corporation), formerly known as NBC Capital Corporation, is a financial holding company, organized under the laws of the State of Mississippi. The Corporation s assets consist primarily of its investment in Cadence Bank, N.A. (Cadence or the Bank), a national banking corporation, and its primary activities are conducted through Cadence.

Following the close of business on August 17, 2006, the Corporation acquired SunCoast Bancorp, Inc. (SunCoast), the holding company for SunCoast Bank, a commercial bank operating in Sarasota and Manatee Counties, Florida. The acquisition was valued at approximately $35.9 million, of which 45% was paid in cash and 55% was paid in shares of the Corporation s common stock. Option holders received the difference between the cash election price and the option price of their options, or an aggregate of approximately $1.0 million.

Following the close of business on November 14, 2006, the Corporation acquired Seasons Bancshares, Inc. (Seasons), the holding company for Seasons Bank, headquartered in Blairsville, Georgia. The acquisition was an all-cash transaction valued at approximately $17.6 million.

Cadence Bank, N.A.

Cadence is engaged in the general banking business and activities closely related to banking, as authorized by the banking laws and regulations of the United States. There were no significant changes in the Bank s business activities during 2006, other than the acquisitions described above, nor has there been any disposition of material amounts of assets. There are no major operational changes planned for the near future.

Cadence provides a complete line of wholesale and retail financial services, including mortgage loans and trusts. The customer base is well diversified and consists of business, industry, agriculture, government, education and individual accounts. Profitability and growth have been consistent throughout the Bank s history; however, both have slowed recently, as the Corporation has dealt with a very slow economy and low loan demand in its core Mississippi market area. In 2006, the Corporation took several steps to address this situation through its overall growth strategy, which included branch expansion in its existing higher growth markets, de novo branching in other high growth markets and external acquisitions.

Cadence is the largest commercial bank domiciled in the north central Golden Triangle area of Mississippi. In Mississippi, a total of twenty banking facilities and an operations/administration center serve the communities of Aberdeen, Amory, Brooksville, Columbus, Hamilton, Maben, New Hope, Philadelphia, West Point and Starkville. This area extends into six Mississippi counties with a radius of approximately 65 miles from the main office in Starkville.

The Bank also serves the Tuscaloosa and Hoover, Alabama areas with six banking facilities, and the Memphis, Tennessee area with five banking facilities and an operations/data center. In 2006, Cadence opened its first banking facility in Brentwood, Tennessee (Nashville MSA). Also in 2006, the SunCoast and Seasons acquisitions added a total of five Cadence banking facilities three in Sarasota and Bradenton, Florida and two in Blairsville and Blue Ridge, Georgia.

The following chart reflects, as of December 31, 2006, the distribution of total assets, loans, deposits and branches in the states in which Cadence conducts its business:

State	Assets	Loans	Deposits	Branches
Alabama	9%	14%	12%	16%
Florida	7%	10%	6%	8%
Georgia	4%	6%	5%	6%
Mississippi	57%	34%	60%	54%
Tennessee	23%	36%	17%	16%
	100%	100%	100%	100%

Galloway-Chandler-McKinney Insurance Agency, Inc. (GCM), a wholly owned subsidiary of Cadence, operates as an independent insurance agency with its primary source of revenue coming from commissions and premiums on the sale of property and casualty insurance, title insurance, life insurance, annuities and other commercial lines. GCM has locations in Aberdeen, Amory, Columbus, Starkville and West Point, Mississippi. At December 31, 2006, GCM had total assets of approximately $5.1 million, and for the year ended December 31, 2006, reported gross revenues of approximately $4.6 million.

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Cadence has two other wholly owned subsidiaries, NBC Service Corporation (Service), and NBC Insurance Services of Alabama (Insurance). Service was formed to provide additional financial services that otherwise might not be provided by Cadence. For 2006, its primary activity was limited to its investment in Commerce National Insurance Company (CNIC). CNIC is a credit life insurance company whose primary source of income is from investment income on securities held in its portfolio. In 2002, the Bank discontinued selling credit life insurance on loans. As a result, the Corporation plans to allow CNIC s outstanding insurance policies to run-off over the next several years and then to dissolve and liquidate CNIC. Insurance was formed in 1999 for the purpose of selling annuity products in the state of Alabama. For 2006, its activities were not significant.

Competition

Cadence encounters strong competition in each of its markets, based upon interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of services provided, the convenience of banking facilities and, in the case of loans to commercial borrowers, relative lending limits.

Cadence and its subsidiaries currently serve six counties and ten municipalities in north central Mississippi. In this area, the Bank competes directly with numerous banking institutions, credit unions, finance companies, brokerage firms, mortgage companies and insurance companies. The competing banking institutions range in asset size from approximately $508 million to in excess of $86 billion (size of parent companies). Cadence is the largest bank domiciled in its immediate service area.

Cadence also serves the cities of Tuscaloosa and Hoover, Alabama; Memphis and Brentwood, Tennessee; Sarasota and Bradenton, Florida; and Blairsville and Blue Ridge, Georgia. In these markets, the Bank competes with numerous financial institutions ranging in asset size from approximately $130 million to $1.4 trillion (size of parent companies). Cadence also competes with numerous credit unions, finance companies, brokerage firms, mortgage companies and insurance companies in these markets.

Refer to Item 1A - Risk Factors, for discussion of the Corporation s risks related to competition.

Supervision and Regulation

The Corporation and the Bank are subject to state and federal banking laws and regulations which impose specific requirements and restrictions on, and provide for general regulatory oversight with respect to, virtually all aspects of operations. To the extent that the following summary describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Refer to Item 1A Risk Factors, for discussion of the Corporation s risks relating to industry regulations.

Beginning with the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and following with the Federal Deposit Insurance Corporation Improvement Act (FDICIA), which was enacted in 1991, numerous additional regulatory requirements have been placed on the banking industry, and additional changes have been proposed. The operations of the Corporation and its subsidiaries may be affected by legislative changes and the policies of various regulatory authorities, and we are unable to predict the nature or the extent of the effect that fiscal or monetary policies, economic control or new federal or state legislation may have on future business and earnings.

The Corporation is a bank holding company within the meaning of the Bank Holding Company Act of 1956 (the BHC Act) and a financial holding company under the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the GLB Act) and is registered as such with the Board of Governors of the Federal Reserve System (the Federal Reserve Board). As a financial holding company, the Corporation is required to file with the Federal Reserve Board an annual report and such other information as may be required. The Federal Reserve Board also performs examinations of the Corporation and has the authority to regulate provisions of certain holding company debt.

The BHC Act restricts the Corporation s non-banking activities to those that are determined by the Federal Reserve Board to be financial in nature, incidental to such financial activity or complementary to a financial activity. The BHC Act does not place territorial restrictions on the activities of non-bank subsidiaries of holding companies. The Corporation s banking subsidiary is subject to limitations with respect to transactions with affiliates.

The BHC Act requires every holding company to obtain the prior approval of the Federal Reserve Board before acquiring substantially all the assets of or direct or indirect ownership or control of more than 5% of the voting shares of any

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bank that is not already majority-owned. The BHC Act also prohibits a holding company, with certain exceptions, from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in non-banking activities. One of the principal exceptions to these prohibitions is for engaging in or acquiring shares of a company engaged in activities found by the Federal Reserve Board by order or regulation to be so closely related to banking or managing banks as to be a proper incident thereto. The BHC Act permits the acquisition by a holding company of more than 5% of the outstanding voting shares of a bank located outside the state in which the operations of its banking subsidiaries are principally conducted, subject to certain state laws, including the establishment by states of a minimum age of their local banks before such banks can be acquired by an out-of-state institution. The BHC Act and regulations of the Federal Reserve Board also prohibit a holding company and its subsidiaries from engaging in certain tie-in arrangements in connection with any extension of credit or provision of any property or services.

In addition, and subject to certain exceptions, the BHC Act and the Change in Bank Control Act require Federal Reserve Board approval prior to any person or company acquiring control of a holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of a bank holding company. Control is refutably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the company has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

In accordance with Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to its subsidiaries. The Federal Reserve Board may require a holding company to terminate any activity or relinquish control of a non-bank subsidiary (other than a non-bank subsidiary of a bank) upon the Federal Reserve Board s determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the holding company. Further, federal bank regulatory authorities have additional discretion to require a holding company to divest itself of any bank or non-bank subsidiary if the agency determines that divestiture may aid the depository institution s financial condition.

Dividends paid by the Corporation are substantially provided from dividends from Cadence. Generally, the approval of the Office of the Comptroller of the Currency (the OCC) is required if the total of all dividends declared by a bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits of the preceding two years. For the year 2007, Cadence has available approximately \$11.8 million plus its net income for 2007 to pay as dividends, without obtaining permission from the OCC.

The Federal Reserve Board, Federal Deposit Insurance Corporation (FDIC) and OCC have established risk-based capital guidelines for holding companies, such as the Corporation, and for the subsidiary banks of holding companies, such as Cadence. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The Corporation s risk-based capital strategy is to maintain sufficient capital levels to qualify the Corporation s bank subsidiary as well capitalized under the guidelines set forth by the FDICIA. Maintaining capital ratios at the well capitalized level avoids certain restrictions, which, for example, could impact the FDIC assessment, trust services and asset/liability management of the Corporation s subsidiary bank. At December 31, 2006, the Tier 1 and total capital ratios, respectively, of the Corporation (consolidated) and Cadence (individually) were well above the minimum 6% and 10% levels required to be categorized as well capitalized insured depository institutions.

The FDIC, OCC and Federal Reserve Board have historically had common capital adequacy guidelines involving minimum (a) leverage capital and (b) risk-based capital requirements:

(a) The first requirement establishes a minimum ratio of capital as a percentage of total assets. The FDIC, OCC and Federal Reserve Board require institutions to maintain a minimum leverage ratio of Tier 1 capital (as defined) to total average assets based on the institution s rating under the regulatory CAMELS rating system. Institutions with CAMELS ratings of 1 that are not anticipating or experiencing significant growth and have well-diversified risk are required to maintain a minimum leverage ratio of 3 percent. An additional 100 to 200 basis points are required for all but these most highly rated institutions. At December 31, 2006, the Corporation s leverage capital ratio was 9.2%.

(b) The second requirement also establishes a minimum ratio of capital as a percentage of total assets, but gives weight to the relative risk of each asset. The FDIC, OCC and Federal Reserve Board require institutions to maintain a minimum ratio of Tier 1 capital to risk-weighted assets of 4 percent. Banks must also maintain a minimum ratio of total capital to risk-weighted assets of 8 percent. At December 31, 2006, the Corporation s Tier 1 and total capital ratios were 11.7% and 12.5%, respectively.

The OCC is the primary supervisory authority for Cadence. The OCC regulates or monitors virtually all areas of operations, including security devices and procedures, adequacy of capitalization and loss reserves, loans, investments,

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borrowings, deposits, mergers, issuance of securities, payment of dividends, interest rates payable on deposits, interest rates or fees chargeable on loans, establishment of branches, corporate reorganizations, maintenance of books and records, and adequacy of staff training to carry on safe lending and deposit gathering practices. The OCC also imposes limitations on the aggregate investment by a national bank in real estate, bank premises, and furniture and fixtures. In addition to regular examinations, each national bank must furnish to its regulator quarterly reports containing a full and accurate statement of its affairs.

Banks are subject to the provisions of Sections 23A and 23B of the Federal Reserve Act. Section 23A places limits on the amount of loans or extensions of credit to, investments in, or certain other transactions with affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. Section 23B, among other things, prohibits an institution from engaging in certain transactions with affiliates unless the transactions are on terms substantially the same, or at least as favorable to the institution, as those prevailing at the time for comparable transactions with non-affiliated companies.

The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, certain principal shareholders and their related interests. Such extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

The GLB Act was signed into law in November 1999, and allows banks to engage in a wider range of non-banking activities, including greater authority to engage in securities and insurance activities through the use of financial holding companies. The expanded powers, which became effective March 11, 2000, generally are available to banks only if the Corporation and its bank subsidiary remain well capitalized and well managed, and have a satisfactory Community Reinvestment Act (CRA) rating. Under the GLB Act, a national bank may engage in expanded financial activities through a financial subsidiary, provided the aggregate assets of all of its financial subsidiaries do not exceed the lesser of 45 percent of the bank s assets or $50 billion. A financial subsidiary may underwrite any financial product other than insurance and may sell any financial product, including title insurance. A national bank itself may not sell title insurance, however, unless the state in which the bank is located permits state banks to sell title insurance.

National banks are required by the National Bank Act to adhere to branch office banking laws of the states in which they operate. Cadence may open branches throughout Mississippi, Alabama, Tennessee, Florida and Georgia with the prior approval of the OCC. In addition, with prior regulatory approval, Cadence is able to acquire existing banking operations in Mississippi, Alabama, Tennessee, Florida and Georgia. Furthermore, federal legislation permits interstate branching. The law also permits out of state acquisitions by bank holding companies (subject to veto by new state law), interstate branching by banks if allowed by state law, interstate merging by banks, and de novo branching by national banks if allowed by state law. Effective June 1, 1997, the Interstate Banking Act allows banks with different home states to merge, unless a particular state opts out of the statute. The Interstate Banking Act also permits national and state banks to establish de novo branches in another state if the state law applies equally to all banks and expressly permits all out-of-state banks to establish de novo branches.

The CRA requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve, the FDIC or the OCC shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility.

Interest and certain other charges collected or contracted by banks are often subject to state usury laws and certain federal laws concerning interest rates. The loan operations are also subject to certain federal laws applicable to credit transactions. These include but are not limited to: (i) the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers; (ii) the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution will be fulfilling its obligation to help meet the housing needs of the community it serves; (iii) the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit; and (iv) the rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws. The deposit operations also are subject to certain laws and regulations, including but not limited to, the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that act, which governs automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Cadence is a member of the FDIC and its deposits are insured as provided by law.

CNIC, GCM, and NBC Insurance Services of Alabama, Inc. are subject to regulation by the applicable state agencies. These agencies set reserve requirements and reporting standards and establish regulations, all of which affect business operations.

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act) was signed into law. The USA Patriot Act broadened anti-money laundering requirements on financial institutions, including national banks such as Cadence. Among its provisions, the USA Patriot Act requires a financial institution: (i) to establish an anti-money laundering program; (ii) to establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving foreign individuals and certain foreign banks; and (iii) to avoid establishing, maintaining, administering or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, the USA Patriot Act contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

The Corporation s common stock is registered with the Securities and Exchange Commission (SEC) under the Exchange Act. Consequently, the Corporation is subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

The Corporation s common stock is traded on The NASDAQ Global Select Market (NASDAQ) and is subject to the rules and by-laws of NASDAQ. Penalties for violations of the rules can result in fines for the Corporation and in certain cases the suspension of trading in the Corporation s common stock or delisting.

In 2002, the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) was signed into law. This Act attempts to strengthen the independence of public company auditors by, among other things, (i) prohibiting public company auditors from providing certain non-audit services to their audit clients, (ii) requiring a company s audit committee to pre-approve all audit and non-audit services being provided by its independent auditor, (iii) requiring the rotation of audit partners and (iv) prohibiting an auditor from auditing a client that has as its chief executive officer, chief financial officer, chief accounting officer or controller a person that was employed by the auditor during the previous year.

The Sarbanes-Oxley Act also seeks to enhance the responsibility of corporate management by, among other things, (i) requiring the chief executive officer and chief financial officer of public companies to provide certain certifications in their companies periodic reports regarding the accuracy of the periodic reports filed with the Securities and Exchange Commission, (ii) prohibiting officers and directors of public companies from fraudulently influencing an accountant engaged in the audit of the company s financial statements, (iii) requiring chief executive officers and chief financial officers to forfeit certain bonuses in the event of a misstatement of financial results, (iv) prohibiting officers and directors found to be unfit from serving in a similar capacity with other public companies and (v) prohibiting officers and directors from trading in the company s equity securities during pension blackout periods. In addition, public companies with securities listed on a national securities exchange or association must satisfy the following additional requirements: (i) the company s audit committee must appoint and oversee the company s auditors; (ii) each member of the company s audit committee must be independent; (iii) the company s audit committee must establish procedures for receiving complaints regarding accounting, internal accounting controls and audit-related matters; (iv) the company s audit committee must have the authority to engage independent advisors; and (v) the company must provide appropriate funding to its audit committee, as determined by the audit committee.

The Sarbanes-Oxley Act contains several provisions intended to enhance the quality of financial disclosures of public companies, including provisions that (i) require that financial disclosures reflect all material correcting adjustments identified by the company s auditors, (ii) require the disclosure of all material off-balance sheet transactions, (iii) require the reconciliation by public companies of pro forma financial information to financial statements prepared in accordance with generally accepted accounting principles, (iv) with certain limited exceptions, including an exception for financial institutions making loans in compliance with federal banking regulations, prohibit a public company from making personal loans to its officers and directors, (v) with certain limited exceptions, require directors, officers and principal shareholders of public companies to report a change in their ownership in the company s securities within two business days of the change, (vi) require a company s management to provide a report of management s assessment of the internal controls of the company in the company s annual report and requires an opinion from the company s independent auditors on management s report on internal controls, (vii) require public companies to adopt codes of conduct and ethics for senior executive officers and (viii) require a public company to disclose whether the company s audit committee has a financial expert as a member.

The Sarbanes-Oxley Act imposes criminal liability for certain acts, including altering documents involving federal investigations, bankruptcy proceedings, and corporate audits and the act increases the penalties for certain offenses, including mail and wire fraud. In addition, the Sarbanes-Oxley Act gives added protection to corporate whistle-blowers.

Governmental Monetary Policies

As a bank chartered under the laws of the United States, Cadence is a member of the Federal Reserve System. Its earnings are affected by the fiscal and monetary policies of the Federal Reserve System, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. The techniques used by the Federal Reserve System include setting the reserve requirements of depository institutions and establishing the discount rate on member bank borrowings. The Federal Reserve System also conducts open market operations in United States government securities. Refer to Item 1A - Risk Factors, for discussion of the Corporation s risks relating to governmental monetary policies.

Sources and Availability of Funds

The materials essential to the business of the Corporation and its subsidiaries consist primarily of funds derived from deposits and other borrowings in the financial markets. The availability of funds is primarily dependent upon the economic policies of the government, the economy in general and the institution s ability to compete in its markets. Refer to Item 1A - Risk Factors, for discussion of the Corporation s risks relating to governmental monetary policy, economic conditions, and competition.

Seasonality

Neither the Corporation nor any of its subsidiaries are engaged in a business that is seasonal in nature.

Dependence Upon A Single Customer

Neither the Corporation nor any of its subsidiaries are dependent upon a single customer or any small group of customers.

Available Information

The Corporation maintains an Internet address at www.cadencebanking.com. The Corporation makes available, free of charge on or through its Internet website, access to the Corporation s annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments thereto filed pursuant to Section 13(a) of the Exchange Act, as soon as reasonably practicable after such material is filed with or furnished to the SEC. The Corporation is not incorporating the information on that website into this report, and the website and the information appearing on the website are not included in, and are not a part of, this report.

Personnel

At December 31, 2006, Cadence had 446 full-time employees and GCM had 42 full-time employees. The Corporation, Service, Insurance and CNIC had no employees at December 31, 2006.

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Executive Officers

The executive officers of the Corporation and a brief description of their principal employment during the last five years are listed below:

Name and Title	Age	Five-Year Experience
L. F. Mallory, Jr. Chairman and Chief Executive Officer, Cadence Financial Corporation and Cadence	64	Chairman and Chief Executive Officer, Cadence Financial Corporation and Cadence, since 1993
Mark A. Abernathy President and Chief Operating Officer and Chairman of Executive Committee, Cadence Financial Corporation and Cadence	50	President and Chief Operating Officer, Cadence Financial Corporation and Cadence, since 1997; Chairman of Executive Committee, Cadence Financial Corporation and Cadence, since 2006
Richard T. Haston Executive Vice President, Chief Financial Officer, and Assistant Secretary, Cadence Financial Corporation; Executive Vice President and Chief Financial Officer, Cadence	60	Executive Vice President, Chief Financial Officer, and Assistant Secretary, Cadence Financial Corporation, since July 2005; Executive Vice President, Chief Financial Officer, Treasurer, and Assistant Secretary, Cadence Financial Corporation, from January 1997 - July 2005; Executive Vice President and Chief Financial Officer, Cadence, since 1996
Shane C. Williams Vice President and Treasurer, Cadence Financial Corporation; Executive Vice President and Treasurer, Cadence	39	Vice President and Treasurer, Cadence Financial Corporation, and Executive Vice President and Treasurer, Cadence, since July 2005; Assistant Treasurer, United Community Bank, Blairsville, Georgia, from 2003 - July 2005; Portfolio Manager and Asset Liability Manager, Provident Bank, Cincinnati, Ohio, from 1999 - 2003
John R. Davis Vice President, Cadence Financial Corporation; Executive Vice President and Manager of Consumer Financial Services, Cadence	51	Vice President, Cadence Financial Corporation, since January 1999; Executive Vice President and Manager of Consumer Financial Services, Cadence, since December 2005; Senior Vice President and Trust Officer, Cadence, from January 1999 - December 2005

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Officers of the Corporation are elected annually by the Board of Directors at its January meeting and serve at the discretion of the Board of Directors.

ITEM 1A - RISK FACTORS

There are many risks and uncertainties related to the Corporation s business that may impair our business operations. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. Any of the following risks could negatively impact our business, results of operations and financial condition. The risks discussed below also include forward-looking statements, and actual results may differ substantially from those discussed. See Forward-Looking Statements above.

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

At December 31, 2006, we had approximately $515.0 million in loans to borrowers in the commercial real estate industry, representing approximately 42.1% of our total loans outstanding as of that date. The real estate consists primarily of office buildings and shopping centers and also includes apartment buildings, owner-operated properties, warehouses and other commercial properties. These types of loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the property to service the debt. Cash flows may be affected significantly by general economic conditions, and a downturn in the local economy or in occupancy rates in the local economy where the property is located could increase the likelihood of default. Because our loan portfolio contains a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in our percentage of non-performing loans. An increase in non-performing loans could result in a loss of earnings from these loans, an increase in the provision for loan losses and an increase in charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

Our commercial real estate loans have grown approximately 50.0% since December 31, 2005. The banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for possible losses and capital levels as a result of commercial real estate lending growth and exposures. See Supervision and Regulation.

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

We currently conduct our banking operations in north central Mississippi, the cities of Tuscaloosa and Hoover, Alabama, the cities of Memphis, Germantown and Nashville, Tennessee, the cities of Sarasota and Bradenton, Florida, and the cities of Blairsville and Blue Ridge, Georgia. The banking business is highly competitive and in our primary market areas, we experience competition from many other financial institutions. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds, and other mutual funds, as well as other super-regional, national and international financial institutions that operate offices in our primary market areas and elsewhere.

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

Our success depends on local economic conditions where we operate.

To a certain extent, our success depends on the general economic conditions of the geographic markets we serve in the states of Mississippi, Alabama, Tennessee, Florida and Georgia. The local economic conditions in these areas have a significant impact on our commercial, real estate and construction loans, the ability of borrowers to repay these loans, and the value of the collateral securing these loans. Adverse changes in the economic conditions of the Southeastern United States in general or any one or more of our local markets could negatively impact our results of operations and our profitability.

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If our allowance for loan losses is not sufficient to cover actual loan losses, our earnings could decrease.

Management maintains an allowance for loan and lease losses based upon, among other things, (1) historical experience, (2) an evaluation of local, regional and national economic conditions, (3) regular reviews of delinquencies and loan portfolio quality, (4) current trends regarding the volume and severity of past due and problem loans, (5) the existence and effect of concentrations of credit, and (6) results of regulatory examinations. Based on such factors, management makes various assumptions and judgments about the ultimate collectibility of the respective loan portfolios. Although we believe that the allowance for loan and lease losses is adequate, there can be no assurance that the allowance will prove sufficient to cover future losses. Future adjustments may be necessary if economic conditions differ or adverse developments arise with respect to nonperforming or performing loans. Material additions to the allowance for loan and lease losses would result in a decrease in our net income and our capital.

Our loan customers may not repay their loans according to the terms of these loans, and the collateral securing these loans may be insufficient to assure repayment. We may experience significant loan losses, which could have a material adverse effect on our operating results. We maintain an allowance for loan losses in an attempt to cover any loan losses that may occur. In determining the size of the allowance, we rely on an analysis of our loan portfolio based on the factors listed in the preceding paragraph and other pertinent information. As we expand into new markets, our determination of the size of the allowance could be inaccurate due to our lack of familiarity with market-specific factors.

If our assumptions are wrong, our current allowance may not be sufficient to cover our loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. In addition, federal regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize future loan charge-offs based on judgments different than those of our management. Material additions to our allowance would materially decrease our net income. Our allowance for loan losses was $12.2 million, or 1.0% of loans, as of December 31, 2006.

We could suffer loan losses from a decline in credit quality.

We could sustain losses if borrowers, guarantors and related parties fail to perform in accordance with the terms of their loans. Our underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for loan losses, may not prevent unexpected losses that could materially adversely affect our results of operations.

The banking industry is heavily regulated and such regulation could limit or restrict our activities and adversely affect our earnings.

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various federal and state agencies, including the Federal Reserve, the FDIC, the OCC and the state banking departments in the states in which our branches are located. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth.

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

In addition, the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated by the SEC and NASDAQ that are now applicable to us have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices, including the costs of completing our audit and maintaining our internal controls.

Changes in monetary policy could adversely affect our profitability.

Our results of operations are impacted by credit policies of monetary authorities, particularly the Federal Reserve Board. In light of changing conditions in the national economy and in the money markets, particularly the continuing threat of terrorist acts and the current military operations in the Middle East, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Corporation. Furthermore, the actions of the United States and other governments in response to terrorist threats may result in currency fluctuations, exchange controls, market disruption and other adverse effects.

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Changes in interest rates could have an adverse effect on our income.

Our profitability depends to a significant extent on our net interest income. Net interest income is the difference between interest income on interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. Our net interest income will be adversely affected if market interest rates change such that the interest we pay on deposits and borrowings increases faster than the interest earned on loans and investments. Changes in interest rates could also adversely affect the income of some of our non-interest income sources. For example, if mortgage interest rates increase, the demand for residential mortgage loans will likely decrease, having an adverse effect on our mortgage loan fee income.

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

We rely on dividends from Cadence as our primary source of funds. The primary sources of funds of our bank subsidiary 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, we 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 we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

We may face risks with respect to future expansion and acquisitions or mergers.

We may engage in de novo branch expansion, acquisitions or mergers in the future. We 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;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution may not be accurate;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;
- entry into new markets where we lack experience;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and

the risk of loss of key employees and customers.

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

Combining acquired companies may be more difficult, costly, or time-consuming than we expect.

Our recent growth plans have included the acquisition of other financial institutions. It is possible that the integration process for these acquisitions could result in the loss of key employees or disruption of each company s ongoing business or inconsistencies in standards, procedures and policies that would adversely affect our ability to maintain relationships with clients and employees or to achieve the anticipated benefits of the merger. If we have difficulties with the integration process, we might not achieve the economic benefits expected to result from the acquisition. As with any merger of banking institutions, there also may be business disruptions that cause us to lose customers or cause customers to remove their deposits or loans from our bank and move their business to competing financial institutions.

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Our ability to pay dividends is limited and we may be unable to pay future dividends.

Our ability to pay dividends is limited by regulatory restrictions and the need to maintain sufficient consolidated capital. The ability of our bank subsidiary to pay dividends to us is limited by its obligations to maintain sufficient capital and by other general restrictions on dividends that are applicable to national banks that are regulated by the OCC. If we do not satisfy these regulatory requirements, we will be unable to pay dividends on our common stock.

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

Our success has been and continues to be largely dependent upon the services of Lewis F. Mallory, Jr., our Chairman and Chief Executive Officer, and other members of our senior management team. Our continued success will depend, to a significant extent, on the continued service of these key personnel. The unavailability or the unexpected loss of any of them could have an adverse effect on our financial condition and results of operations. We cannot be assured of the continued service of our senior management team with us or our ability to find suitable replacements for any members of our management team.

ITEM 1B - UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 - PROPERTIES

At December 31, 2006, Cadence s properties consisted of 37 full-service bank branches (including the main office in Starkville, Mississippi), of which 31 are owned premises. Cadence also owns two operations centers in Starkville, Mississippi and Memphis, Tennessee. GCM operates from five separate locations, three of which are leased. The Corporation, Service, Insurance and CNIC did not own or lease any properties at December 31, 2006.

In the opinion of management, all properties are in good condition and are adequate to meet the needs of the communities they serve.

ITEM 3 - LEGAL PROCEEDINGS

In the normal course of business, the Corporation and its subsidiaries from time to time are involved in legal proceedings. There are no pending proceedings to which either the Corporation or any of its subsidiaries are a party that upon resolution are expected to have a material adverse effect upon the Corporation s or its subsidiaries financial condition or results of operations.

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

Not applicable.

PART II

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

(a) Reference is made to Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations, under the caption, Market Information.

(b) At December 31, 2006, the Corporation had 2,433 security holders of record.

(c) Dividends on common stock were declared quarterly in 2006 and 2005, and totaled as follows:

(In Thousands)
December 31,

	2006	2005
Dividends declared, $1.00 per share	$ 10,722	$
Dividends declared, $0.98 per share		8,005
	$ 10,722	$ 8,005

(d) Performance Graph - The Securities and Exchange Commission requires that the Corporation include in its annual report on Form 10-K a line graph presentation comparing cumulative, five-year shareholder returns on an indexed basis with a performance indicator of the overall stock market and either a nationally recognized industry standard or an index of peer companies selected by the Corporation. The broad market indexes used in the graph are the AMEX Market Index and the NASDAQ Bank Index. The Corporation has chosen to use Hemscott, Inc. Financial Information REGIONAL-SOUTHEAST BANKS as its peer group index. A list of the companies is included in the index following the graph.

The graph assumes that $100 was invested in shares of the relevant issuers on January 1, 2002, and all dividends were immediately invested in additional shares. The value of the initial $100 investment is shown at one-year intervals, for a five-year period ending December 31, 2006. For purposes of constructing this data, the returns of each component issuer have been weighted according to that issuer s market capitalization. The Corporation s 2006 stock performance was impacted by a 2.76 million share stock offering that was sold into the secondary market in May.

Hemscott Industry Group 413-Regional-Southeast Banks

ALABAMA NATIONAL BANCORP	APPALACHIAN BANCSHARES	AUBURN NATIONAL BANC INC
BANCORPSOUTH INC	BANCTRUST FINANCIAL GRP	BANK OF THE OZARKS INC
BEACH FIRST NATIONAL BKS	BRITTON & KOONTZ CAP CP	CADENCE FINANCIAL CORP
CAPITALSOUTH BANCORP	CARDINAL FINANCIAL CORP	CENTERSTATE BANKS OF FL
CITIZENS FIRST CORP	CIVITAS BANKGROUP INC	COLONIAL BANCGROUP CL A
COMMUNITY NATL BANK LAKE	COMMUNITY TRUST BNCP INC	COMPASS BANCSHARES INC
CRESCENT BANKING COMPANY	EASTERN VIRGINIA BNKSHRS	FARMERS CAPITAL BANK CP
FAUQUIER BANKSHARES INC	FIRST BANCSHARES INC MS	FIRST FINANCIAL SVC CORP
FIRST HORIZON NATIONAL	FIRST M & F CORPORATION	FNB CORPORATION FL
FNB CORPORATION VA	FPB BANCORP INC	HANCOCK HOLDING CO
HERITAGE FINANCIAL GROUP	IBERIABANK CORPORATION	MIDSOUTH BANCORP INC
HANCOCK HOLDING CO	HERITAGE FINANCIAL GROUP	HORIZON BANCORPORATION
NB&T FINANCIAL GROUP	NEXITY FINANCIAL CORP	PEOPLES BANCTRUST CO
PINNACLE BANCSHARES INC	PINNACLE FINANCIAL PARTN	PORTER BANCORP INC
PREMIER FINANCIAL BANCP	REGIONS FINANCIAL CORP	RENASANT CORP
REPUBLIC BANCORP INC CLA	S.Y. BANCORP INC	SECURITY BANK CORP
SIMMONS FIRST NATL CORP	SOUTHCOAST FNCL CORP	SUPERIOR BANCORP
TENNESSEE COMMERCE BANC	TRUSTMARK CORP	UNITED SECURITY BNC INC
WHITNEY HOLDING CORP		

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ITEM 6 - SELECTED FINANCIAL DATA

	Years Ended December 31, 2006	2005	2004	2003	2002
	(In thousands, except per share data)				
INCOME DATA					
Interest and fees on loans	$ 74,182	$ 53,035	$ 43,242	$ 34,073	$ 40,022
Interest and dividends on securities	21,500	19,480	18,796	17,242	19,814
Other interest income	1,312	669	346	262	215
Total interest income	96,994	73,184	62,384	51,577	60,051
Interest expense	46,512	27,970	21,186	17,881	22,876
Net interest income	50,482	45,214	41,198	33,696	37,175
Provision for loan losses	1,656	2,128	3,522	2,770	2,790
Net interest income after provision for loan losses	48,826	43,086	37,676	30,926	34,385
Service charges on deposit accounts	8,878	7,952	8,581	7,774	7,110
Other income	11,115	11,983	11,526	12,871	10,936
Total noninterest income	19,993	19,935	20,107	20,645	18,046
Salaries and employee benefits	28,766	24,934	23,415	19,868	19,827
Occupancy and equipment expense	6,815	6,172	5,861	4,657	4,728
Other expenses	14,101	13,639	12,451	9,029	8,863
Total noninterest expenses	49,682	44,745	41,727	33,554	33,418
Income before income taxes	19,137	18,276	16,056	18,017	19,013
Income taxes	4,984	4,522	3,757	4,492	4,792
Net income	$ 14,153	$ 13,754	$ 12,299	$ 13,525	$ 14,221
PER SHARE DATA					
Net income - basic	$ 1.37	$ 1.68	$ 1.51	$ 1.65	$ 1.73
Net income - diluted	1.37	1.68	1.50	1.65	1.73
Dividends	1.00	0.98	0.96	0.92	0.87
FINANCIAL DATA					
Total assets	$ 1,899,948	$ 1,446,117	$ 1,439,573	$ 1,093,223	$ 1,077,456
Net loans	1,210,710	851,332	817,649	582,933	570,296
Total deposits	1,460,523	1,121,684	1,116,373	815,839	817,447
Total shareholders equity	191,265	116,984	114,766	111,102	111,107

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SUPPLEMENTAL STATISTICAL INFORMATION

I. DISTRIBUTION OF ASSETS, LIABILITIES, AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

A. Average balance sheets (consolidated):

The following table presents, for the years indicated, condensed daily average balance sheet information.

	(In Thousands)		
	2006	**2005**	**2004**
Assets:			
Cash and due from banks	$ 41,290	$ 38,817	$ 38,630
Securities:			
Taxable	343,515	321,250	320,431
Tax-exempt	116,328	123,513	119,369
Total securities	459,843	444,763	439,800
Federal funds sold and other interest-bearing assets	25,893	20,111	26,644
Loans	973,466	808,796	756,112
Less allowance for loan losses	10,463	10,604	9,248
Net loans	963,003	798,191	746,864
Other assets	141,579	116,235	43,012
Total Assets	$ 1,631,608	$ 1,418,118	$ 1,294,950
Liabilities and Shareholders Equity:			
Deposits:			
Noninterest-bearing	$ 165,939	$ 152,683	$ 102,391
Interest-bearing	1,061,250	938,410	880,303
Total deposits	1,227,189	1,091,093	982,694
Federal funds purchased and securities sold under agreements to repurchase	63,830	34,204	32,994
Borrowed funds	144,097	149,107	164,190
Other liabilities	5,020	27,047	3,121
Total liabilities	1,440,136	1,301,451	1,182,999
Shareholders equity	191,472	116,667	111,951
Total Liabilities and Shareholders Equity	$ 1,631,608	$ 1,418,118	$ 1,294,950

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B. Analysis of Net Interest Earnings

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

	($ In Thousands) Average Balance 2006	2005	2004
EARNING ASSETS			
Loans	$ 973,466	$ 808,796	$ 756,112
Federal funds sold and other interest-bearing assets	25,893	20,111	26,644
Securities:			
Taxable	343,515	321,250	320,431
Tax-exempt	116,328	123,513	119,369
Totals	1,459,202	1,273,670	1,222,556
INTEREST-BEARING LIABILITIES			
Interest-bearing deposits	1,061,250	938,410	880,303
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	207,927	183,311	197,184
Totals	1,269,177	1,121,721	1,077,487
Net Amounts	$ 190,025	$ 151,949	$ 145,069

	($ In Thousands) Average Balance 2006	2005	2004	Yields Earned And Rates Paid (%) 2006	2005	2004
EARNING ASSETS						
Loans	$ 74,182	$ 53,035	$ 43,242	7.62	6.56	5.72
Federal funds sold and other interest-bearing assets	1,312	669	346	5.07	3.33	1.30
Securities:						
Taxable	16,641	14,433	13,667	4.84	4.49	4.27
Tax-exempt	4,859	5,047	5,129	4.18	4.09	4.30
Totals	96,994	73,184	62,384	6.65	5.75	5.10
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits	35,992	20,327	14,260	3.39	2.17	1.62
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase	10,520	7,643	6,926	5.06	4.17	3.51
Totals	46,512	27,970	21,186	3.66	2.46	1.97
Net interest income	$ 50,482	$ 45,214	$ 41,198			
Net yield on earning assets				3.46	3.55	3.37

(1) Interest and yields on tax-exempt obligations are not on a fully taxable equivalent basis.

(2) For the purpose of these computations, nonaccruing loans are included in the average loan balances outstanding.

(3) Interest income on loans includes related fees.

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C. Increase (Decrease) in Interest Income and Interest Expense

The following table analyzes the changes in both the rate and volume components of net interest income:

	(In Thousands) 2006 Over 2005 Change Due To:			(In Thousands) 2005 Over 2004 Change Due To:		
	Total	Rate	Volume	Total	Rate	Volume
EARNING ASSETS						
Loans	$ 21,147	$ 9,357	$ 11,790	$ 9,793	$ 6,642	$ 3,151
Federal funds sold and other interest-bearing assets	643	415	228	323	383	(60)
Securities:						
Taxable	2,208	1,169	1,039	766	730	36
Tax-exempt	(188)	114	(302)	(82)	(284)	202
Totals	$ 23,810	$ 11,055	$ 12,755	$ 10,800	$ 7,471	$ 3,329
INTEREST-BEARING LIABILITIES						
Interest-bearing deposits	$ 15,665	$ 12,707	$ 2,958	$ 6,067	$ 5,079	$ 988
Interest on borrowed funds, federal funds purchased and securities sold under agreements to repurchase	2,877	1,766	1,111	717	1,146	(429)
Totals	$ 18,542	$ 14,473	$ 4,069	$ 6,784	$ 6,225	$ 559

(1) Change in volume is the change in volume times the previous year s rate.

(2) Change in rate is the change in rate times the previous year s balance.

(3) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of change to each.

II. INVESTMENT PORTFOLIO

A. The following tables present the book values of securities as of the dates indicated:

	(In Thousands) 2006	2005	2004
U. S. Treasury	$ 300	$ 296	$ 297
U. S. Government agencies and mortgage-backed securities	326,555	307,193	315,152
States and political subdivisions	108,833	109,131	121,784
Other	12,892	25,820	28,537
Total book value	$ 448,580	$ 442,440	$ 465,770

B. The following table sets forth the maturities of investment and mortgage-backed securities (carrying values) at December 31, 2006, and the weighted-average yield of such securities:

	($ In Thousands) Weighted-Average Yield					
	0 - 1 Year	Yield (%)	1 - 5 Years	Yield (%)	5-10 Years	Yield (%)
Securities:						
U. S. Treasury	$ 99	4.03%	$ 201	4.97%	$	
U. S. Government agencies	11,056	3.30%	59,695	5.00%	7,515	4.94%
Nontaxable municipals	1,845	7.35%	5,724	5.33%	35,433	5.04%
Taxable municipals	1,054	6.36%	146	4.19%	740	5.07%
Other			810	5.46%	306	4.40%
Total	$ 14,054		$ 66,576		$ 43,994	

	10+ Years	Yield (%)
U. S. Government agencies	$ 97	5.13%
Nontaxable municipals	63,891	6.51%
Taxable municipals		
Other	11,776	4.73%
Total	$ 75,764	

	Book Value	Yield (%)
Mortgage-backed securities	$ 248,192	4.74%

NOTE: Interest and yields on tax-exempt obligations are on a taxable equivalent basis, at the statutory rate of 38.25%.

Average yield on floating rate securities was determined using the current yield.

Table includes securities classified as available-for-sale and held-to-maturity at carrying values.

The majority of mortgage-backed securities are backed by U. S. Government agencies.

C. Investment securities in excess of 10% of stockholders equity.

At December 31, 2006, there were no securities from any issuers in excess of 10% of stockholders equity that were not securities of the U. S. Government or U. S. Government agencies or corporations.

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III. LOAN PORTFOLIO

A. Type of loans

The amount of loans outstanding by type at the indicated dates are shown in the following table:

	(In Thousands) December 31,				
Type	**2006**	**2005**	**2004**	**2003**	**2002**
Commercial, financial and agricultural	$ 257,661	$ 209,017	$ 155,858	$ 97,974	$ 103,327
Real estate - construction	347,568	143,729	119,637	38,140	30,028
Real estate - mortgage	559,604	457,453	478,792	386,607	356,493
Installment loans to individuals	38,833	40,825	57,599	56,800	77,692
Other	19,280	9,620	16,677	9,593	8,785
Total loans	$ 1,222,946	$ 860,644	$ 828,563	$ 589,114	$ 576,325

B. Maturities and sensitivities of loans to changes in interest rates

The following table sets forth as of December 31, 2006, the amount of loans due in the periods indicated:

	(In Thousands)			
Type	**Due Within 1 Year**	**Due After 1 Year Through 5 Years**	**Due After 5 Years**	**Total**
Commercial, financial and agricultural	$ 178,713	$ 75,872	$ 3,076	$ 257,661
Real estate - construction	285,508	54,507	7,553	347,568
	$ 464,221	$ 130,379	$ 10,629	$ 605,229

Type	**Due Within 1 Year**	**Due After 1 Year Through 5 Years**	**Due After 5 Years**	**Total**
Loans with:				
Predetermined interest rates	$ 66,859	$ 119,385	$ 7,642	$ 193,886
Floating interest rates	397,362	10,994	2,987	411,343
	$ 464,221	$ 130,379	$ 10,629	$ 605,229

C. Non-performing loans

1. The following table states the aggregate amount of loans that were non-performing on the dates indicated:

	(In Thousands)				
	December 31,				
Type	**2006**	**2005**	**2004**	**2003**	**2002**
Loans accounted for on a non-accrual basis	$ 1,435	$ 498	$ 1,918	$ 766	$ 1,274
Accruing loans past due 90 days or more	1,146	2,043	1,094	1,998	2,700
Renegotiated troubled debt	151	73	1,502	489	304

2. There were no loan concentrations in excess of 10% of total loans at December 31, 2006. However, lending activities are affected by the economic trends within the areas served by the Corporation and its

subsidiaries. These economic trends, in turn, can be influenced by the areas larger employers and industries, such as Mississippi State University, Bryan Foods, and Columbus Air Force Base in Mississippi; University of Alabama and Mercedes-Benz Automotive Plant in Alabama; Federal Express and Auto Zone in Tennessee; and the tourism industry in Florida.

3. There were no outstanding foreign loans at December 31, 2006.

4. Loans classified for regulatory purposes or for internal credit review purposes that have not been disclosed in the table above do not represent or result from trends or uncertainties that management expects will materially impact the financial condition of the Corporation or its subsidiary bank, or their future operating results, liquidity or capital resources.

5. If all nonaccrual loans had been current throughout their terms, interest income would have not been significantly different for the year ended December 31, 2006.

6. Management stringently monitors loans that are classified as non-performing. Non-performing loans include nonaccrual loans, loans past due 90 days or more, and loans renegotiated or restructured because of a debtor s financial difficulties. Loans are generally placed on non-accrual status if any of the following events occur: (a) the classification of a loan as non-accrual internally or by regulatory examiners, (b) delinquency on principal for 90 days or more unless management is in the process of collection, (c) a balance remains after repossession of collateral, (d) notification of bankruptcy, or (e) management judges that non-accrual status is appropriate.

7. At December 31, 2006, the recorded investment in loans identified as impaired totaled approximately $13.6 million. The allowance for loan losses related to these loans approximated $2.1 million. The average recorded investment in impaired loans during the year ended December 31, 2006, was $10.3 million. Total interest recognized on impaired loans and the amounts recognized on a cash basis were not significant.

D. Other interest-bearing assets

There were no other interest-bearing non-performing assets at December 31, 2006.

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IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. The following table shows changes in the Corporation s allowance for loan losses for the periods indicated:

	($ In Thousands) Years Ended December 31,				
	2006	2005	2004	2003	2002
Beginning balance	$ 9,312	$ 10,914	$ 6,181	$ 6,029	$ 6,753
Allowance of acquired entity	3,116		4,547		
	12,428	10,914	10,728	6,029	6,753
Charge-offs:					
Domestic:					
Commercial, financial and agricultural	(749)	(1,320)	(732)	(473)	(708)
Real estate	(526)	(1,373)	(2,070)	(1,105)	(1,240)
Installment loans and other	(1,358)	(1,927)	(1,308)	(1,559)	(2,226)
Total charge-offs	(2,633)	(4,620)	(4,110)	(3,137)	(4,174)
Recoveries:					
Domestic:					
Commercial, financial and agricultural	259	52	133	71	39
Real estate	119	348	185	68	64
Installment loans and other	407	490	456	477	557
Total recoveries	785	890	774	616	660
Net charge-offs	(1,848)	(3,730)	(3,336)	(2,521)	(3,514)
Allowance applicable to Finance Company loans sold				(97)	
Provision charged to operations	1,656	2,128	3,522	2,770	2,790
Ending balance	$ 12,236	$ 9,312	$ 10,914	$ 6,181	$ 6,029
Ratio of net charge-offs to average loans outstanding	0.19	0.46	0.44	0.44	0.59

Estimated charge-offs in 2007 are as follows: commercial, financial and agricultural - $1.0 million; real estate - $1.5 million; and installment loans and other - $1.0 million.

The following table indicates the ratio of allowance for loan losses to loans outstanding at year-end:

	December 31,				
	2006	2005	2004	2003	2002
Ratio of allowance for loan losses to loans outstanding at year end	1.00	1.08	1.32	1.05	1.05

B. Determination of Allowance for Loan Losses

The determination of the allowance for loan losses requires significant judgment. The balance of the allowance for loan losses reflects management s best estimate of probable loan losses related to specifically identified loans, as well as probable incurred loan losses in the remaining portfolio. Reference should be made to Note A.6. in the Notes to Consolidated Financial Statements and to Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations.

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The following schedule sets forth the components of the allowance for loan losses at December 31, 2006 and 2005. This allocation is based upon the consistent, quarterly evaluation of the adequacy of the allowance for loan losses. The entire allowance for loan losses is available to absorb loan losses in any category.

	2006		2005	
(In thousands)	Loan Balance	Allowance for Loan Losses	Loan Balance	Allowance for Loan Losses
Allocated component:				
Impaired loans	$ 13,577	$ 2,113	$ 10,544	$ 1,293
Graded loans	557,122	1,745	19,978	812
Homogeneous pools	105,114	524	120,315	855
Other loans	547,133	5,334	709,807	4,768
Unallocated component		2,520		1,584
	$ 1,222,946	$ 12,236	$ 860,644	$ 9,312

The allowance allocated to impaired loans for the periods indicated was based upon the estimated fair value of the underlying collateral. Graded loans are those loans that exhibit some form of weakness. Allocations to this group are based upon the historical loan loss experience of the grades assigned and upon specific allocations to specific loans. An allowance is allocated to the various pools of loans considered to be homogenous based upon the historical loan losses of each pool. Other loans consist of those loans not graded or impaired or considered homogenous.

These loans are grouped by risk assignments, which are based upon consideration of collateral values, borrower financial condition and performance, debt service capacity, cash flows, market share and other indicators. Allocations of the allowance to these loans are based upon historical loan loss experience of the risk assignment.

C. Loans and Risk Descriptions

Real Estate Loans

The Bank originates loans secured by commercial real estate, one-to-four family residential properties, and multi-family dwelling units (5 or more units). At December 31, 2006, these loans totaled $907 million or approximately 74% of the loan portfolio.

The Bank originates commercial real estate loans of up to 80% of the appraised value. Currently, it is the Corporation s policy to originate these loans only to carefully selected borrowers and on properties in the market area. Of primary concern in commercial real estate lending are the borrower s credit worthiness and the feasibility and cash flow potential of the project. To monitor cash flows of borrowers, annual financial statements are obtained from the borrower and loan guarantors, if any. Although many banks have had significant losses in commercial real estate lending, Cadence has historically sustained few losses, and those losses were not significant relative to the size of the entire commercial real estate loan portfolio at the time.

The Bank originates loans secured by first and junior liens on one-to-four family residences in its lending areas. Typically, such loans are single-family homes that serve as the primary residence of the borrower. Generally, these loans are originated in amounts up to 80% of the appraised value or selling price of the property. See Note D in the Notes to Consolidated Financial Statements for additional information related to these loans.

Loans for multi-family (5 or more units) residential properties are generally secured by apartment buildings. Loans secured by income generating properties are generally larger and involve greater risk than residential loans because payments are often dependent on the successful operation or management of the properties. As a result, these types of loans may be more sensitive to adverse conditions in the real estate market or the economy. Cash flow and financial statements are obtained from the borrowers and any guarantors. Also, rent rolls are often obtained.

Consumer and Other Loans

Cadence offers consumer loans in the form of home improvement loans, mobile home loans, automobile loans and unsecured personal loans. These loans totaled $39 million, or 3% of total loans, at December 31, 2006. Consumer loans are originated in order to provide a wide range of financial services to customers and because the terms and normally higher interest rates on such loans help maintain a profitable spread between the average loan yield and the cost of funds.

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In connection with consumer loan applications, the borrower s income statement and credit bureau report are reviewed. In addition, the relationship of the loan to the value of the collateral is considered. All automobile loan applications are reviewed, as well as the value of the collateral securing the loan. Cadence intends to continue to emphasize the origination of consumer loans. Management believes that its loan loss experience in connection with its consumer loan portfolio is favorable in comparison to industry averages.

The Bank makes commercial business loans on both a secured and unsecured basis with terms generally not exceeding five years. Non-real estate commercial loans primarily consist of short-term loans for working capital purposes, inventories, seasonal loans, lines of credit and equipment loans. A personal guaranty of payment by the principals of any borrowing entity is often required and the financial statements and income tax returns of the entity and its guarantors are reviewed. At December 31, 2006, commercial business loans represented $258 million, or approximately 21%, of the Corporation s total loan portfolio.

V. DEPOSITS

	($ In Thousands)					
	2006		2005		2004	
	Amount	Rate	Amount	Rate	Amount	Rate
A. Average deposits:						
Domestic:						
Noninterest - bearing	$ 165,939		$ 152,683		$ 102,391	
Interest - bearing demand (1)	414,137	2.51%	381,007	1.40%	379,266	0.90%
Savings	42,218	0.46%	44,149	0.24%	44,186	0.30%
Time	604,895	4.20%	513,254	2.90%	456,851	2.40%
Foreign	N/A		N/A		N/A	
Total	$ 1,227,189		$ 1,091,093		$ 982,694	

(1) Includes Money Market accounts

B. Other categories - None

C. Foreign deposits - Not material

D. Time certificates of deposit of $100,000 or more and maturities at December 31, 2006:

	(In Thousands)				
	Total	3 Months or Less	3 Months Through 6 Months	6 Months Through 12 Months	Over 12 Months
Time certificates of deposit of $100,000 or more	$ 400,620	$ 174,081	$ 89,469	$ 75,462	$ 61,608

E. Foreign office time deposits of $100,000 or more - Not applicable

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VI. RETURN ON EQUITY AND ASSETS

The following financial ratios are presented for analytical purposes:

	December 31, 2006	2005	2004
Return on assets (net income divided by total average assets)	0.9	1.0	1.0
Return on equity (net income divided by average equity)	9.0	11.8	11.0
Dividend payout ratio (dividends per share divided by basic net income per share)	73.0	58.3	63.6
Equity to asset ratio (average equity divided by average total assets)	9.6	8.2	8.7

VII. SHORT-TERM BORROWINGS

	($ In Thousands) 2006	2005	2004
Balance at year end	$ 80,838	$ 58,571	$ 26,799
Weighted average interest rate at year end	4.45%	3.19%	1.27%
Maximum amount outstanding at any month end for the year	$ 80,838	$ 58,571	$ 44,281
Average amount outstanding during the year	63,830	33,574	30,490
Weighted average interest rate during the year	4.17%	2.35%	0.92%

Note: Short term borrowings include federal funds purchased and securities sold under agreements to repurchase.

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

The following provides a narrative discussion and analysis of significant changes in our results of operations and financial condition. You should read this discussion in conjunction with the consolidated financial statements, including the notes thereto, and the supplemental financial data included elsewhere in this report, including the five-year summary of Selected Financial Data and management s letter to shareholders at the beginning of our Annual Report to shareholders that accompanies the proxy statement for our 2007 annual meeting of shareholders.

INTRODUCTION AND MANAGEMENT OVERVIEW

Cadence Financial Corporation, formerly NBC Capital Corporation, is a financial holding company that owns Cadence Bank, N.A. (Cadence or the Bank), which operates in Mississippi, Alabama, Tennessee, Florida and Georgia. We provide full financial services, including banking, trust services, mortgage services, insurance and investment products. Our stock is traded on The NASDAQ Global Select Market (NASDAQ) under the ticker symbol of CADE.

For purposes of the following discussion, the words the Corporation, we, us and our refer to the combined entities of Cadence Financial Corporation and its wholly owned subsidiary, Cadence, unless the context suggests otherwise.

We accomplished a number of strategic objectives in 2006:

First, at the annual shareholders meeting held in June, our shareholders voted to change our corporate name to Cadence Financial Corporation. The change aligns our corporate name with that of the Bank and further leverages the brand recognition being created in our markets. The new Cadence brand is part of an overall marketing and business strategy that we expect to create marketing efficiencies by having one uniform marketing effort and brand.

Our strategic growth plan for 2006 included opening new branches in some of our higher growth markets, adding a de novo bank in another high growth market, and evaluating potential acquisition candidates to increase our share in existing markets and to expand our footprint into new markets. During 2006, we opened a Cadence de

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novo branch in Brentwood, Tennessee (Nashville MSA), as well as two new branches in the Memphis market. We also began planning the construction of a full-service branch in Hoover, Alabama (Birmingham MSA). On August 17, 2006, we completed our acquisition of SunCoast Bancorp, Inc. (SunCoast), the holding company for SunCoast Bank, a commercial bank operating in Sarasota and Manatee Counties, Florida. Additionally, on November 14, 2006, we completed our acquisition of Seasons Bancshares, Inc. (Seasons), the holding company for Seasons Bank, a commercial bank headquartered in Blairsville, Georgia. See Note B of the Notes to Consolidated Financial Statements for details relating to the Seasons and SunCoast acquisitions. These acquisitions will allow us to expand further into the rapidly growing markets of Tampa, Sarasota and Naples, Florida and the north Atlanta area of Georgia.

Finally, we issued additional equity in 2006 to support our growth objectives. On May 12, 2006, we closed on a secondary public offering of our common stock, where we sold 2.76 million shares at a price of $19.50 per share, resulting in net proceeds of approximately $50.2 million. We used a portion of these proceeds to fund the SunCoast and Seasons acquisitions and will use the remainder for other general corporate purposes.

During 2006, five major factors significantly impacted our operating results, as follows:

1) The 2.76 million share stock offering and the issuance of 922,000 shares in the SunCoast acquisition significantly impacted our earnings per share for 2006. Our average primary shares outstanding increased from 8,166,211 in 2005 to 10,322,821 in 2006.

2) Second, the Federal Reserve continued to raise short-term interest rates for the first half of 2006. The increase in rates impacted our net interest income, as yields on earning assets and cost of funds increased.

3) Third, the overall economy in the Mississippi market remained somewhat flat; however, the Tennessee and Alabama markets provided good loan growth for the year ($137.7 million growth in Tennessee and $61.5 million growth in Alabama). The increased loan growth positively impacted our net interest income for 2006.

4) Fourth, the acquisitions of SunCoast and Seasons directly impacted our net interest income by increasing our average earning assets. The acquisitions also increased our other expenses, primarily due to salaries and occupancy costs.

5) Lastly, the overall credit quality of the Bank s loan portfolio improved during 2006, which allowed us to reduce the provision for loan losses during the year below the levels that were budgeted.

For 2006, our net interest margin was 3.46%, compared to 3.55% for 2005. Increasing interest rates during the first half of 2006 improved the yields on loans, as the loan portfolio, which is composed of approximately 61% variable rate loans and 39% fixed rate loans, repriced upward. To a lesser extent, the improved rate environment also had a positive impact on the return on our investment portfolio, as the yields on the investment portfolio increased by 30 basis points over 2005. However, our overall cost of funds increased by a greater percentage during 2006, as the rising rate environment in the first half of the year and our need to fund the loan growth put pressure on deposit and other borrowing rates.

We maintained our underwriting standards during 2006, and therefore, as of December 31, 2006, management regarded the overall credit quality of the loan portfolio as good, evidenced by the lower provision for loan losses during the year, which is discussed more fully below.

During 2006, noninterest income, including gains on securities and impairment loss on securities, increased slightly, from $19.9 million to $20.0 million. The growth of noninterest income has been and continues to be one of our major strategic goals. The components and reasons for the increase in this category are discussed more fully below. Noninterest income accounted for 17.1% of income in 2006 and 21.4% of income in 2005. This change was impacted more by the growth in total interest income in 2006 (approximately 32.5%), than by the slight increase in noninterest income.

Another goal of management in 2006 was to continue to control the level of noninterest expenses. During 2006, total noninterest expenses increased by $4.9 million, or 11.0%. Approximately $3.7 million of this increase is due to expenses relating to the de novo branches in Hoover and Brentwood, the new branches in Memphis, and the former SunCoast and Seasons branches.

During 2006, we reported net income of $14.2 million, or $1.37 per fully diluted share, compared to $13.8 million, or $1.68 per fully diluted share, for 2005.

In 2007, management s focus will turn from the external growth objectives of 2006, which included both de novo locations and acquisitions, to effectively and efficiently managing the footprint that has been established. We will continue to focus on growth; however, during 2007, we expect it to come from organic growth in our existing footprint.

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We are continuing our efforts to grow loans and improve our margin. With potential improvement in the Mississippi market, the continued strong growth in Tennessee and Alabama and the addition of the Florida and Georgia markets, management believes that we will be able to achieve solid loan growth in 2007. The expansion or even maintenance of the margin, however, will be a more difficult objective to attain in the current interest rate environment. The inverted yield curve, an environment in which short-term rates are higher than long-term rates, presents a significant obstacle. Additionally, our need for funding has increased as our loan demand has increased, requiring us to pay higher rates to grow deposits.

Currently, management expects, based on available information, that interest rates will be flat to slightly down in 2007. We expect strong growth to continue in the Memphis and Tuscaloosa markets and anticipate that our recent entries into the Birmingham and Nashville MSAs and Florida will continue to provide us with additional strong growth markets. We based our 2007 projections, budgets and goals on these expectations. If these trends move differently than expected in either direction or speed, they could have a material impact on our financial condition and results of operations. The areas of our operations most directly impacted would be the net interest margin, loan and deposit growth and the provision for loan losses.

We continue to look for ways to grow noninterest income. The continued growth in the Memphis market, the expansion into the Birmingham and Nashville MSAs and the acquisitions of SunCoast and Seasons should provide new customer bases for our other banking products and services.

In the areas of noninterest income, our primary objective for 2007 is to expand our mortgage origination efforts into our new markets in Alabama, Tennessee, Florida and Georgia. This process began in late 2006, with the reorganization of our mortgage division to take advantage of these opportunities. We also continue our efforts to control noninterest expenses. In the area of noninterest expenses, our efforts will be focused on controlling these expense categories as we continue our efforts to achieve maximum efficiencies within our new expanded footprint. Reducing our efficiency ratio remains a key objective.

Our primary objective for 2007 is to grow net income. The previously mentioned growth in assets, expansion of noninterest income, and control of noninterest expenses will all contribute to this net income growth. Other areas of focus to accomplish this goal will be controlling the cost of funding that will be needed to both support our current asset levels and our expected growth and maintaining our level of credit quality. Funding is a challenging issue, due to the inverted yield curve. This situation makes it very difficult to obtain the desired spread between loan yields and cost of funds. Also, there is increased competition for core deposits as all banks struggle to maintain this very important component of their funding. If the economy slows or the real estate market continues to soften, credit quality will become an issue. Currently our credit quality is good, and we will continue our policy of not lowering our credit underwriting standards to obtain loan growth.

Even though we believe that we will have net income growth in 2007, it will not translate into growth in earnings per share. The reason for this is that in 2007, we will have the full effect of the shares issued in the additional equity offering and for the SunCoast acquisition for an entire year. The average outstanding shares for 2006 were 10,323,000. In 2007, we estimate that average outstanding shares will be at least 11,889,000, an increase of 1,566,000, or 15.2%.

In summary, our primary objectives in 2007 are to (1) increase net income; (2) improve our net interest margin; (3) expand our mortgage activities into our new markets; (4) gain efficiencies in our operations as we continue to assimilate the new markets; (5) maintain our credit quality; and (6) finalize our plans for additional branch expansion to begin in 2008.

RECENTLY ISSUED ACCOUNTING STANDARDS AND CRITICAL ACCOUNTING POLICIES

Our accounting and financial reporting policies conform to United States generally accepted accounting principles and to general practices within the banking industry. Note A of the Notes to Consolidated Financial Statements contains a summary of our accounting policies. Management is of the opinion that Note A, read in conjunction with all other information in our annual report, including management s letter to shareholders and this Management s Discussion and Analysis, is sufficient to provide the reader with the information needed to understand our financial condition and results of operations.

Critical Accounting Policies

It is management s opinion that the areas of the financial statements that require the most difficult, subjective and complex judgments, and therefore contain the most critical accounting estimates, are the provision for loan losses and the resulting allowance for loan losses; the liability and expense relating to our pension and other postretirement benefit plans; issues relating to other-than-temporary impairment losses in the securities portfolio; and goodwill and other intangible assets.

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Provision/Allowance for Loan Losses

Our provision for loan losses is utilized to replenish the allowance for loan losses on the balance sheet. The allowance is maintained at a level deemed adequate by management and the Board of Directors after their evaluation of the risk exposure contained in our loan portfolio. The senior credit officers and the loan review staff perform the methodology used to make this determination of risk exposure on a quarterly basis. As a part of this evaluation, certain loans are individually reviewed to determine if there is an impairment of our ability to collect the loans and the related interest. This determination is generally made based on collateral value. If the senior credit officers and loan review staff determine that impairments exist, specific portions of the allowance are allocated to these individual loans. We group all other loans into homogeneous pools and determine risk exposure by considering the following list of factors (this list is not all-inclusive and the factors reviewed may change as circumstances change): historical loss experiences; trends in delinquencies and non-accruals; and national, regional and local economic conditions. (These economic conditions would include, but not be limited to, general real estate conditions, the current interest rate environment and trends, unemployment levels and other information, as deemed appropriate.) Additionally, management looks at specific external credit risk factors that bring additional risk into the portfolio. For the period ended December 31, 2006, we identified the following five external risk factors: (1) stagnant to negative employment reports for the northeast Mississippi area; (2) the current higher rate environment resulting in higher borrowing costs and lower debt service coverages; (3) increased risk associated with commercial real estate credits; (4) slowdown trend in the real estate market; and (5) lack of familiarity with the north Georgia market. These external risk factors will be re-evaluated on a quarterly basis. Management makes its estimates of the credit risk in the portfolio and the amount of provision needed to keep the allowance for loan losses at an appropriate level using what management believes are the best and most current sources of information available at the time of the estimates; however, many of these factors can change quickly and with no advance warning. If management significantly misses its estimates in any period, it can have a material impact on the results of operations for that period and for subsequent periods.

Pension and Other Postretirement Benefit Plans

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

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

In selecting the expected rate of return, management, in consultation with the plan trustees, selected a rate based on assumptions compared to recent returns and economic forecasts. We consider the current allocation of the portfolio and the probable rates of return of each investment type. In selecting the discount rate, prior to 2006, management, in consultation with actuarial consultants, selected rates based on rates of return on long-term, high-quality bonds having maturity dates corresponding as closely as possible to the expected retirement dates of the employees and the subsequent payout periods of the respective plans. Beginning in 2006, management, with the assistance of actuarial consultants, selects the appropriate discount rate by performing an analysis of the plan s projected benefit cash flows against discount rates from a national Pension Discount Curve (a yield curve used to measure pension liabilities). To reflect the appropriate rate, based on this analysis, management reduced the discount rate from 6.00% in 2004 to 5.75% in 2005 and 2006. We used an expected rate of return of 7.5% for 2004, 2005 and 2006. From a historical perspective, the rates of return on the plan were 10.0% for 2004, 5.4% for 2005 and 9.5% for 2006. Additionally, our philosophy has been to fund the plan annually to the maximum amount deductible under the Internal Revenue Service rules. As a result, as of December 31, 2006, the plan has a prepaid benefit cost of $3.1 million. At December 31, 2006, we had a current accumulated benefit obligation of approximately $9.3 million and plan assets with a fair value of approximately $11.6 million.

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

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Other-Than-Temporary Impairment of Investment Securities

A third area that requires subjective and complex judgments on the part of management is the review of the investments in the securities portfolio for other-than-temporary impairments. EITF Issue 03-01 and FASB FSP FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, require us to review our investment portfolio and determine if it has impairment losses that are other-than-temporary. In making its determination, management considers the following items: (1) the length of time and extent to which the current market value is less than cost; (2) evidence of a forecasted recovery; (3) financial condition and the industry environment of the issuer; (4) downgrades of the securities by rating agencies; (5) whether there has been a reduction or elimination of dividends or interest payments; (6) whether we have the intent or ability to hold the securities for a period of time sufficient to allow for anticipated recovery of fair value; and (7) interest rate trends that may impact recovery and realization. During the third quarter of 2006, we recognized a $2.0 million other-than-temporary impairment charge relating to certain Fannie Mae and Freddie Mac preferred stock.

As of December 31, 2006, our securities portfolio included a significant number of securities that were impaired, by definition. We reviewed each of these securities to determine if any of the impairments were other-than-temporary. Using the criteria listed above, management made the determination that as of December 31, 2006, none of the impairments were other-than-temporary.

Goodwill and Other Intangible Assets

FASB Statement No. 142, Goodwill and Other Intangible Assets, eliminated the requirement to amortize goodwill; however, it does require periodic testing for impairment. We completed our impairment test in accordance with Statement No. 142 in October 2006 and concluded that no impairment writedown was warranted. At December 31, 2006, we had approximately $67.1 million of goodwill on our balance sheet, which will remain at that level unless it becomes impaired under the definition of impairment in Statement No. 142.

Other Accounting/Regulatory Issues

In the normal course of business, our wholly owned subsidiary bank, Cadence, makes loans to related parties, including our directors and executive officers and their relatives and affiliates. We make these loans on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other parties. Also, the loans are consistent with sound banking practices and within applicable regulatory and lending limitations. Please see Note O in the Notes to Consolidated Financial Statements and our proxy statement for additional details concerning related party transactions.

Section 402 of the Sarbanes-Oxley Act of 2002 generally prohibits loans to executive officers. However, the rule does not apply to any loan made or maintained by an insured depository institution if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act. All loans that the Bank makes to executive officers are subject to the above referenced section of the Federal Reserve Act.

We own NBC Capital Corporation (MS) Statutory Trust I and Enterprise (TN) Statutory Trust I, both organized under the laws of the State of Connecticut for the purpose of issuing trust preferred securities. In accordance with FASB Interpretation No. 46 (revised December 2003), the trusts, which are considered variable interest entities, are not consolidated into our financial statements because the only activity of the variable interest entities is the issuance of the trust preferred securities.

RESULTS OF OPERATIONS

Net income for 2006 was $14.2 million, or $1.37 per diluted share, an increase from $13.8 million, or $1.68 per diluted share, in 2005 and $12.3 million, or $1.50 per diluted share, in 2004. Return on average equity was 9.0% in 2006, 11.8% in 2005, and 11.0% in 2004. Return on average assets was 0.9% in 2006 and 1.0% in 2005 and 2004.

Net interest income (NII), the primary source of our earnings, represents income generated from earning assets, less the interest expense of funding those assets. NII increased by 11.7% in 2006 and 9.7% in 2005. Changes in NII may be divided into two components; first, the change in average earning assets (volume component) and second, the change in the net interest spread (rate component). Net interest spread represents the difference between yields on earning assets and rates paid on interest-bearing liabilities.

In 2006, NII increased by $5.3 million, from $45.2 million in 2005 to $50.5 million. Average earning assets increased from $1.27 billion in 2005 to $1.46 billion in 2006, an increase of $185.5 million, or 14.6%. During this period, the net interest margin declined to 3.46%, compared to 3.55% for 2005. (Net interest margin is net interest income divided by average earning assets.)

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In analyzing the rate component of NII, from 2005 to 2006, we gained 90 basis points of yield on our earning assets. However, during this period, the cost of funds increased by 120 basis points. As the Federal Reserve raised interest rates during the first half of 2006, our loan portfolio, which is comprised of approximately 61% variable rate loans, was positively impacted. From 2005 to 2006, the yield on loans increased from 6.56% to 7.62%. The increase in interest rates also had a positive impact on other earning assets, as the yield on federal funds sold increased from 3.33% to 5.07% and the yield on the investment securities portfolio increased from 4.38% to 4.68%. The increase in rates had a negative impact on our cost of funds, as our cost of deposits increased from 2.17% to 3.39% and our cost of other borrowings increased from 4.17% to 5.06%. Also, the increase in rates resulted in an inverted yield curve. As a result, we were not able to increase our loan yields as much as the cost of deposits increased.

The increase in average earning assets from 2005 to 2006 is composed of the following: average loans increased by $164.7 million; average federal funds sold and other interest-bearing assets increased by $5.8 million; and average investment securities increased by $15.1 million. From 2005 to 2006, the average balance of interest-bearing deposits increased by $122.8 million, and the average balance of other borrowings increased by $24.6 million.

From 2004 to 2005, NII increased by $4.0 million, from $41.2 million to $45.2 million. The inclusion of Enterprise National Bank (Enterprise), acquired in 2004, for the full year of 2005 versus only nine months of 2004 accounted for $2.4 million of the 2005 increase. During 2005, the net interest margin was 3.55%, compared to 3.37% for 2004, an increase of 18 basis points.

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

	($ in Thousands)	
	Average Balance	
	Year Ended 12/31/06	Year Ended 12/31/05
EARNING ASSETS:		
Net loans	$ 973,466	$ 808,796
Federal funds sold and other interest-bearing assets	25,893	20,111
Securities:		
Taxable	343,515	321,250
Tax-exempt	116,328	123,513
Totals	1,459,202	1,273,670
INTEREST-BEARING LIABILITIES:		
Interest-bearing deposits	1,061,250	938,410
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other interest-bearing liabilities	207,927	183,311
Totals	1,269,177	1,121,721
Net amounts	$ 190,025	$ 151,949

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	Interest For Year Ended 12/31/06	Interest For Year Ended 12/31/05	Yields Earned And Rates Paid (%) Year Ended 12/31/06	Yields Earned And Rates Paid (%) Year Ended 12/31/05
EARNING ASSETS:				
Net loans	$ 74,182	$ 53,035	7.62	6.56
Federal funds sold and other interest-bearing assets	1,312	669	5.07	3.33
Securities:				
Taxable	16,641	14,433	4.84	4.49
Tax-exempt	4,859	5,047	4.18	4.09
Totals	96,994	73,184	6.65	5.75
INTEREST-BEARING LIABILITIES:				
Interest-bearing deposits	35,992	20,327	3.39	2.17
Borrowed funds, federal funds purchased and securities sold under agreements to repurchase and other interest-bearing liabilities	10,520	7,643	5.06	4.17
Totals	46,512	27,970	3.66	2.46
Net amounts	$ 50,482	$ 45,214	3.46	3.55
Note: Yields on a tax equivalent basis would be:				
Tax-exempt securities			6.43	6.29
Total earning assets			6.83	5.96
Net yield on earning assets			3.64	3.76

We utilize the provision for loan losses to replenish the allowance for loan losses on the balance sheet. Based on an evaluation of the risk exposure contained in the loan portfolio, management and the Board of Directors believe that the level of the allowance is adequate. This is an ongoing process, and we review and determine the amount of the provision quarterly, using a methodology that over the years has proven to be sound. The provision for loan losses decreased from $3,522,000 in 2004 to $2,128,000 in 2005 and to $1,656,000 in 2006. The decrease in the provisions for 2005 and 2006 resulted from an overall improvement in the credit quality in the portfolio. The details of these improvements are shown in the following section, entitled Financial Condition, under the discussion of the allowance for loan losses. Management expects significant loan growth in 2007 as our newer markets in Brentwood, Hoover, Sarasota, and Memphis continue to expand. Considering this expected growth and unknown external factors, management intends to increase the provision for loan losses in 2007. At this time, management expects the level of the provision to protect us from any unforeseen deterioration in the quality of the loan portfolio. However, if during the year, any or all of these factors change in direction or speed, we will make the necessary adjustments in the provision to reflect these changes.

Noninterest income includes various service charges, fees and commissions we collected, including insurance commissions earned by Galloway-Chandler-McKinney Insurance Agency, Inc., a wholly owned subsidiary of Cadence. It has been, and continues to be, one of our strategic focuses to diversify our other income sources so that we can be less dependent on net interest income. Other income increased slightly from $19.9 million in 2005 to $20.0 million in 2006. The changes in the major categories between 2006 and 2005 are as follows:

(In thousands)	**2006**	**2005**	**Change**
Service charges on deposit accounts	$ 8,878	$ 7,952	$ 926
Insurance commissions, fees, and premiums	4,441	4,578	(137)
Other service charges and fees	2,933	2,481	452
Trust Department income	2,341	2,219	122
Mortgage loan fees	876	838	38
Securities gains (losses), net	66	159	(93)
Bank owned life insurance income	641	641	

Impairment loss on securities	(2,025)		(2,025)
Other	1,842	1,067	775
Total other income	$ 19,993	$ 19,935	$ 58

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Service charges on deposit accounts increased by 11.6% in 2006, mostly due to improved management and oversight of our noninterest-bearing accounts. Other service charges and fees increased by 18.2%, primarily due to increases in official check income, checkcard income, and retail investment income. Other noninterest income increased by 72.6% in 2006. This increase is mostly due to a $488,000 gain on the sale of our credit card portfolio, a $215,000 increase in earnings from our investment in a low income housing partnership, and $842,000 in gains on the early extinguishment of approximately $13.0 million of Federal Home Loan Bank (FHLB) borrowings assumed in the 2004 acquisition of Enterprise. Also, 2005 includes a $837,000 gain related to our interest in the Pulse card-clearing network, which was sold during the first quarter. Changes in other accounts were not individually material.

We recognized $66,000 in securities gains during 2006, compared with gains of $159,000 in 2005. In addition, during the third quarter of 2006, we recognized a $2.0 million other-than-temporary impairment charge relating to certain Fannie Mae and Freddie Mac preferred stock. Those securities were sold in the fourth quarter of 2006 for amounts approximating their fair values.

Other income declined slightly from $20.1 million in 2004 to $19.9 million in 2005. The changes in the major categories between 2005 and 2004 are as follows:

(In thousands)	**2005**	**2004**	**Change**
Service charges on deposit accounts	$ 7,952	$ 8,581	$ (629)
Insurance commissions, fees, and premiums	4,578	4,367	211
Other service charges and fees	2,481	2,426	55