CENTERSTATE BANKS OF FLORIDA INC
Form 10-K
March 06, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2008

OR

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

Commission File Number 000-32017

CENTERSTATE BANKS OF FLORIDA, INC.

(Name of registrant as specified in its charter)

Florida	**59-3606741**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
42745 U.S. Highway 27, Davenport, Florida	**33837**
(Address of principal executive offices)	**(Zip Code)**

Issuer s telephone number, including area code:

(863) 419-7750

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

Common Stock, par value $0.01 per share

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

None

The registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

The registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SK contained in this form, and no disclosure will be contained, to the best of issuer 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 if the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨	Smaller reporting company ¨

The registrant is a shell company, as defined in Rule 12b-2 of the Exchange Act. YES ¨ NO x

The aggregate market value of the Common Stock of the issuer held by non-affiliates of the issuer (8,559,524 shares) on June 30, 2008, was approximately $94,412,000. The aggregate market value was computed by reference the last sale of the Common Stock of the issuer at $11.03 per share on June 30, 2008. For the purposes of this response, directors, executive officers and holders of 5% or more of the issuer s Common Stock are considered the affiliates of the issuer at that date.

As of March 5, 2009 there were outstanding 12,474,315 shares of the issuer s Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on April 28, 2009 to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days of the issuer s fiscal year end are incorporated by reference into Part III, of this Annual Report on Form 10-K.

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PART I

Item 1. Business
General

CenterState Banks of Florida, Inc. (We, CenterState, CSFL, or the Company) was incorporated under the laws of the State of Florida on September 20, 1999. CenterState is a registered bank holding company under the Bank Holding Company Act of 1956, as amended (the BHC Act) and owns all the outstanding shares of CenterState Bank Central Florida National Association (Central), CenterState Bank National Association (CSNA), CenterState Bank of Florida National Association (CSB), and Valrico State Bank (VSB) (collectively, the Banks).

In April 2007, we closed the acquisition of Valrico Bancorp, Inc. and its wholly owned subsidiary bank, VSB. VSB operates in Hillsborough County, which is contiguous to Pasco and Polk Counties, where we both previously and currently have banking locations.

On November 30, 2007, CSNA purchased all of the assets and assumed all of the liabilities of CenterState Bank Mid Florida, a bank we acquired on March 31, 2006. Following the acquisition by CSNA of CenterState Bank Mid Florida, the shell of CenterState Bank Mid Florida was merged with and into Atlantic Southern Bank, a wholly owned subsidiary of Atlantic Southern Financial Group, Inc., for a payment by Atlantic Southern Bank to CenterState of $1.0 million. The transaction allowed us to consolidate our two subsidiary banks, and facilitated Atlantic Southern Bank s expansion into Florida.

Central and CSNA commenced operations in 1989. CSB commenced operations in 1992. Central s operations are conducted from its main office located in Kissimmee, Florida, and branch offices located in St. Cloud, Poinciana, Ocoee and Orlando, Florida. CSNA operations are conducted from its main office located in Zephyrhills, Florida, and branch offices located in Zephyrhills, Bushnell, Wildwood, Dade City, Inverness, Spring Hill, Crystal River, Brooksville, Leesburg, Clermont, Groveland, and Eustis, Florida. CSB operates through twelve banking locations all within Polk County, Florida. These cities within Polk County include Winter Haven, Haines City, Davenport, Lake Alfred, Auburndale, Lakeland and Lake Wales. VSB conducts business from its main office located in Valrico, Florida and branch offices located in Brandon, Lithia, Plant City and Riverview, Florida. Our three national bank subsidiaries are subject to the supervision of the Office of the Comptroller of the Currency and our state bank subsidiary (VSB) is under the supervision of the Florida Office of Financial Regulation and the FDIC. As of December 31, 2008, we operated through our four wholly owned subsidiary banks, with 37 banking locations located in nine counties in central Florida. We have plans to close three branches during 2009. One will close on March 31, 2009 and the other two will close on April 15, 2009. The three branches combined have total deposits of approximately $25 million, which will be transferred to three of our other existing branch offices. On January 30, 2009 we purchased approximately $180 million of the deposits of Ocala National Bank (ONC) from the FDIC. ONC, which was closed by the FDIC on Friday, January 30, 2009, operated from four branch locations in Ocala, Florida. On Monday morning, February 2, 2009, all four branches opened as CenterState Bank branch offices. We did not purchase any loans, but have a thirty day option to select any loans we want to purchase. At this time, we are considering the purchase of approximately $20 million of loans we have selected from the portfolio. See Executive Summary, *branching activities,* for additional discussion relating to our branching activities.

On November 21, 2008, as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program, we issued and sold to the U.S. Department of the Treasury (the Treasury), (a) 27,875 shares (the Preferred Shares) of our Fix Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, and (b) a ten-year warrant (the Warrant) to purchase up to 250,825 shares of our voting common stock, par value $0.01 per share (Common Stock), at an exercise price of $16.67 per share. For a detailed description of this program, what we agreed to do and what we received, refer to our Form 8-K filed on November 24, 2008, as well as our Form S-3 filed on December 17, 2008 and our 424B2 Prospectus filed on January 2, 2009.

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During the fourth quarter of 2008, we initiated a correspondent banking and bond sales division. The division is integrated with and part of our lead subsidiary bank, CSB, located in Winter Haven, Florida. We hired substantially all the employees of the Royal Bank of Canada s (RBC) bond sales division, who were previously employees of Alabama National Bank (ALAB) prior to RBC s acquisition of ALAB. Although the business is operated through our Winter Haven subsidiary bank, the employees are physically located in a newly leased facility in Birmingham, Alabama. See Executive Summary, *correspondent banking division,* for additional discussion relating to this new business activity.

Our Company provides a range of consumer and commercial banking services to individuals, businesses and industries. The basic services we offer include: demand interest-bearing and noninterest-bearing accounts, money market deposit accounts, time deposits, safe deposit services, cash management, direct deposits, notary services, money orders, night depository, travelers checks, cashier s checks, domestic collections, savings bonds, bank drafts, automated teller services, drive-in tellers, and banking by mail and by internet. In addition, we make secured and unsecured commercial and real estate loans and issue stand-by letters of credit. Our Company provides automated teller machine (ATM) cards, thereby permitting customers to utilize the convenience of larger ATM networks. We also offer internet banking services to our customers. In addition to the foregoing services, our offices provide customers with extended banking hours. We do not have a trust department, however, trust services are available to customers through a business relationship with another bank. We also offer other financial products to our customers, including mutual funds, annuities and other products, through a relationship with Infinex Investment, Inc. Beginning in the fourth quarter of 2008, we began selling bonds and fixed income securities to correspondent banks, and we began accepting deposits of correspondent banks (i.e. federal funds purchased) as well as commercial checking accounts, and starting in 2009 we are beginning to offer safe-keeping services, bond accounting services, and asset/liability consulting related services.

The revenue of our Company is primarily derived from interest on, and fees received in connection with, real estate and other loans, and from interest and dividends from investment securities and short-term investments. The principal sources of funds for our lending activities are customer deposits, repayment of loans, and the sale and maturity of investment securities. Our principal expenses are interest paid on deposits, and operating and general administrative expenses.

As is the case with banking institutions generally, our Company s operations are materially and significantly influenced by general economic conditions and by related monetary and fiscal policies of financial institution regulatory agencies, including the Board of Governors of the Federal Reserve System (the Federal Reserve). Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rates at which such financing may be offered and other factors affecting local demand and availability of funds. We face strong competition in the attraction of deposits (our primary source of lendable funds) and in the origination of loans. *See* Competition.

CenterState Shared Services (CSS) (formerly C.S. Processing, Inc.) is a wholly owned subsidiary of our Company s subsidiary banks. CSS processes checks and renders statements (i.e. item processing center), provides certain information technology services, human resource services and credit analysis services for our subsidiary banks.

At December 31, 2008, our Company s primary assets were our ownership of 100% of the stock of each of our four banks. At December 31, 2008, we had total consolidated assets of $1,333,143,000, total consolidated loans of $892,001,000, total consolidated deposits of $993,800,000, and total consolidated stockholders equity of $179,165,000.

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Note about Forward-Looking Statements

This Form 10-K contains forward-looking statements, such as statements relating to our financial condition, results of operations, plans, objectives, future performance and business operations. These statements relate to expectations concerning matters that are not historical facts. These forward-looking statements reflect our current views and expectations based largely upon the information currently available to us and are subject to inherent risks and uncertainties. Although we believe our expectations are based on reasonable assumptions, they are not guarantees of future performance and there are a number of important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. By making these forward-looking statements, we do not undertake to update them in any manner except as may be required by our disclosure obligations in filings we make with the Securities and Exchange Commission under the Federal securities laws. Our actual results may differ materially from our forward-looking statements.

Lending Activities

We offer a range of lending services, including real estate, consumer and commercial loans, to individuals and small businesses and other organizations that are located in or conduct a substantial portion of their business in our market area. The Company s consolidated loans at December 31, 2008 and 2007 were $892,001,000, or 67% and $841,405,000 or 69%, respectively, of total consolidated assets. The interest rates charged on loans vary with the degree of risk, maturity, and amount of the loan, and are further subject to competitive pressures, money market rates, availability of funds, and government regulations. We have no foreign loans or loans for highly leveraged transactions.

Our loans are concentrated in three major areas: commercial loans, real estate loans, and consumer loans. A majority of our loans are made on a secured basis. As of December 31, 2008, approximately 84% of our consolidated loan portfolio consisted of loans secured by mortgages on real estate, 9% of the loan portfolio consisted of commercial loans (not secured by real estate) and 7% of our loan portfolio consisted of consumer and other loans.

Our commercial loan portfolio includes loans to individuals and small-to-medium sized businesses located primarily in Polk, Osceola, Pasco, Hernando, Hillsborough, Citrus, Sumter, Lake and Orange counties, as well as Marion county commencing in 2009, for working capital, equipment purchases, and various other business purposes. A majority of commercial loans are secured by equipment or similar assets, but these loans may also be made on an unsecured basis. Commercial loans may be made at variable or fixed rates of interest. Commercial lines of credit are typically granted on a one-year basis, with loan covenants and monetary thresholds. Other commercial loans with terms or amortization schedules of longer than one year will normally carry interest rates which vary with the prime lending rate and will become payable in full and are generally refinanced in three to five years. Commercial and agricultural loans not secured by real estate amounted to approximately 9% of our Company s total loan portfolio as of December 31, 2008 and 2007.

Our real estate loans are secured by mortgages and consist primarily of loans to individuals and businesses for the purchase, improvement of or investment in real estate, for the construction of single-family residential and commercial units, and for the development of single-family residential building lots. These real estate loans may be made at fixed or variable interest rates. Generally, we do not make fixed-rate commercial real estate loans for terms exceeding five years. Loans in excess of five years are generally adjustable. Our residential real estate loans generally are repayable in monthly installments based on up to a 15-year or a 30-year amortization schedule with variable or fixed interest rates.

Our consumer loan portfolio consists primarily of loans to individuals for various consumer purposes, but includes some business purpose loans which are payable on an installment basis. The majority of these loans are for terms of less than five years and are secured by liens on various personal assets of the borrowers, but consumer loans may also be made on an unsecured basis. Consumer loans are made at fixed and variable interest rates, and are often based on up to a five-year amortization schedule.

For additional information regarding the Company s loan portfolio, *see* Management s Discussion and Analysis of Financial Condition and Results of Operations.

Loan originations are derived primarily from employee loan officers within our local market areas, but can also be attributed to referrals from existing customers and borrowers, advertising, or walk-in customers.

Certain credit risks are inherent in making loans. These include prepayment risks, risks resulting from uncertainties in the future value of collateral, risks resulting from changes in economic and industry conditions, and risks inherent in dealing with individual borrowers. In particular, longer maturities increase the risk that economic conditions will change and adversely affect collectibility. We attempt to minimize credit losses through various means. In particular, on larger credits, we generally rely on the cash flow of a debtor as the source of repayment and secondarily on the value of the underlying collateral. In addition, we attempt to utilize shorter loan terms in order to reduce the risk of a decline in the value of such collateral.

Deposit Activities

Deposits are the major source of our funds for lending and other investment activities. We consider the majority of our regular savings, demand, NOW and money market deposit accounts to be core deposits. These accounts comprised approximately 51% and 45% of our consolidated total deposits at December 31, 2008 and 2007, respectively. Approximately 49% of our consolidated deposits at December 31, 2008, were certificates of deposit compared to 55% at December 31, 2007. Generally, we attempt to maintain the rates paid on our deposits at a competitive level. Time deposits of $100,000 and over made up approximately 27% of consolidated total deposits at December 31, 2008 and 31% at December 31, 2007. The majority of the deposits are generated from Polk, Osceola, Orange, Pasco, Hernando, Hillsborough, Sumter, Lake and Citrus counties. Generally, we do not accept brokered deposits and we do not solicit deposits on a national level. We obtain all of our deposits from customers in our local markets. For additional information regarding the Company s deposit accounts, *see* Management s Discussion and Analysis of Financial Condition and Results of Operations Deposits.

Investments

A portion of our assets are invested in U.S. Treasury securities, obligations of U.S. government agencies, municipal securities, mortgage backed securities and federal funds sold. Our investments are managed in relation to loan demand and deposit growth, and are generally used to provide for the investment of excess funds at acceptable risks levels while providing liquidity to fund increases in loan demand or to offset fluctuations in deposits.

With respect to our investment portfolio, we invest in U.S. Treasury securities, obligations of U.S. government agencies, mortgage backed securities and municipal securities, because such securities generally represent a minimal investment risk. Occasionally, we may purchase certificates of deposits of national and state banks. These investments may exceed $250,000 in any one institution (the limit of FDIC insurance for deposit accounts). Federal funds sold and money market accounts represent the excess cash we have available over and above daily cash needs. This money is invested on an overnight basis with approved correspondent banks.

We monitor changes in financial markets. In addition to investments for our portfolio, we monitor daily cash positions to ensure that all available funds earn interest at the earliest possible date. A portion of the investment account is invested in liquid securities that can be readily converted to cash with minimum risk of market loss. These investments usually consist of U.S. Treasury securities, obligations of U.S. government agencies, mortgage backed securities and federal funds. The remainder of the investment account may be placed in investment securities of different type and/or longer maturity. Daily surplus funds are sold in the federal funds market for one business day. We attempt to stagger the maturities of our securities so as to produce a steady cash-flow in the event cash is needed, or economic conditions change.

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Correspondent Banking

Correspondent banking involves one bank providing services to another bank which cannot provide that service for itself from an economic or practical standpoint. We purchase correspondent services offered by larger banks, including check collections, purchase of federal funds, security safekeeping, investment services, coin and currency supplies, overline and liquidity loan participations and sales of loans to or participation with correspondent banks.

We have established correspondent relationships with Federal Home Loan Bank, Independent Bankers Bank of Florida, and SunTrust Banks. The Company pays for such services.

Through our lead subsidiary bank in Winter Haven, Florida, we have initiated a correspondent banking and bond sales division during the fourth quarter of 2008. The business lines are primarily divided into three inter-related revenue generating activities. The first, and largest, revenue generator is commissions earned on fixed income security sales. The second category includes: (1) correspondent bank deposits (i.e. federal funds purchased); (2) correspondent bank checking accounts; and (3) loans to correspondent banks. The third, and smallest revenue generating category, includes fees from safe-keeping activities, bond accounting for correspondents, and asset/liability consulting related activities. The customer base includes small to medium size financial institutions primarily located in Florida, Georgia and Alabama, but will also include several other southeastern States. For additional information regarding the Company s newly initiated correspondent banking division, *see* Management s Discussion and Analysis of Financial Condition and Results of Operations Executive Summary.

Data Processing

Beginning in December 2007 and ending in February 2008 each of our banks converted their third party core data processing service bureau to a single in-house solution operated through our banks wholly owned subsidiary CSS. The core data processing system provides automated general ledgers, deposit processing and accounting services, and loan processing and accounting services. The systems were substantially identical to the third party system, except all the processing now occurs in-house. Each of our subsidiary business units maintains its own data processing system, with its own general ledger, deposit accounting system and loan accounting system, all housed on the same equipment maintained at CSS. The output of each of these comprehensive systems for each of our banks is then consolidated at the holding company level.

CSS also provides item processing services and certain other information technology (IT) services for our subsidiary banks. These services include; sorting, encoding, processing, and imaging checks and rendering checking and other deposit statements to commercial and retail customers, as well provide IT services, including intranet and internet services for each subsidiary bank and the Company overall. The total cost of providing these services are charged to each subsidiary bank based on usage.

Effect of Governmental Policies

The earnings and business of our Company are and will be affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve. The Federal Reserve, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for these purposes influence in various ways the overall level of investments, loans, other extensions of credit and deposits, and the interest rates paid on liabilities and received on assets.

Interest and Usury

Our Company is subject to numerous state and federal statutes that affect the interest rates that may be charged on loans. These laws do not, under present market conditions, deter us from continuing the process of originating loans.

Supervision and Regulation

Banks and their holding companies, and many of their affiliates, are extensively regulated under both federal and state law. The following is a brief summary of certain statutes, rules, and regulations affecting our Company, and our subsidiary Banks. This summary is qualified in its entirety by reference to the particular statutory and regulatory provisions referred to below and is not intended to be an exhaustive description of the statutes or regulations applicable to the business of our Company and subsidiary Banks. Supervision, regulation, and examination of banks by regulatory agencies are intended primarily for the protection of depositors, rather than shareholders.

Bank Holding Company Regulation. Our Company is a bank holding company, registered with the Federal Reserve under the BHC Act. As such, we are subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve. The BHC Act requires that a bank holding company obtain the prior approval of the Federal Reserve before (i) acquiring direct or indirect ownership or control of more than 5% of the voting shares of any bank, (ii) taking any action that causes a bank to become a subsidiary of the bank holding company, or (iii) merging or consolidating with any other bank holding company.

The BHC Act further provides that the Federal Reserve may not approve any transaction that would result in a monopoly or would be in furtherance of any combination or conspiracy to monopolize or attempt to monopolize the business of banking in any section of the United States, or the effect of which may be substantially to lessen competition or to tend to create a monopoly in any section of the country, or that in any other manner would be in restraint of trade, unless the anticompetitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the community to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks concerned and the convenience, and needs of the community to be served. Consideration of financial resources generally focuses on capital adequacy and consideration of convenience and needs issues includes the parties performance under the Community Reinvestment Act of 1977 (the CRA), both of which are discussed below.

Banks are subject to the provisions of the CRA. Under the terms of the CRA, the appropriate federal bank regulatory agency is required, in connection with its examination of a bank, to assess such bank s record in meeting the credit needs of the community served by that bank, including low- and moderate-income neighborhoods. The regulatory agency s assessment of the bank s record is made available to the public. Further, such assessment is required of any bank which has applied to:

- charter a bank,
- obtain deposit insurance coverage for a newly chartered institution,
- establish a new branch office that will accept deposits,
- relocate an office, or
- merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution

In the case of a bank holding company applying for approval to acquire a bank or other bank holding company, the Federal Reserve will assess the record of each subsidiary bank of the applicant bank holding company, and such records may be the basis for denying the application.

The BHC Act generally prohibits a bank holding company from engaging in activities other than banking, or managing or controlling banks or other permissible subsidiaries, and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest, or unsound banking practices. For example, factoring accounts receivable, acquiring or servicing loans, leasing personal property, conducting securities brokerage activities, performing certain data processing services, acting as agent or broker in selling credit life insurance and certain other types of insurance in connection with credit transactions, and certain insurance underwriting activities have all been determined by regulations of the Federal Reserve to be permissible activities of bank holding companies. Despite prior approval, the Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity or terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any bank subsidiary of that bank holding company.

Gramm-Leach-Bliley Act. Enacted in 1999, the Gramm-Leach-Bliley Act permits the creation of new financial services holding companies that can offer a full range of financial products under a regulatory structure based on the principle of functional regulation. The law eliminated the legal barriers to affiliations among banks and securities firms, insurance companies, and other financial services companies. The law also provides financial organizations with the opportunity to structure these new financial affiliations through a holding company structure or a financial subsidiary. The law reserves the role of the Federal Reserve Board as the supervisor for bank holding companies. At the same time, the law also provides a system of functional regulation which is designed to utilize the various existing federal and state regulatory bodies. The law also sets up a process for coordination between the Federal Reserve Board and the Secretary of the Treasury regarding the approval of new financial activities for both bank holding companies and national bank financial subsidiaries.

The law also includes a minimum federal standard of financial privacy. Financial institutions are required to have written privacy policies that must be disclosed to customers. The disclosure of a financial institution s privacy policy must take place at the time a customer relationship is established and not less than annually during the continuation of the relationship. The act also provides for the functional regulation of bank securities activities. The law repealed the exemption that banks were afforded from the definition of broker, and replaced it with a set of limited exemptions that allow the continuation of some historical activities performed by banks. In addition, the act amended the securities laws to include banks within the general definition of dealer. Regarding new bank products, the law provides a procedure for handling products sold by banks that have securities elements. In the area of Community Reinvestment Act activities, the law generally requires that financial institutions address the credit needs of low-to-moderate income individuals and neighborhoods in the communities in which they operate. Bank regulators are required to take the Community Reinvestment Act ratings of a bank or of the bank subsidiaries of a holding company into account when acting upon certain branch and bank merger and acquisition applications filed by the institution. Under the law, financial holding companies and banks that desire to engage in new financial activities are required to have satisfactory or better Community Reinvestment Act ratings when they commence the new activity.

Bank Regulation. CenterState/Osceola, CenterState Bank and CSNA are chartered under the national banking laws. Valrico State Bank is a State chartered Bank. Each of the deposits of the Banks is insured by the FDIC to the extent provided by law. The Banks, other than Valrico State Bank, are subject to comprehensive regulation, examination and supervision by the OCC. Valrico State Bank is subject to comprehensive regulation, examination and supervision by the Florida Office of Financial Regulation (the OFR) and the FDIC. The Banks also are subject to other laws and regulations applicable to banks. Such regulations include limitations on loans to a single borrower and to its directors, officers and employees; restrictions on the opening and closing of branch offices; the maintenance of required capital and liquidity ratios; the granting of credit under equal and fair conditions; and the disclosure of the costs and terms of such credit. Our national bank subsidiaries are examined periodically by the OCC. Valrico State Bank is examined periodically by the OFR and FDIC. The Banks submit to their examining agencies periodic reports regarding their financial condition and other matters. The bank regulatory agencies have a broad range of powers to enforce regulations under their jurisdiction, and to take discretionary actions determined to be for the protection and safety and soundness of banks, including the

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institution of cease and desist orders and the removal of directors and officers. The bank regulatory agencies also have the authority to approve or disapprove mergers, consolidations, and similar corporate actions.

There are various statutory limitations on the ability of our Company to pay dividends. The bank regulatory agencies also have the general authority to limit the dividend payment by banks if such payment may be deemed to constitute an unsafe and unsound practice. For information on the restrictions on the right of our Banks to pay dividends to our Company, *see* Part II Item 5 Market for the Registrant s Common Equity, Related Stockholder Matters and Purchases of Equity Securities.

Under federal law, federally insured banks are subject, with certain exceptions, to certain restrictions on any extension of credit to their parent holding companies or other affiliates, on investment in the stock or other securities of affiliates, and on the taking of such stock or securities as collateral from any borrower. In addition, banks are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or the providing of any property or service.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) imposed major regulatory reforms, stronger capital standards for savings and loan associations and stronger civil and criminal enforcement provisions. FIRREA also provides that a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with:

- the default of a commonly controlled FDIC insured depository institution; or
- any assistance provided by the FDIC to a commonly controlled FDIC insured institution in danger of default.

The FDIC Improvement Act of 1991 (FDICIA) made a number of reforms addressing the safety and soundness of deposit insurance funds, supervision, accounting, and prompt regulatory action, and also implemented other regulatory improvements. Periodic full-scope, on-site examinations are required of all insured depository institutions. The cost for conducting an examination of an institution may be assessed to that institution, with special consideration given to affiliates and any penalties imposed for failure to provide information requested. Insured state banks also are precluded from engaging as principal in any type of activity that is impermissible for a national bank, including activities relating to insurance and equity investments. The Act also recodified restrictions on extensions of credit to insiders under the Federal Reserve Act.

Capital Requirements. The Federal Reserve Board and bank regulatory agencies require bank holding companies and financial institutions to maintain capital at adequate levels based on a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 100%. Under the risk-based standard, capital is classified into two tiers. Tier 1 capital consists of common shareholders equity (excluding the unrealized gain (loss) on available-for-sale securities), trust preferred securities subject to certain limitations, and minus certain intangible assets. Tier 2 capital consists of the general allowance for credit losses except for certain limitations. An institution s qualifying capital base for purposes of its risk-based capital ratio consists of the sum of its Tier 1 and Tier 2 capital. The regulatory minimum requirements are 4% for Tier 1 and 8% for total risk-based capital. At December 31, 2008, our Tier 1 and total risk-based capital ratios were 16.2% and 17.4%, respectively.

Bank holding companies and banks are also required to maintain capital at a minimum level based on total assets, which is known as the leverage ratio. The minimum requirement for the leverage ratio is 3%, but all but the highest rated institutions are required to maintain ratios 100 to 200 basis points above the minimum. At December 31, 2008, our leverage ratio was 12.6%.

FDICIA contains prompt corrective action provisions pursuant to which banks are to be classified into one of five categories based upon capital adequacy, ranging from well capitalized to critically undercapitalized and which require (subject to certain exceptions) the appropriate federal banking agency to take prompt corrective action with respect to an institution which becomes significantly undercapitalized or critically undercapitalized.

The OCC and the FDIC have issued regulations to implement the prompt corrective action provisions of FDICIA. In general, the regulations define the five capital categories as follows:

- an institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, has a Tier 1 risk-based capital ratio of 6% or greater, has a leverage ratio of 5% or greater and is not subject to any written capital order or directive to meet and maintain a specific capital level for any capital measures;
- an institution is adequately capitalized if it has a total risk-based capital ratio of 8% or greater, has a Tier 1 risk-based capital ratio of 4% or greater, and has a leverage ratio of 4% or greater;
- an institution is undercapitalized if it has a total risk-based capital ratio of less than 8%, has a Tier 1 risk-based capital ratio that is less than 4% or has a leverage ratio that is less than 4%;
- an institution is significantly undercapitalized if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a leverage ratio that is less than 3%; and
- an institution is critically undercapitalized if its tangible equity is equal to or less than 2% of its total assets.

The OCC and the FDIC, after an opportunity for a hearing, have authority to downgrade an institution from well capitalized to adequately capitalized or to subject an adequately capitalized or undercapitalized institution to the supervisory actions applicable to the next lower category, for supervisory concerns.

Generally, FDICIA requires that an undercapitalized institution must submit an acceptable capital restoration plan to the appropriate federal banking agency within 45 days after the institution becomes undercapitalized and the agency must take action on the plan within 60 days. The appropriate federal banking agency may not accept a capital restoration plan unless, among other requirements, each company having control of the institution has guaranteed that the institution will comply with the plan until the institution has been adequately capitalized on average during each of the three consecutive calendar quarters and has provided adequate assurances of performance. The aggregate liability under this provision of all companies having control of an institution is limited to the lesser of:

- 5% of the institution s total assets at the time the institution becomes undercapitalized or
- the amount which is necessary, or would have been necessary, to bring the institution into compliance with all capital standards applicable to the institution as of the time the institution fails to comply with the plan filed pursuant to FDICIA

An undercapitalized institution may not acquire an interest in any company or any other insured depository institution, establish or acquire additional branch offices or engage in any new business unless the appropriate federal banking agency has accepted its capital restoration plan, the institution is implementing the plan, and the agency determines that the proposed action is consistent with and will further the achievement of the plan, or the appropriate Federal banking agency determines the proposed action will further the purpose of the prompt corrective action sections of FDICIA.

If an institution is critically undercapitalized, it must comply with the restrictions described above. In addition, the appropriate Federal banking agency is authorized to restrict the activities of any critically undercapitalized institution and to prohibit such an institution, without the appropriate Federal banking agency s prior written approval, from:

- entering into any material transaction other than in the usual course of business;

engaging in any covered transaction with affiliates (as defined in Section 23A of the Federal Reserve Act);

paying excessive compensation or bonuses; and

- paying interest on new or renewed liabilities at a rate that would increase the institution s weighted average costs of funds to a level significantly exceeding the prevailing rates of interest on insured deposits in the institution s normal market areas.

The prompt corrective action provisions of FDICIA also provide that in general no institution may make a capital distribution if it would cause the institution to become undercapitalized. Capital distributions include cash (but not stock) dividends, stock purchases, redemptions, and other distributions of capital to the owners of an institution.

Additionally, FDICIA requires, among other things, that:

- only a well capitalized depository institution may accept brokered deposits without prior regulatory approval and

- the appropriate federal banking agency annually examine all insured depository institutions, with some exceptions for small, well capitalized institutions and state-chartered institutions examined by state regulators.

FDICIA also contains a number of consumer banking provisions, including disclosure requirements and substantive contractual limitations with respect to deposit accounts.

As of December 31, 2008, each of our subsidiary Banks met the capital requirements of a well capitalized institution.

Enforcement Powers. Congress has provided the federal bank regulatory agencies with an array of powers to enforce laws, rules, regulations and orders. Among other things, the agencies may require that institutions cease and desist from certain activities, may preclude persons from participating in the affairs of insured depository institutions, may suspend or remove deposit insurance, and may impose civil money penalties against institution-affiliated parties for certain violations.

Maximum Legal Interest Rates. Like the laws of many states, Florida law contains provisions on interest rates that may be charged by banks and other lenders on certain types of loans. Numerous exceptions exist to the general interest limitations imposed by Florida law. The relative importance of these interest limitation laws to the financial operations of the Banks will vary from time to time, depending on a number of factors, including conditions in the money markets, the costs and availability of funds, and prevailing interest rates.

Branch Banking. Banks in Florida are permitted to branch state wide. Such branch banking, however, is subject to prior approval by the bank regulatory agencies. Any such approval would take into consideration several factors, including the bank s level of capital, the prospects and economics of the proposed branch office, and other conditions deemed relevant by the bank regulatory agencies for purposes of determining whether approval should be granted to open a branch office.

Change of Control. Federal law restricts the amount of voting stock of a bank holding company and a bank that a person may acquire without the prior approval of banking regulators. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Federal law also imposes restrictions on acquisitions of stock in a bank holding company and a state bank. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to the Federal Reserve before acquiring control of any bank holding company, the OCC before acquiring control of any national bank and the FDIC and the OFR before acquiring control of a state bank. Upon receipt of such notice, the bank regulatory agencies may approve or disapprove the acquisition. The Change in Bank Control Act creates a rebuttable presumption of control if a member or group acquires a certain percentage or more of a bank holding company s or state bank s voting stock, or if one or more other control factors set forth in the Act are present.

Interstate Banking. Federal law provides for nationwide interstate banking and branching. Under the law, interstate acquisitions of banks or bank holding companies in any state by bank holding companies in any other state are permissible subject to certain limitations. Florida has a law that allows out-of-state bank holding companies (located in states that allow Florida bank holding companies to acquire banks and bank holding companies in that state) to acquire Florida banks and Florida bank holding companies. The law essentially provides for out-of-state entry by acquisition only (and not by interstate branching) and requires the acquired Florida bank to have been in existence for at least three years.

Effect of Governmental Policies. Our earnings and businesses are affected by the policies of various regulatory authorities of the United States, especially the Federal Reserve. The Federal Reserve, among other things, regulates the supply of credit and deals with general economic conditions within the United States. The instruments of monetary policy employed by the Federal Reserve for those purposes influence in various ways the overall level of investments, loans, other extensions of credit, and deposits, and the interest rates paid on liabilities and received on assets.

Sarbanes-Oxley Act. In 2002, the Sarbanes-Oxley Act was enacted which imposes a myriad of corporate governance and accounting measures designed that shareholders are treated and have full and accurate information about the public companies in which they invest. All public companies are affected by the Act. Some of the principal provisions of the Act include:

- the creation of an independent accounting oversight board (PCAOB) to oversee the audit of public companies and auditors who perform such audits;
- auditor independence provisions which restrict non-audit services that independent accountants may provide to their audit clients;
- additional corporate governance and responsibility measures which (a) require the chief executive officer and chief financial officer to certify financial statements and internal controls and to forfeit salary and bonuses in certain situations, and (b) protect whistleblowers and informants;
- expansion of the authority and responsibilities of the company s audit, nominating and compensation committees;
- mandatory disclosure by analysts of potential conflicts of interest; and
- enhanced penalties for fraud and other violations.

USA Patriot Act. In 2001, the USA Patriot Act was enacted. The Act requires financial institutions to help prevent, detect and prosecute international money laundering and financing of terrorism. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution with the bank regulatory agencies. Our Banks have adopted systems and procedures designed to comply with the USA Patriot Act and regulations adopted thereunder by the Secretary of the Treasury.

Competition

We encounter strong competition both in making loans and in attracting deposits. The deregulation of the banking industry and the widespread enactment of state laws which permit multi-bank holding companies as well as an increasing level of interstate banking have created a highly competitive environment for commercial banking. In one or more aspects of its business, our Company competes with other commercial banks, savings and loan associations, credit unions, finance companies, mutual funds, insurance companies, brokerage and investment banking companies, and other financial intermediaries. Most of these competitors, some of which are affiliated with bank holding companies, have substantially greater resources and lending limits, and may offer certain services that we do not currently provide. In addition, many of our non-bank competitors are not subject to the same extensive federal regulations that govern bank holding companies and federally insured banks.

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Federal and state laws also have heightened the competitive environment in which financial institutions must conduct their business, and the potential for competition among financial institutions of all types has increased significantly.

To compete, we rely upon specialized services, responsive handling of customer needs, and personal contacts by its officers, directors, and staff. Large multi-branch banking competitors tend to compete primarily by rate and the number and location of branches while smaller, independent financial institutions tend to compete primarily by rate and personal service.

Employees

As of December 31, 2008, we had a total of approximately 399 full-time equivalent employees. The employees are not represented by a collective bargaining unit. We consider relations with employees to be good.

Statistical Profile and Other Financial Data

Reference is hereby made to the statistical and financial data contained in the section captioned Management s Discussion and Analysis of Financial Condition and Results of Operations, for statistical and financial data providing a review of our Company s business activities.

Availability of Reports furnished or filed with the Securities and Exchange Commission (SEC)

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available on our internet website at *www.csflbanks.com* or *www.centerstatebanks.com*.

Item 1A. Risk Factors

We have identified risk factors described below, which should be viewed in conjunction with the other information contained in this document and information incorporated by reference, including our consolidated financial statements and related notes. If any of the following risks or other risks which have not been identified or which we may believe are immaterial or unlikely, actually occur, our business, financial condition and results of operations could be harmed. As noted previously, this report contains forward-looking statements that involve risks and uncertainties, including statements about our future plans, objectives, intentions and expectations. Many factors, including those described below, could cause actual results to differ materially from those discussed in forward-looking statements.

Risks Related to Our Business

Recent negative developments in the financial services industry and the U.S. and global credit markets may adversely impact our operations and results

Negative developments in the latter portion of 2007 and during 2008 in the capital markets have resulted in uncertainty in the financial markets in general with the expectation of the general economic downturn continuing in 2009 and beyond. Loan portfolio performances have deteriorated at many institutions resulting from, among other factors, a weak economy and a decline in the value of the collateral supporting their loans. The competition for our deposits has increased significantly due to liquidity concerns at many of these same institutions. Stock prices of bank holding companies, like ours, have been negatively affected by the current condition of the financial markets, as has our ability, if needed, to raise capital or borrow in the debt markets, compared to prior years. As a result, there is a potential for new federal or state laws and regulations regarding lending and funding practices and capital and liquidity standards, and financial institution regulatory agencies are expected to be very aggressive in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement actions. Negative developments in the financial services industry and the impact of any new legislation in response to those developments could negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and adversely impact our financial performance.

Deterioration in the housing market and homebuilding industry could lead to additional loan losses and reduced earnings

There has been substantial industry concern and publicity over asset quality among financial institutions due in large part to issues related to declining real estate values and general economic concerns. As of December 31, 2008, the Banks non-performing loans were approximately $19.9 million, or 2.23% of the loan portfolio. Nonperforming assets were approximately $24.8 million as of this same date, or 1.86% of total assets. Furthermore, the housing and the residential markets recently have experienced a variety of difficulties and changed economic conditions. If market conditions continue to deteriorate, they may lead to additional valuation adjustments on the Banks loan portfolios and real estate owned as the Banks continue to reassess the market value of their loan portfolios, the losses associated with the loans in default and the net realizable value of real estate owned. The homebuilding industry has experienced a significant and sustained decline in demand for new homes and an oversupply of new and existing homes available for sale in various markets, including the markets in which the Banks lend. Customers who are builders and developers face greater difficulty in selling their homes in markets where these trends are more pronounced. Consequently, the Banks are facing increased delinquencies and non-performing assets as these customers are forced to default on their loans. The Banks do not anticipate that the housing market will improve in the near-term, and accordingly, additional downgrades, provisions for loan losses and charge-offs relating to their loan portfolios may occur.

Loan Portfolio includes commercial and industrial loans that have higher risks

The Banks commercial and commercial real estate loans at December 31, 2008, were $80.5 million and $434.5 million, respectively, or 9.0% and 48.7% of total loans. Commercial and commercial real estate loans generally carry larger loan balances and can involve a greater degree of financial and credit risk than other loans. Any significant failure to pay on time by the Banks customers would hurt our earnings. The increased financial and credit risk associated with these types of loans are a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the size of loan balances, the effects of general economic conditions on income-producing properties and the increased difficulty of evaluating and monitoring these types of loans. In addition, when underwriting a commercial or industrial loan, the Banks may take a security interest in commercial real estate, and, in some instances upon a default by the borrower, we may foreclose on and take title to the property, which may lead to potential financial risks for us under applicable environmental laws. If hazardous substances were discovered on any of these properties, we may be liable to governmental agencies or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether the Banks knew of, or were responsible for, the contamination.

Furthermore, the repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate or commercial project. If the cash flow from the project are reduced, a borrower s ability to repay the loan may be impaired. This cash flow shortage may result in the failure to make loan payments. In such cases, the Banks may be compelled to modify the terms of the loan. In addition, the nature of these loans is such that they are generally less predictable and more difficult to evaluate and monitor. As a result, repayment of these loans may, to a greater extent than residential loans, be subject to adverse conditions in the real estate market or economy.

Possible use of more costly brokered deposits

We can offer no assurance that the Banks will be able to maintain or increase their market share of deposits in their highly competitive service areas. If they are unable to do so, they may be forced to accept increased amounts of out-of-market or brokered deposits. As of December 31, 2008, the Banks had no brokered deposits. At times, the cost of out-of-market and brokered deposits may exceed the cost of deposits in the local market. In addition, the cost of out-of-market and brokered deposits can be volatile, and if the Banks are unable to access these markets or if costs related to out-of-market and brokered deposits increases, the Banks liquidity and ability to support demand for loans could be adversely affected.

Our business is subject to the success of the local economies where we operate

Our success significantly depends upon the growth in population, income levels, deposits and housing starts in our primary and secondary markets. If the communities in which we operate do not grow or if prevailing economic conditions locally or nationally continue to remain challenged, our business may be adversely affected. Prolonged adverse economic conditions in our specific market area could reduce our growth rate, affect the ability of our customers to repay their loans to us and generally affect our financial condition and results of operations. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. Moreover, we cannot give any assurance we will benefit from any market growth or favorable economic conditions in our primary market areas if they do occur.

If the value of real estate in our core Florida market were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on us

With most of our loans concentrated in Central Florida, a continued decline in local economic conditions could adversely affect the values of our real estate collateral. Consequently, a prolonged decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse.

In addition to the financial strength and cash flow characteristics of the borrower in each case, the Banks often secure loans with real estate collateral. At December 31, 2008, approximately 84% of the Banks loans have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

An inadequate allowance for loan losses would reduce our earnings

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

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

We intend to continue pursuing a growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies in significant growth stages of development. Particularly in light of prevailing economic conditions, we cannot assure you we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our operating results could be materially adversely affected.

Our ability to successfully grow will depend on a variety of factors including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or growth will be successfully managed.

We may face risks with respect to future expansion

We may acquire other financial institutions or parts of those institutions in the future and we may engage in additional de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services. We also may receive future inquiries and have discussions with potential acquirors of us. 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 introduction of new products and services into our business;
- 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 such expansion will result in the levels of profits we seek. There can be no assurance 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 current shareholders and to investors purchasing common stock in this offering. There is no assurance that, following any future mergers or acquisition, our integration efforts will be successful or our company, after giving effect to the acquisition, will achieve profits comparable to or better than our historical experience.

The building of market share throughout our de novo branching strategy could cause our expenses to increase faster than revenues

We may continue to build market share in Central Florida through our de novo branching strategy. There are considerable costs involved in opening branches and new branches generally do not generate sufficient revenues to offset their costs until they have been in operation for at least a year or more. Accordingly, our new branches can be expected to negatively impact our earnings for some period of time until the branches reach certain economies of scale. Our expenses could be further increased if we encounter delays in the opening of any of our new branches. Finally, we have no assurance our new branches will be successful even after they have been established.

Our recent results may not be indicative of our future results

We may not be able to sustain our historical rate of growth or may not even be able to grow our business at all. In addition, our recent growth may distort some of our historical financial ratios and statistics. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

Our continued pace of growth may require us to raise additional capital in the future, but that capital may not be available when it is needed

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate our capital resources as a result of the recent sale of the Series A preferred stock to the Treasury will satisfy our capital requirements for the foreseeable future. We may at some point, however, need to raise additional capital to support our continued growth.

Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial performance. Accordingly, we cannot assure you of our ability to raise additional capital if needed on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations through internal growth and acquisitions could be materially impaired.

Changes in interest rates may negatively affect our earnings and the value of our assets.

Our earnings and cash flows are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earnings assets, such as loans and investment securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors that are beyond our control, including general economic conditions, competition and policies of various governmental and regulatory agencies and, in particular, the policies of the Board of Governors of the Federal Reserve. Changes in monetary policy, including changes in interest rates, could influence not only the interest our Banks receive on loans and investment securities and the amount of interest they pay on deposits and borrowings, but such changes could also affect (i) the Banks ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, including the available for sale securities portfolio, and (iii) the average duration of our interest-earning assets. This also includes the risk that interest-earning assets may be more responsive to changes in interest rates than interest-bearing liabilities, or vice versa (repricing risk), the risk that the individual interest rates or rates indices underlying various interest-earning assets and interest-bearing liabilities may not change in the same degree over a given time period (basis risk), and the risk of changing interest rate relationships across the spectrum of interest-earning asset and interest-bearing liability maturities (yield curve risk), including a prolonged flat or inverted yield curve environment. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse affect on our financial condition and results of operations.

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Competition from financial institutions and other financial service providers may adversely affect our profitability

The banking business is highly competitive and we experience competition in each of our markets 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. 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. While we believe we can and do successfully compete with these other financial institutions in our primary markets, we may face a competitive disadvantage as a result of our smaller size, lack of geographic diversification 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 this strategy will be successful.

We are subject to extensive regulation that could limit or restrict our activities

We operate in a highly regulated industry and are subject to examination, supervision, and comprehensive regulation by various federal and state agencies. 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.

We are dependent upon the services of our management team

Our future success and profitability is substantially dependent upon the management and banking abilities of our senior executives. We believe that our future results will also depend in part upon our attracting and retaining highly skilled and qualified management and sales and marketing personnel. Competition for such personnel is intense, and we cannot assure you that we will be successful in retaining such personnel. We also cannot guarantee that members of our executive management team will remain with us. Changes in key personnel and their responsibilities may be disruptive to our business and could have a material adverse effect on our business, financial condition and results of operations.

Our profitability could be adversely affected if we are unable to promptly deploy the capital raised in our recent offering

We may not be able to immediately deploy all of the capital raised in the recent sale of the Series A preferred stock to the Treasury. Investing the offering proceeds in securities until we are able to deploy the proceeds will provide lower margins than we generally earn on loans, potentially adversely affecting shareholder returns, including earnings per share, return on assets and return on equity.

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The trading volume in our common stock has been low and the sale of substantial amounts of our common stock in the public market could depress the price of our common stock

Our common stock is thinly traded. The average daily trading volume of our shares on The Nasdaq National Market during 2008 was approximately 14,000 shares. Thinly traded stock can be more volatile than stock trading in an active public market. We cannot predict the extent to which an active public market for our common stock will develop or be sustained after this offering. In recent years, the stock market has experienced a high level of price and volume volatility, and market prices for the stock of many companies have experienced wide price fluctuations that have not necessarily been related to their operating performance. Therefore, our shareholders may not be able to sell their shares at the volumes, prices, or times that they desire.

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

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 four bank subsidiaries to pay dividends to us is limited by their obligations to maintain sufficient capital and by other general restrictions on their dividends that are applicable to national banks and state banks that are regulated by the FDIC. If we do not satisfy these regulatory requirements, we will be unable to pay dividends on our common stock.

Our preferred shares impact net income available to our common shareholders and our earnings per share

As long as there are Series A preferred shares outstanding, no dividends may be paid on our common stock unless all dividends on the preferred shares have been paid in full. The dividends declared on our Series A preferred shares will reduce the net income available to common shareholders and our earnings per common share. Additionally, warrants to purchase our common stock issued to the Treasury, in conjunction with the Series A preferred shares may be dilutive to our earnings per share. The Series A preferred shares will also receive preferential treatment in the event of liquidation, dissolution or winding up of our business.

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

We have supported our continued growth through the issuance of trust preferred securities from a special purpose trust and accompanying junior subordinated debentures. At December 31, 2008, we had outstanding trust preferred securities and accompanying junior subordinated debentures totaling $12.5 million. Payments of the principal and interest on the trust preferred securities of this special purpose trust are conditionally guaranteed by us. Further, the accompanying junior subordinated debentures we issued to the special purpose trust are senior to our shares of common stock. As a result, we must make payments on the junior subordinated debentures before any dividends can be paid on our common stock and, in the event of our bankruptcy, dissolution or liquidation, the holders of the junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We have the right to defer distributions on our junior subordinated debentures (and the related trust preferred securities) for up to five years, during which time no dividends may be paid on our common stock.

Item 1B. Unresolved Staff Comments

None

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Item 2. Properties

Our Holding Company owns no real property. Our corporate office is leased from one of our subsidiary banks, and is located at 42745 U.S. Highway 27, Davenport, Florida 33837. Our Company, through our banks, currently operates a total of 37 banking offices. Of these offices there are two mini offices in active adult communities. These offices are leased for nominal amounts, and generally consist of a room that is set aside for us in the community club house or community center. These offices are opened for abbreviated periods and cater to the residents of the gated community. Of the 35 full service offices, we lease nine, two of these we built the building but are leasing the land, and two are temporary leased facilities until the construction on the permanent buildings are completed. *See* Note 6 to the Consolidated Financial Statements of our Company included in this Annual Report on Form 10-K and Management s Discussion and Analysis Bank Premises and Equipment, for additional information regarding our premises and equipment.

Item 3. Legal Proceedings

Our banks are periodically parties to or otherwise involved in legal proceedings arising in the normal course of business, such as claims to enforce liens, claims involving the making and servicing of real property loans, and other issues incident to their respective businesses. We do not believe that there is any pending or threatened proceeding against the Banks which would have a material adverse effect on our consolidated financial position.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our Company security holders during the fourth quarter of the year ended December 31, 2008.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The shares of our Common Stock are traded on the Nasdaq National Market System. The following sets forth the high and low trading prices for trades of our Common Stock that occurred during 2008 and 2007. Historical per share data has been adjusted to reflect our May 2006 two for one stock split.

	2008		2007	
	High	Low	High	Low
1st Quarter	$ 17.61	$ 12.12	$ 21.50	$ 17.01
2nd Quarter	14.34	10.40	19.99	16.32
3rd Quarter	18.00	9.70	18.52	15.36
4th Quarter	18.00	12.81	16.10	11.75

As of December 31, 2008, there are 12,474,315 shares of common stock outstanding. There were approximately 989 registered shareholders as of that date, as reported by our transfer agent, Continental Stock Transfer & Trust Company.

Dividends

We have historically paid cash dividends on a quarterly basis, on the last business day of the calendar quarter. The following sets forth per share cash dividends paid during 2008 and 2007.

	2008	2007
1st Quarter	$ 0.04	$ 0.035
2nd Quarter	$ 0.04	$ 0.035
3rd Quarter	$ 0.04	$ 0.04
4th Quarter	$ 0.04	$ 0.04

The payment of dividends is a decision of our Board of Directors based upon then-existing circumstances, including our rate of growth, profitability, financial condition, existing and anticipated capital requirements, the amount of funds legally available for the payment of cash dividends, regulatory constraints and such other factors as the Board determines relevant. The source of funds for payment of dividends by our Holding Company is dividends received from our Banks, or excess cash available at the Holding Company level. Payments by our subsidiary Banks to our Holding Company are limited by law and regulations of the bank regulatory authorities. There are various statutory and contractual limitations on the ability of our Banks to pay dividends to our Holding Company. The bank regulatory agencies also have the general authority to limit the dividends paid by banks if such payment may be deemed to constitute an unsafe and unsound practice. Our subsidiaries may not pay dividends from their paid-in surplus. All dividends must be paid out of undivided profits then on hand, after deducting expenses, including reserves for losses and bad debts. In addition, a national bank is prohibited from declaring a dividend on its shares of common stock until its surplus equals its stated capital, unless there has been transferred to surplus no less than one/tenth of the bank s net profits of the preceding two consecutive half-year periods (in the case of an annual dividend). The approval of the OCC is required if the total of all dividends declared by a national bank in any calendar year exceeds the total of its net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus. As to a state bank, no dividends may be paid at a time when the Bank s net income from the preceding two years is a loss or which would cause the capital accounts of the Bank to fall below the minimum amount required by law, regulation, order or any written agreement with the Florida Department or a Federal regulatory agency.

As long as there are Series A preferred shares outstanding, no dividends may be paid on our common stock unless all dividends on the preferred shares have been paid in full. The dividends declared on our Series A preferred shares will reduce the net income available to common shareholders and our earnings per common share. Additionally, warrants to purchase our common stock issued to the Treasury, in conjunction with the

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Series A preferred shares may be dilutive to our earnings per share. The Series A preferred shares will also receive preferential treatment in the event of liquidation, dissolution or winding up of our business.

Share Repurchases

We did not repurchase any shares of our common stock during 2008.

Stock Plans

With respect to information regarding our securities authorized for issuance under equity incentive plans, the information contained in the section entitled Equity Compensation Plan Information in our Definitive Proxy Statement for the 2009 Annual Meeting of Shareholders is incorporated herein by reference.

Performance Graph

Shares of our common stock are traded on the NASDAQ National Market System. The following graph compares the yearly percentage change in cumulative shareholder return on the Company s common stock, with the cumulative total return of the SNL Southeast Bank Index and the NASDAQ Bank Index, since December 31, 2003 (assuming a $100 investment on December 31, 2003 and reinvestment of all dividends).

	2003	2004	2005	2006	2007	2008
CenterState Banks of Florida, Inc.	100	170	185	225	131	185
SNL Southeast Bank Index	100	119	121	142	107	43
NASDAQ Bank Index	100	111	106	118	92	70

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Item 6. Selected Consolidated Financial Data

The selected consolidated financial data presented below should be read in conjunction with management s discussion and analysis of financial condition and results of operations, and the consolidated financial statements and footnotes thereto, of the Company at December 31, 2008 and 2007, and the three year period ended December 31, 2008, presented elsewhere herein.

Selected Consolidated Financial Data

For the twelve month period ending or as of December 31

(Dollars in thousands except for share and per share data)	2008	2007	2006	2005	2004
SUMMARY OF OPERATIONS:					
Total interest income	$ 68,082	$ 75,173	$ 59,113	$ 40,266	$ 29,088
Total interest expense	(27,797)	(32,825)	(22,010)	(11,722)	(7,874)
Net interest income	40,285	42,348	37,103	28,544	21,214
Provision for loan losses	(6,520)	(2,792)	(717)	(1,065)	(1,270)
Net interest income after provision for loan losses	33,765	39,556	36,386	27,479	19,944
Non-interest income	9,324	7,104	5,913	5,177	4,798
Gain on sale of bank branch office real estate	1,483				
Sale of bank shell		1,000			
Gain on sale of branches					1,844
Non-interest expense	(39,936)	(35,964)	(28,981)	(22,602)	(19,646)
Income before income taxes	4,636	11,696	13,318	10,054	6,940
Income taxes	(1,215)	(3,897)	(4,859)	(3,724)	(2,567)
Net income	$ 3,421	$ 7,799	$ 8,459	$ 6,330	$ 4,373
PER COMMON SHARE DATA:					
Basic earnings per share	$ 0.26	$ 0.64	$ 0.77	$ 0.68	$ 0.59
Diluted earnings per share	$ 0.26	$ 0.63	$ 0.75	$ 0.66	$ 0.57
Common equity per common share outstanding	$ 12.22	$ 11.92	$ 10.54	$ 9.26	$ 7.09
Tangible common equity per common share outstanding	$ 9.64	$ 9.28	$ 9.38	$ 8.77	$ 6.45
Dividends per common share	$ 0.16	$ 0.15	$ 0.14	$ 0.13	$ 0.12
Actual shares outstanding	12,474,315	12,436,407	11,129,020	10,500,772	8,137,426
Weighted average common shares outstanding	12,452,375	12,108,590	10,964,890	9,357,046	7,500,316
Diluted weighted average common shares outstanding	12,585,036	12,294,537	11,232,059	9,629,194	7,656,308
BALANCE SHEET DATA:					
Assets	$ 1,333,143	$ 1,217,430	$ 1,077,102	$ 871,521	$ 753,779
Total loans	892,001	841,405	657,963	516,658	441,005
Allowance for loan loss	13,335	10,828	7,355	6,491	5,685
Total deposits	993,800	972,620	892,806	717,337	659,630
Other borrowings	141,183	75,646	52,792	42,811	24,627
Corporate debenture	12,500	12,500	10,000	10,000	10,000
Preferred stockholders equity	26,787				
Common stockholders equity	152,378	148,282	117,332	97,241	57,664
Total stockholders equity	179,165	148,282	117,332	97,241	57,664
Tangible capital	147,099	115,439	104,386	92,087	52,438
Goodwill	28,118	28,118	9,863	4,675	4,675
Core deposit intangible (CDI)	3,948	4,725	3,083	479	551
Average total assets	1,238,005	1,189,268	981,640	808,177	673,669
Average loans	856,260	791,886	605,236	482,819	421,229

Average interest earning assets	1,108,180	1,068,591	894,286	744,298	618,589
Average deposits	975,352	963,033	807,471	678,149	584,442
Average interest bearing deposits	823,121	775,282	610,732	496,046	445,358
Average interest bearing liabilities	923,591	854,251	670,562	544,663	481,468
Average total stockholders equity	154,521	138,425	109,794	78,037	51,340

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Selected Consolidated Financial Data continued

For the twelve month period ending or as of December 31

(Dollars in thousands except for share and per share data)	2008	2007	2006	2005	2004
SELECTED FINANCIAL RATIOS:					
Return on average assets	0.28%	0.66%	0.86%	0.78%	0.65%
Return on average equity	2.21%	5.63%	7.70%	8.11%	8.52%
Dividend payout	58%	23%	18%	19%	21%
Efficiency (1)	81%	73%	68%	67%	76%
Net interest margin, tax equivalent basis (2)	3.70%	4.01%	4.17%	3.84%	3.43%
Net interest spread, tax equivalent basis (3)	3.19%	3.25%	3.35%	3.27%	3.06%
CAPITAL RATIOS:					
Tier 1 leverage ratio	12.59%	10.78%	11.23%	12.35%	8.60%
Risk-based capital					
Tier 1	16.17%	13.80%	15.60%	18.10%	13.40%
Total	17.43%	14.97%	16.60%	19.23%	14.61%
Average equity to average assets	12.48%	11.64%	11.18%	9.66%	7.62%
ASSET QUALITY RATIOS:					
Net charge-offs to average loans	0.47%	0.12%	0.08%	0.05%	0.07%
Allowance to period end loans	1.49%	1.29%	1.12%	1.26%	1.29%
Allowance for loan losses to non-performing loans	67%	266%	1,206%	430%	634%
Non-performing assets to total assets	1.86%	0.40%	0.06%	0.18%	0.17%
OTHER DATA:					
Banking locations	37	37	30	26	25
Full-time equivalent employees	399	371	320	275	257

(1) Efficiency ratio is non-interest expense divided by the sum of net interest income before the provision for loan losses plus non-interest income, exclusive of non-recurring items.

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

(3) Net interest spread is the difference between the average yield on earning assets and the average yield on average interest bearing liabilities.

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Quarterly Financial Information

The following table sets forth, for the periods indicated, certain consolidated quarterly financial information. This information is derived from our unaudited financial statements which include, in the opinion of management, all normal recurring adjustments which management considers necessary for a fair presentation of the results for such periods. The sum of the four quarters of earnings per share may not equal the total earnings per share for the full year due to rounding. This information should be read in conjunction with our consolidated financial statements and the notes thereto included elsewhere in this document. The results for any quarter are not necessarily indicative of results for future periods.

Selected Quarterly Data

(Dollars are in thousands)

	2008				2007			
(Dollars in thousands except for per share data)	**4Q**	**3Q**	**2Q**	**1Q**	**4Q**	**3Q**	**2Q**	**1Q**
Interest income	$ 16,429	$ 16,821	$ 16,866	$ 17,966	$ 19,191	$ 19,839	$ 19,623	$ 16,520
Interest expense	(6,364)	(6,445)	(6,836)	(8,152)	(8,586)	(8,938)	(8,379)	(6,922)
Net interest income	10,065	10,376	10,030	9,814	10,605	10,901	11,244	9,598
Provision for loan losses	(2,637)	(1,764)	(1,515)	(604)	(1,605)	(529)	(376)	(282)
Net interest income after								
Provision for loan losses	7,428	8,612	8,515	9,210	9,000	10,372	10,868	9,316
Non-interest income	3,346	1,810	1,750	1,757	1,923	1,959	1,903	1,540
Gain on sale of bank branch office real estate			1,483					
Sale of bank shell					1,000			
Securities gain (loss)	426	197	(6)	44	5	2		
Non-interest expenses	(11,356)	(9,613)	(9,560)	(9,407)	(9,315)	(9,442)	(9,362)	(8,073)
Income before income tax expense	(156)	1,006	2,182	1,604	2,613	2,891	3,409	2,783
Income tax expense	237	(245)	(714)	(493)	(854)	(939)	(1,129)	(975)
Net income	$ 81	$ 761	$ 1,468	$ 1,111	$ 1,759	$ 1,952	$ 2,280	$ 1,808
Basic earnings per common share	$ (0.01)	$ 0.06	$ 0.12	$ 0.09	$ 0.14	$ 0.16	$ 0.18	$ 0.16
Diluted earnings per common share	$ (0.01)	$ 0.06	$ 0.12	$ 0.09	$ 0.14	$ 0.15	$ 0.18	$ 0.16

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Some of the statements in this report constitute forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995 and the Securities Exchange Act of 1934. These statements related to future events, other future financial performance or business strategies, and include statements containing terminology such as may, will, should, expects, scheduled, plans, intends, anticipates, estimates, potential, or continue or the negative of such terms or other comparable terminology. Actual events or results may differ materially from the results anticipated in these forward looking statements, due to a variety of factors, including, without limitation: the effects of future economic conditions; governmental monetary and fiscal policies, as well as legislative and regulatory changes; the risks of changes in interest rates and the level and composition of deposits, loan demand, and the values of loan collateral; and the effects of competition from other commercial banks, thrifts, consumer finance companies, and other financial institutions operating in our market area and elsewhere. All forward looking statements attributable to our Company are expressly qualified in their entirety by these cautionary statements. We disclaim any intent or obligation to update these forward looking statements, whether as a result of new information, future events or otherwise. There is no assurance that future results, levels of activity, performance or goals will be achieved.

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Our discussion and analysis of earnings and related financial data are presented herein to assist investors in understanding the financial condition of our Company at December 31, 2008 and 2007, and the results of operations for the years ended December 31, 2008, 2007 and 2006. This discussion should be read in conjunction with the consolidated financial statements and related footnotes of our Company presented elsewhere herein. Historical per share data has been adjusted to reflect our May 2006 two for one stock split.

Executive Summary

Organizational structure

Our consolidated financial statements include the accounts of CenterState Banks of Florida, Inc. (the Parent Company, Company, Corporate, CenterState or CSFL), and our four wholly owned subsidiary banks, and their wholly owned subsidiary, CenterState Shared Services, Inc. (CSS), formerly C.S. Processing, Inc.

Our four subsidiary banks operate through locations in nine counties throughout Central Florida, providing traditional deposit and lending products and services to its commercial and retail customers. CSS is a wholly owned subsidiary of our subsidiary banks, which provides item processing services, human resource services, credit analyst services and information technology services for these subsidiary banks. As of December 31, 2008 we operated through 37 banking locations. We plan to close three branches during 2009. One will close on March 31, 2009 and the other two will close on April 15, 2009. The three branches combined have total deposits of approximately $25 million, which will be transferred to three of our other existing branch offices. On January 30, 2009 we purchased approximately $180 million of the deposits of Ocala National Bank (ONC) from the FDIC. ONC, which was closed by the FDIC on Friday, January 30, 2009, operated from four branch locations in Ocala, Florida. On Monday morning, February 2, 2009, all four branches opened as CenterState Bank branch offices. See *branching activities,* below for additional discussion related to our branch activities. During the fourth quarter of 2008, we initiated a correspondent banking and bond sales division. The division is integrated with and part of our lead subsidiary bank, CSB, located in Winter Haven, Florida. See *correspondent banking division,* below for additional discussion relating to this new business activity.

Through our subsidiary banks, we conduct commercial banking business consisting of attracting deposits from the general public and applying those funds to the origination of commercial, consumer and real estate loans (including commercial loans collateralized by real estate). Our profitability depends primarily on net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) less the interest expense incurred on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amounts of interest-earning assets and interest-bearing liabilities, and the interest rate earned and paid on these balances. Net interest income is dependent upon the interest rate spread which is the difference between the average yield earned on our interest-earning assets and the average rate paid on our interest-bearing liabilities. The interest rate spread is impacted by interest rates, deposit flows, and loan demand. Additionally, and to a lesser extent, our profitability is affected by such factors as the level of non-interest income and expenses, the provision for credit losses, and the effective tax rate. Non-interest income consists primarily of service fees on deposit accounts and related services, and also includes commissions earned on bond sales, brokering single family home loans, sale of mutual funds, annuities and other non traditional and non insured investments. Non-interest expense consists of compensation, employee benefits, occupancy and equipment expenses, and other operating expenses.

We operate under a decentralized organizational structure. Each of our subsidiary banks is managed by its own bank president, who has the primary responsibility for the profitability and growth of the individual business unit. Each bank has its own charter, management team and board of directors, although most of the Company s board directors are also board members of one or more of our subsidiary banks, and our Chairman is either the chairman or at least a board member of all our subsidiary banks. Except for the largest and/or riskier lending facilities, which require approval of a senior committee comprised of each subsidiary bank president and our

CEO, each bank generally makes its own lending decisions. Although lending decisions are made at each bank, credit (loan) review is performed by Parent Company employees, who are independent of the loan origination process and of the individual banks. The Chief Loan Review officer, who also is the Company s Chief Internal Auditor, reports directly to the Company s Audit Committee, with a dotted line to our CEO. This system of checks and balances has worked well for us in the past, and is clearly being tested in this current economy and real estate market.

At December 31, 2008, our four subsidiary banks are operating an aggregate of 37 bank branch locations in nine Counties in central Florida as summarized in the table below:

Subsidiary Banks	**No. of locations**	**Counties**
CenterState Bank Central Florida, N.A. (Central)	7	Osceola, Orange
CenterState Bank, N.A. (CSB/West)	13	Pasco, Hernando, Citrus, Sumter, Lake
CenterState Bank of Florida (CSB/Polk)	12	Polk
Valrico State Bank (VSB)	5	Hillsborough

Branching activities

We opened three new branches in 2006 and three in 2007. We did not open any new branches during 2008 and have no plans to open any during 2009. During April of 2008, we sold one branch office building located in Orange County and simultaneously entered into an agreement to lease back the real estate for a period of one year with an option to renew the lease for an additional year. We are not going to renew the lease and will close the office on March 31, 2009. The deposit and loan accounts will be transferred to the nearest existing office. The branch has been operating since 1996 and currently has deposits of approximately $12 million.

We are also closing two additional small branches effective April 15, 2009. One branch operates from a leased facility in Hernando County since it opened in August 2007. Currently it has less than $3 million in deposits. The other branch opened in October 1998 in Sumter County and currently has approximately $10 million in total deposits. We own the Sumter County branch real estate and plan to offer it for sale. The deposit and loan accounts will be transferred to other existing branches.

After these three branches are closed, the Company s branch network will decrease from 37 to 34. The estimated annual cost savings is expected to approximate $500,000. We do not expect to open any new branches in 2009. However, on January 30, 2009, we purchased the deposits of Ocala National Bank (ONC) from the FDIC for approximately $3,000,000, a premium of approximately 1.7%. Total deposits purchased approximated $180,000,000. ONC, which was closed by the FDIC on Friday, January 30, 2009, operated from four bank branch locations of which two were leased and two were owned. Pursuant to the transaction, we have the option to purchase the two owned locations, plus all the furniture and equipment, and assume the leases at fair value, to be determined by appraisal. ONC branches opened as our branches on Monday morning, February 2, 2009. If we decide to keep all four of these new branches, our branch network will be increased to 38 (after closing the three branches discussed above).

TARP

On November 21, 2008, as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program, we issued and sold to the U.S. Department of the Treasury (the Treasury), (a) 27,875 shares (the Preferred Shares) of our Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, and (b) a ten-year warrant (the Warrant) to purchase up to 250,825 shares of our voting common stock, par value $0.01 per share (Common Stock), at an exercise price of $16.67 per share.

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For a detailed description of this program, what we agreed to do and what we received, refer to our Form 8-K filed on November 24, 2008, as well as our Form S-3 filed on December 17, 2008 and our 424B2 Prospectus filed on January 2, 2009. In summary, we issued 5% Cumulative Perpetual Preferred Stock along with a Warrant to purchase up to 250,825 shares of our common stock at an exercise price of $16.67 to the U.S. Department of Treasury, in exchange for $27,875,000 cash, which we received on November 21, 2008. The 5% dividends are paid quarterly and after five years the rate increases to 9% and remains at that level into perpetuity. After the initial three years, we are permitted to redeem it at any time. In addition, we can redeem it during the initial three years under certain conditions. If we raise qualifying equity capital equal to $27,875,000 or more prior to December 31, 2009, half of the Warrant (125,412 shares) will be cancelled. We are restricted from increasing our cash dividend on common shares from its current level of $0.04 per quarter during the initial three years, there are certain restrictions with regard to our ability to repurchase our own common shares and lastly, there are certain restrictions which subject us to certain executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA).

Correspondent banking division

Through our lead subsidiary bank in Winter Haven, Florida, we initiated a correspondent banking and bond sales division during the fourth quarter of 2008. This new business line was created by way of a management lift-out. We hired substantially all the employees of the Royal Bank of Canada s (RBC) bond sales division, who were previously employees of Alabama National Bank (ALAB) prior to RBC s acquisition of ALAB. The division operates out of a newly leased facility in Birmingham, Alabama. The business lines are primarily divided into three inter-related revenue generating activities. The first, and largest, revenue generator is commissions earned on fixed income security sales. The second category includes: (1) correspondent bank deposits (i.e. federal funds purchased); (2) correspondent bank checking accounts; and (3) loans to correspondent banks. The third, and smallest revenue generating category, includes fees from safe-keeping activities, bond accounting for correspondents, and asset/liability consulting related activities. The customer base includes small to medium size financial institutions primarily located in Florida, Georgia and Alabama, but will also include several other southeastern States. During the fourth quarter of 2008, we earned gross commission revenue on bond sales of $1,412,000. At December 31, 2008, we had $88,976,000 in deposits of correspondent banks (federal funds purchased).

Critical Accounting Policies

Our accounting policies are integral to understanding the results reported. Accounting policies are described in detail in Note 1 of the notes to the consolidated financial statements. The critical accounting policies require management s judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. We have established policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of our current accounting policies involving significant management valuation judgments.

Allowance for Loan Losses

The allowance for loan losses represents our estimate of probable incurred losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The allowance for loan losses is determined based on our assessment of several factors: reviews and evaluation of individual loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry concentrations, historical loan loss experiences and the level of classified and nonperforming loans.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses and the associated provision for loan losses.

A standardized loan grading system is utilized at each of our subsidiary banks. The grading system is integral to our risk assessment function related to lending. Loan officers of each bank assign a loan grade to their newly originated loans in accordance with the standard loan grades. Throughout the lending relationship, the loan officer is responsible for periodic reviews, and if warranted he/she will downgrade or upgrade a particular loan based on specific events and/or analyses. We use a loan grading system of 1 through 7. Grade 1 is excellent and grade 7 is doubtful. Loans graded 5 or higher are placed on a watch list each month end and reported to that particular bank s board of directors. The Company s loan review officer, who is independent of the lending function and is not an employee of any subsidiary bank, periodically reviews each bank s loan portfolio and lending relationships. He may disagree with a particular bank s grade on a particular loan and subsequently downgrade or upgrade such loan(s) based on his risk analysis. As such, our lending process is decentralized, but our credit review process is centralized.

Beginning in late 2007, the Company s CEO initiated a new program referred to as centercourt, whereby all of our bank presidents and their chief lending officers are gathered together in one room along with our CEO, CFO, COO and Chief Loan Review officer. Each bank president and his chief lending officer present their prepared written report on the status of their bank s loan portfolio. Past due, non accrual, impaired, potentially impaired, and loans in process of foreclosure, as well as OREO issues are presented and discussed. These meetings are generally held once per quarter. The objectives include early and quick identification and resolutions of potential loan losses, as well as sharing information and ideas between banks. The process also contributes to each bank s allowance for loan loss analysis assumptions and preparation.

We maintain an allowance for loan losses that we believe is adequate to absorb probable losses inherent in our loan portfolio. The allowance consists of two components. The first component consists of amounts specifically reserved (specific allowance) for specific loans identified as impaired, as defined by Statement of Financial Accounting Standard No. 114 (SFAS 114). Impaired loans are those loans that management has estimated will not repay as agreed upon. Each of these loans is required to have a written analysis supporting the amount of specific reserve allocated to the particular loan, if any. That is to say, a loan may be impaired (i.e. not expected to repay as agreed), but may be sufficiently collateralized such that we expect to recover all principle and interest eventually, and therefore no specific reserve is warranted.

The second component, which we refer to as Statement of Financial Accounting Standard No. 5 (SFAS 5) loans, is a general reserve (general allowance) on all of the Company s loans other than those identified as impaired. We group these loans into categories with similar characteristics and then apply a loss factor to each group which is derived from our historical loss factor for that category adjusted for current internal and external environmental factors, as well as for certain loan grading factors. The aggregate of these two components results in our total allowance for loan losses.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over fair value of assets of business acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, or in the case of core deposit intangibles, zero. We acquired CenterState Bank of Florida, in Winter Haven, Florida, on December 31, 2002, CenterState Bank Mid Florida on March 31, 2006 and Valrico State Bank on April 2, 2007. Consequently, we were required to record the assets acquired, including identified intangible assets, and liabilities assumed at their fair value, which involves estimates based on third party valuations, such as appraisals, internal valuations based on discounted cash flow analyses or other valuation techniques. The determination of the useful lives of intangible assets is subjective, as is the appropriate amortization period for such intangible assets. In addition, purchase acquisitions typically result in recording goodwill, which is subject to ongoing periodic impairment tests based on the fair value of the reporting unit compared to its carrying amount, including goodwill. As of November 30, 2008, the required annual impairment test of goodwill was performed and no impairment existed

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as of the valuation date. If for any future period we determine that there has been impairment in the carrying value of our goodwill balances, we will record a charge to our earnings, which could have a material adverse effect on our net income. Goodwill and intangible assets are described further in Note 7 of the notes to the consolidated financial statements.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2008 AND DECEMBER 31, 2007.

Net Income

Our net income for the year ended December 31, 2008 was $3,421,000 or $0.26 per share (basic) and $0.26 per share (diluted), compared to $7,799,000 or $0.64 per share (basic) and $0.63 per share (diluted) for the year ended December 31, 2007.

The primary reasons for the decrease in 2008 net income compared to 2007, was the increase in our loan loss provision ($6,520,000 versus $2,792,000), which was a reflection of the continued deterioration of the real estate market in Florida specifically and the overall economy in general, and secondly, the decrease in our net interest income ($40,285,000 versus $42,348,000), which was caused by compression in our net interest margin (NIM). These and other factors contributing to the decrease in our 2008 net income compared to 2007 are discussed below.

Net Interest Income/Margin

Net interest income consists of interest income generated by earning assets, less interest expense.

Net interest income decreased $2,063,000 or 5% to $40,285,000 during the year ended December 31, 2008 compared to $42,348,000 for the same period in 2007. The decrease was the result of a $7,091,000 decrease in interest income less a $5,028,000 decrease in interest expense.

Interest earning assets averaged $1,108,180,000 during the year ended December 31, 2008 as compared to $1,068,591,000 for 2007, an increase of $39,589,000, or 4%. The yield on average interest earning assets decreased 89 basis points (bps) to 6.14% (89bps to 6.20% tax equivalent basis) during the year ended December 31, 2008, compared to 7.03% (7.09% tax equivalent basis) for 2007. The combined net effects of the $39,589,000 increase in average interest earning assets and the 89bps decrease in yield on average interest earning assets resulted in the $7,091,000 ($6,968,000 tax equivalent basis) decrease in interest income between the two years.

Interest bearing liabilities averaged $923,591,000 during the year ended December 31, 2008 as compared to $854,251,000 for 2007, an increase of $69,340,000, or 8%. The cost of average interest bearing liabilities decreased 83bps to 3.01% during the year ended December 31, 2008, compared to 3.84% for 2007. The combined net effects of the $69,340,000 increase in average interest bearing liabilities and the 83bps decrease in cost of average interest bearing liabilities resulted in the $5,028,000 decrease in interest expense between the two years.

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See the tables Average Balances Yields & Rates, and Analysis Of Changes In Interest Income And Expenses below.

Average Balances Yields & Rates

(Dollars are in thousands)

	Years Ended December 31,					
	2008			2007		
	Average Balance	Interest Inc / Exp	Average Rate	Average Balance	Interest Inc / Exp	Average Rate
ASSETS:						
Loans (1) (2) (7)	$ 856,260	$ 57,519	6.72%	$ 791,886	$ 61,971	7.83%
Securities available for sale taxable	154,270	7,822	5.07%	191,674	9,388	4.90%
Securities available for sale tax exempt (7)	38,070	2,060	5.41%	35,933	1,824	5.08%
Federal funds sold and other	59,580	1,345	2.26%	49,098	2,531	5.15%
TOTAL INTEREST EARNING ASSETS	$ 1,108,180	$ 68,746	6.20%	$ 1,068,591	$ 75,714	7.09%
Allowance for loan losses	(11,750)			(9,114)		
All other assets	141,575			129,791		
TOTAL ASSETS	$ 1,238,005			$ 1,189,268		
LIABILITIES & STOCKHOLDERS EQUITY						
Deposits:						
Now	$ 141,756	$ 953	0.67%	$ 125,468	$ 1,375	1.10%
Money market	112,957	2,298	2.03%	114,457	3,314	2.90%
Savings	67,215	733	1.09%	53,195	431	0.81%
Time deposits	501,193	20,952	4.18%	482,162	23,570	4.89%
Repurchase agreements	30,818	459	1.49%	58,329	2,582	4.43%
Other borrowed funds (3)	57,152	1,584	2.77%	8,765	532	6.07%
Corporate debenture (4)	12,500	818	6.54%	11,875	1,021	8.60%
TOTAL INTEREST BEARING LIABILITIES	$ 923,591	$ 27,797	3.01%	$ 854,251	$ 32,825	3.84%
Demand deposits	152,231			187,751		
Other liabilities	7,662			8,841		
Total stockholders equity	154,521			138,425		
TOTAL LIABILITIES AND						
STOCKHOLDERS EQUITY	$ 1,238,005			$ 1,189,268		
NET INTEREST SPREAD (tax equivalent basis) (5)			3.19%			3.25%
NET INTEREST INCOME (tax equivalent basis)		$ 40,949			$ 42,889	
NET INTEREST MARGIN (tax equivalent basis) (6)			3.70%			4.01%

(1) Loan balances are net of deferred origination fees and costs.

(2) Interest income on average loans includes loan fee recognition of $336 and $523 for the years ended December 31, 2008 and 2007, respectively.

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(3) Includes Federal Home Loan Bank advances, Federal Funds Purchased and correspondent bank deposits (Federal Funds Purchased).
(4) Includes net amortization of origination costs and amortization of purchase accounting adjustment of ($1) and $16 during year ended December 31, 2008 and 2007, respectively.
(5) Represents the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.
(6) Represents net interest income divided by total earning assets.
(7) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates to adjust tax exempt investment income on tax exempt investment securities and loans to a fully taxable basis.

Analysis of Changes in Interest Income and Expenses

(Dollars are in thousands)

	Net Change Dec 31, 2008 versus 2007		
	Volume	**Rate**	**Net Change**
INTEREST INCOME			
Loans (tax equivalent basis)	$ 4,778	$ (9,230)	$ (4,452)
Securities available for sale taxable	(1,887)	321	(1,566)
Securities available for sale tax exempt	112	124	236
Federal funds sold and other	457	(1,643)	(1,186)
TOTAL INTEREST INCOME (tax equivalent basis)	$ 3,460	$ (10,428)	$ (6,968)
INTEREST EXPENSE			
Deposits			
NOW accounts	$ 161	$ (583)	$ (422)
Money market accounts	(43)	(973)	(1,016)
Savings	131	171	302
Time deposits	901	(3,519)	(2,618)
Repurchase agreements	(882)	(1,241)	(2,123)
Other borrowed funds	1,484	(432)	1,052
Corporate debenture	51	(254)	(203)
TOTAL INTEREST EXPENSE	$ 1,803	$ (6,831)	$ (5,028)
NET INTEREST INCOME (tax equivalent basis)	$ 1,657	$ (3,597)	$ (1,940)

The table above details the components of the changes in net interest income for the last two years. For each major category of interest earning assets and interest bearing liabilities, information is provided with respect to changes due to average volume and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Provision for Loan Losses

The provision for loan losses (expense) increased $3,728,000, to $6,520,000 during the year ending December 31, 2008 compared to $2,792,000 for 2007. Our policy is to maintain the allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings, and is decreased by charge-offs, net of recoveries on prior loan charge-offs. Therefore, the provision for loan losses (Income Statement effect) is a residual of management s determination of allowance for loan losses (Balance Sheet approach). In determining the adequacy of the allowance for loan losses, we consider those levels maintained by conditions of individual

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borrowers, the historical loan loss experience, the general economic environment, the overall portfolio composition, and other information. As these factors change, the level of loan loss provision changes. See credit quality and allowance for loan losses regarding the allowance for loan losses for additional information.

Non-Interest Income

Non-interest income for the year ended December 31, 2008 was $10,807,000 compared to $8,104,000 for 2007. This increase was the result of the following components listed in the table below (amounts listed are in thousands of dollars).

(in thousands of dollars)	2008	2007	$ increase (decrease)	% Increase (decrease)
Service charges on deposit accounts	$ 4,490	$ 4,436	$ 54	1.2%
Commissions from bond sales	1,412		1,412	n/a
Commissions from mortgage broker activities	87	187	(100)	(53.5)%
Commissions from sale of mutual funds and annuities	503	586	(83)	(14.2)%
Debit card and ATM fees	1,075	905	170	18.8%
Loan related fees	402	381	21	5.5%
BOLI income	387	353	34	9.6%
Other service charges and fees	320	269	51	19.0%
(Loss) on sale or disposition of fixed assets	(13)	(20)	7	35.0%
Gain on sale of securities	661	7	654	9,342.9%
Subtotal	$ 9,324	$ 7,104	$ 2,220	31.3%
Gain on sale of bank branch office real estate	1,483		1,483	n/a
Sale of bank charter		1,000	(1,000)	n/a
Total non-interest income	$ 10,807	$ 8,104	$ 2,703	33.4%

We sold one of our branch office buildings on April 1, 2008 for $2,500,000 and simultaneously entered into an agreement to lease back the real estate for a period of one year with an option to renew the lease for an additional year. We recognized a pre-tax gain on the sale of approximately $1,483,000 during April 2008. We are not going to renew the lease, and plan to close the office on March 31, 2009. We will transfer all the loan and deposit accounts to one or more of our existing offices. See Executive Summary for a discussion on our branching activity including this sale.

The Parent Company and two of its subsidiary banks, (CenterState Bank West Florida, N.A. (CSWFL) and CenterState Bank Mid Florida (Mid FL)), Atlantic Southern Financial Group, Inc. (a Georgia Corporation) and it s wholly owned subsidiary, Atlantic Southern Bank (collectively referred to as Atlantic Southern) entered into several related agreements (the Transaction) which closed on November 30, 2007. In summary, a description of the Transaction is as follows: CSWFL effectively purchased substantially all the assets and assumed the liabilities of Mid FL, except for the Mid FL main office (a leased office) and a minimum amount of deposits and capital required by banking laws. Atlantic Southern then acquired Mid FL, through a merger. Atlantic Southern paid to the Company an amount equal to the remaining amount of capital of Mid FL (after the sale (transfer) by Mid FL of its assets and liabilities to CSWFL) plus an additional amount of $1,000,000. Atlantic Southern then transferred Mid FL s main office to CSWFL. The Company recognized a gain on the sale of $1,000,000 (included in non interest income) less transaction expenses of approximately $100,000. Transaction expenses are included in non interest expense. The Company continues to operate the same locations operated by CSWFL and Mid FL, except it is now operating these locations under one charter instead of two. All customer loan and deposit accounts/relationships have been retained by the Company. Following the Transaction, CSWFL changed its name to CenterState Bank, N.A.

We acquired VSB on April 2, 2007, and, as such, we recognized nine months of non interest income generated by VSB in 2007 compared to twelve months in 2008. The difference between the two years related to the three months equates to approximately $200,000.

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We initiated a correspondent banking division during the fourth quarter of 2008. The primary revenue generator of this new business unit is bond sales to correspondent banks. During the fourth quarter of 2008, we recognized $1,412,000 of gross revenue from commissions on bond sales. See Executive Summary for further discussion relating to our new correspondent banking division.

We sold approximately $38,000,000 of securities available for sale during 2008, generating a net gain on sale of $661,000. The sales were a result of liquidity management and asset/liability management.

Commissions from mortgage broker activities is dependent on market place forces including supply and demand of single family residential property in our local markets, and the interest rate environment which primarily effects refinancing activity. As the residential real estate market in Florida deteriorated, activity decreased, resulting in decreased commissions earned in 2008 compared to 2007.

Sales of mutual funds and annuities are somewhat dependent on market place forces, but primarily dependent on the successful efforts of our investment sales representatives. These commissions will fluctuate period to period.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2008 increased $3,972,000, or 11.0%, to $39,936,000, compared to $35,964,000 for 2007. The table below breaks down the individual components. Amounts are in thousands of dollars.

(in thousands of dollars)	2008	2007	$ increase (decrease)	% Increase (decrease)
Employee salaries and wages	$ 17,172	$ 14,825	$ 2,347	15.8%
Employee incentive/bonus compensation	763	1,501	(738)	(49.2)%
Employee stock option expense	402	509	(107)	(21.0)%
Employer 401K matching contributions	484	450	34	7.6%
Deferred compensation expense	137		137	
Health insurance and other employee benefits	1,743	2,266	(523)	(23.1)%
Payroll taxes	1,209	1,120	89	7.9%
Other employee related expenses	445	390	55	14.1%
Incremental direct cost of loan origination	(871)	(1,034)	163	15.8%
Total salaries, wages and employee benefits	$ 21,484	$ 20,027	$ 1,457	7.3%
Occupancy expense	4,143	3,966	177	4.5%
Depreciation of premises and equipment	2,590	2,305	285	12.4%
Supplies, stationary and printing	743	690	53	7.7%
Marketing expenses	1,359	1,096	263	24.0%
Data processing expense	1,141	1,452	(311)	(21.4)%
Legal, auditing and other professional fees	1,245	1,101	144	13.1%
Bank regulatory related expenses	1,230	468	762	162.8%
Postage and delivery	367	308	59	19.2%
ATM and debit card related expenses	724	667	57	8.5%
CDI amortization	777	842	(65)	(7.7)%
Loss on sale of repossessed real estate (OREO)	51	5	46	920.0%
Valuation write down of repossessed real estate (OREO)	434		434	
Loss on repossessed assets other than real estate	125	2	123	6,150.0%
Foreclosure related expenses	396	69	327	473.9%
Internet and telephone banking	358	283	75	26.5%
Operational write-offs and losses	291	314	(23)	(7.3)%
Correspondent accounts and Federal Reserve charges	263	259	4	1.5%
Conferences/Seminars/Education/Training	223	199	24	12.1%
Director fees	321	245	76	31.0%
Other expenses	1,671	1,666	5	0.3%
Total non-interest expense	$ 39,936	$ 35,964	$ 3,972	11.0%

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We acquired VSB on April 2, 2007, and, as such, we recognized nine months of non-interest expense generated by VSB in 2007, compared to twelve months in 2008. Three months of operating expenses at VSB equates to approximately $1,400,000. Although we did not open any new branches in 2008, we did initiate a new correspondent banking division in Birmingham, Alabama during the fourth quarter of 2008. See Executive Summary for our discussion relating to our new correspondent banking division. The most significant expense related to this new division was compensation related expenses during November and December of 2008. These will be included in our compensation analysis below.

Our largest non-interest expense is employee and employee related expenses. Total salaries, wages and employee benefits for 2008 accounted for 54% of our total non-interest expense, compared to 56% for 2007. Looking at the table above, employee salaries and wages increased by $2,347,000, or 15.8% to $17,172,000 for 2008, compared to $14,825,000 for 2007. The increase was due to (1) a 7% increase in average FTEs (full time equivalent employees) year to year (388.2 versus 362.3), which was a result of twelve months of VSB in 2008 versus nine months in 2007, as well as adding some additional employees late in the year relating to our correspondent banking division, in addition to the fact that three of our newest branches were not opened for the entire year in 2007, but were in 2008, and (2) an 8% increase in our average salary expense per FTE year to year ($44,235 versus $40,919), which was due to adding higher compensated employees to our employee mix, as well as normal salary increases.

We use a combination of performance incentive/bonus guidelines to motivate our employees to perform. These are primarily all tied to earnings performance and growth metrics. As our net income increases and our assets grow, our employee incentive/bonus compensation also increases. In addition, we also have incentive compensation programs tied to growth of core deposits for certain employee classes responsible for these types of deposit customer relationships. As indicated in the table above, our incentive/bonus compensation expense for 2008 was $763,000, which represents a 49.2% decrease compared to $1,501,000 recorded in 2007. Comparing our 2008 financial results to 2007, our net income decreased by 54% and our average assets year to year grew by 4%. Most of this year s incentive/bonus compensation (approximately 77%) relates to two of our four banks. See our Compensation Discussion and Analysis in our current year s Proxy Statement for a discussion of executive compensation.

We have been attempting to lower our employee health insurance costs since 2007. Effective October 1, 2007, we changed insurance company and third party administrators, and effective January 1, 2008, we initiated a Health Savings Account plan (HSA), as well as other consumer driven initiatives. The results of our efforts is reflected in the $523,000 decrease in health insurance and other employee benefits expense during 2008, compared to 2007, a 23.1% decrease.

During 2008 our occupancy expense increased by $177,000 (4.5%) and our depreciation expense increased by $285,000 (12.4%) compared to 2007. Most of this increase was due to our 2007 acquisition of VSB. VSB s occupancy and depreciation expense was included in our consolidated financial statements for nine months during 2007 compared to twelve months in 2008. We also added three new branches which were not operating during the entire year of 2007 but were for the entire year in 2008. We moved one of our newer branches (pre 2007) from its temporary location to a newly constructed building in the beginning of 2008, and lastly we increased depreciation expense relative to the data processing equipment purchases that were made in late 2007 and early 2008 pursuant to converting our IT to an in-house solution.

As shown in the non-interest expense table above, marketing expenses increased by $263,000, or 24% year to year. Most of this increase relates to the checking account marketing campaign which had previously been in place at one of our banks. That bank is continuing the program and our other three have started the program during various times in 2008.

Data processing expense decrease $311,000 (21.4%) during 2008 compared to 2007. Beginning in December 2007 and ending in February 2008, we converted each of our banks core processing to in-house data processing solutions. This conversion was responsible for the decrease in this expense item year to year.

Bank regulatory expenses, including deposit insurance expense, increased by $762,000, or 162.8% in 2008 compared to 2007. The banking regulatory authorities began increasing their charges to all banks during the first quarter of 2008. Given the current banking environment, it is anticipated these charges will continue to increase further into the foreseeable future. As a part of an amended restoration plan recently announced by the FDIC to raise the Deposit Insurance Fund to 1.15% of industry insurable deposits, effective April 1, 2009, banks in the best risk category will pay base assessment rates to the FDIC ranging from $0.12 to $0.16 per $100.00 of insurable deposits on an annual basis. This compares to the current range for the similar category of $0.05 to $0.07 per $100.00 of deposits. In addition, on February 27, 2009, the FDIC adopted an interim rule imposing a special assessment on insured institutions of 20 basis points for deposits on June 30, 2009. The assessment is to be collected on September 30, 2009. If the 20 basis points assessment was applied against our December 31, 2008 deposits, the assessment would approximate $1,987,000. The FDIC s interim rule would also permit the FDIC to impose an emergency special assessment after June 30, 2009, of up to ten basis points if necessary to maintain public confidence in federal deposit insurance.

Loss on repossessed real estate and other assets as well as foreclosure related expenses as a group was $1,006,000 during 2008 compared to $76,000 during 2007, resulting in an increase of $930,000, or 1,234%. The increase is reflective of the current real estate environment in Central Florida and the economy in general.

Income Tax Provision

The income tax provision for the year ended December 31, 2008, was $1,215,000, an effective tax rate of 26.2%, as compared to $3,897,000 for the year ended December 31, 2007, an effective tax rate of 33.3%. This year we had more tax exempt interest income from tax exempt securities than last year, which had a decreasing effect on our effective tax rate. We also had more Bank Owned Life Insurance (BOLI) income this year than last year, which is also tax exempt and also results in a decreasing effect on our effect tax rate. In addition, we also had less stock option expense this year relating to incentive stock options which are not tax deductible expenses, resulting in a decreasing effect on our effective tax rate. Because of our low taxable income this year compared to last year, our marginal federal tax was 34% this year compared to 35% last year. Lastly, in addition to having more tax exempt income this year compared to last year in absolute terms, it resulted in a larger effect on our effective tax rate because we were working off a significantly lower taxable income number. Income taxes are described and discussed further in Note 13 of our notes to our consolidated financial statements.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006.

Net Income

Our net income for the year ended December 31, 2007 was $7,799,000 or $0.64 per share (basic) and $0.63 per share (diluted), compared to $8,459,000 or $0.77 per share (basic) and $0.75 per share (diluted) for the year ended December 31, 2006.

Our return on average assets (ROA) and return on average equity (ROE) for the year ended December 31, 2007 were 0.66% and 5.63%, as compared to the ROA and ROE of 0.86% and 7.70%, for the year ended December 31, 2006.

The significant items contributing to our 2007 net income compared to 2006 are discussed below.

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Net Interest Income/Margin

Net interest income consists of interest income generated by earning assets, less interest expense.

Net interest income increased $5,245,000 or 14% to $42,348,000 during the year ended December 31, 2007 compared to $37,103,000 for the same period in 2006. The increase was the result of a $16,060,000 increase in interest income less a $10,815,000 increase in interest expense.

Interest earning assets averaged $1,068,591,000 during the year ended December 31, 2007 as compared to $894,286,000 for the same period in 2006, an increase of $174,305,000, or 19%. The yield on average interest earning assets increased 42 basis points (bps) to 7.03% (46bps to 7.09% tax equivalent basis) during the year ended December 31, 2007, compared to 6.61% (6.63% tax equivalent basis) for the same period in 2006. The combined net effects of the $174,305,000 increase in average interest earning assets and the 42bps (46bps tax equivalent basis) increase in yield on average interest earning assets resulted in the $16,060,000 ($16,392,000 tax equivalent basis) increase in interest income between the two years.

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Interest bearing liabilities averaged $854,251,000 during the year ended December 31, 2007 as compared to $670,562,000 for the same period in 2006, an increase of $183,689,000, or 27%. The cost of average interest bearing liabilities increased 56bps to 3.84% during the year ended December 31, 2007, compared to 3.28% for the same period in 2006. The combined net effects of the $183,689,000 increase in average interest bearing liabilities and the 56bps increase in cost of average interest bearing liabilities resulted in the $10,815,000 increase in interest expense between the two years.

See the tables Average Balances Yields & Rates, and Analysis Of Changes In Interest Income And Expenses below.

Average Balances Yields & Rates

(Dollars are in thousands)

	Years Ended December 31, 2007			2006		
	Average Balance	**Interest Inc / Exp**	**Average Rate**	**Average Balance**	**Interest Inc / Exp**	**Average Rate**
ASSETS:						
Loans (1) (2) (7)	$ 791,886	$ 61,971	7.83%	$ 605,236	$ 46,549	7.69%
Securities available for sale taxable	191,674	9,388	4.90%	217,709	9,169	4.21%
Securities available for sale tax exempt (7)	35,933	1,824	5.08%	8,542	468	5.48%
Federal funds sold and other	49,098	2,531	5.15%	62,799	3,136	4.99%
TOTAL INTEREST EARNING ASSETS	$ 1,068,591	$ 75,714	7.09%	$ 894,286	$ 59,322	6.63%
Allowance for loan losses	(9,114)			(7,130)		
All other assets	129,791			94,484		
TOTAL ASSETS	$ 1,189,268			$ 981,640		
LIABILITIES & STOCKHOLDERS EQUITY						
Deposits:						
Now	$ 125,468	$ 1,375	1.10%	$ 100,268	$ 659	0.66%
Money market	114,457	3,314	2.90%	106,707	2,651	2.48%
Savings	53,195	431	0.81%	48,053	343	0.71%
Time deposits	482,162	23,570	4.89%	355,704	15,337	4.31%
Repurchase agreements	58,329	2,582	4.43%	49,830	2,156	4.33%
Other borrowed funds (3)	8,765	532	6.07%	0	0	0.00%
Corporate debenture (4)	11,875	1,021	8.60%	10,000	864	8.64%
TOTAL INTEREST BEARING LIABILITIES	$ 854,251	$ 32,825	3.84%	$ 670,562	$ 22,010	3.28%
Demand deposits	187,751			196,739		
Other liabilities	8,841			4,545		
Total stockholders equity	138,425			109,794		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,189,268			$ 981,640		
NET INTEREST SPREAD (tax equivalent basis) (5)			3.25%			3.35%
NET INTEREST INCOME (tax equivalent basis)		$ 42,889			$ 37,312	
NET INTEREST MARGIN (tax equivalent basis) (6)			4.01%			4.17%

(8) Loan balances are net of deferred origination fees and costs.
(9) Interest income on average loans includes loan fee recognition of $523 and $521 for the years ended December 31, 2007 and 2006, respectively.
(10) Includes short-term (usually overnight) Federal Home Loan Bank advances and Federal Funds Purchased.
(11) Includes net amortization of origination costs and amortization of purchase accounting adjustment of $16 and $38 during year ended December 31, 2007 and 2006, respectively.
(12) Represents the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.
(13) Represents net interest income divided by total earning assets.
(14) Interest income and rates include the effects of a tax equivalent adjustment using applicable statutory tax rates to adjust tax exempt investment income on tax exempt investment securities and loans to a fully taxable basis.

Analysis of Changes in Interest Income and Expenses

(Dollars are in thousands)

	Net Change Dec 31, 2007 versus 2006		
	Volume	Rate	Net Change
INTEREST INCOME			
Loans (tax equivalent basis)	$ 14,593	$ 829	$ 15,422
Securities available for sale taxable	(1,172)	1,391	219
Securities available for sale tax exempt	1,393	(37)	1,356
Federal funds sold and other	(703)	98	(605)
TOTAL INTEREST INCOME (tax equivalent basis)	$ 14,111	$ 2,281	$ 16,392
INTEREST EXPENSE			
Deposits			
NOW accounts	$ 196	$ 520	$ 716
Money market accounts	202	461	663
Savings	39	49	88
Time deposits	5,982	2,251	8,233
Repurchase agreements	375	51	426
Other borrowed funds	532		532
Corporate debenture	161	(4)	157
TOTAL INTEREST EXPENSE	$ 7,487	$ 3,328	$ 10,815
NET INTEREST INCOME (tax equivalent basis)	$ 6,624	$ (1,047)	$ 5,577

The table above details the components of the changes in net interest income for the last two years. For each major category of interest earning assets and interest bearing liabilities, information is provided with respect to changes due to average volume and changes due to rates, with the changes in both volumes and rates allocated to these two categories based on the proportionate absolute changes in each category.

Provision for Loan Losses

The provision for loan losses (expense) increased $2,075,000, to $2,792,000 during the year ending December 31, 2007 compared to $717,000 for the comparable period in 2006. Our policy is to maintain the allowance for loan losses at a level sufficient to absorb probable incurred losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings, and is

decreased by charge-offs, net of recoveries on prior loan charge-offs. Therefore, the provision for loan losses (Income Statement effect) is a residual of management s determination of allowance for loan losses (Balance Sheet approach). In determining the adequacy of the allowance for loan losses, we consider those levels maintained by conditions of individual borrowers, the historical loan loss experience, the general economic environment, the overall portfolio composition, and other information. As these factors change, the level of loan loss provision changes. See credit quality and allowance for loan losses regarding the allowance for loan losses for additional information.

Non-Interest Income

Non-interest income for the year ended December 31, 2007 was $8,332,000 compared to $6,136,000 for the comparable period in 2006. This increase was the result of the following components listed in the table below (Amounts listed are in thousands of dollars).

(in thousands of dollars)	2007	2006	$ increase (decrease)	% Increase (decrease)
Service charges on deposit accounts	$ 4,436	$ 3,401	$ 1,035	30.4%
Commissions from mortgage broker activities	187	341	(154)	(45.2)%
Commissions from sale of mutual funds and annuities	586	695	(109)	(15.7)%
Debit card and ATM fees	905	592	313	52.9%
Loan related fees	381	315	66	21.0%
BOLI income	353	277	76	27.4%
Other service charges and fees	269	228	41	18.0%
(Loss) gain on sale or disposition of fixed assets	(20)	47	(67)	(142.6)%
Gain on sale of securities	7	17	(10)	(58.8)%
Subtotal	$ 7,104	$ 5,913	$ 1,191	20.1%
Sale of bank charter	1,000		1,000	100.0%
Total non-interest income	$ 8,104	$ 5,913	$ 2,191	37.1%

As previously reported, the Company and two of its subsidiary banks, (CenterState Bank West Florida, N.A. (CSWFL) and CenterState Bank Mid Florida (Mid FL)), Atlantic Southern Financial Group, Inc. (a Georgia Corporation) and its wholly owned subsidiary, Atlantic Southern Bank (collectively referred to as Atlantic Southern) entered into several related agreements (the Transaction) which closed on November 30, 2007. In summary, a description of the Transaction is as follows: CSWFL effectively purchased substantially all the assets and assumed the liabilities of Mid FL, except for the Mid FL main office (a leased office) and a minimum amount of deposits and capital required by banking laws. Atlantic Southern then acquired Mid FL, through a merger. Atlantic Southern paid to the Company an amount equal to the remaining amount of capital of Mid FL (after the sale (transfer) by Mid FL of its assets and liabilities to CSWFL) plus an additional amount of $1,000,000. Atlantic Southern then transferred Mid FL s main office to CSWFL. The Company recognized a gain on the sale of $1,000,000 (included in non interest income) less transaction expenses of approximately $100,000. Transaction expenses are included in non interest expense. The Company continues to operate the same locations operated by CSWFL and Mid FL, except we are now operating these locations under one charter instead of two. All customer loan and deposit accounts/relationships have been retained by the Company. Following the Transaction, CSWFL changed its name to CenterState Bank, N.A.

Excluding the sale of the Mid FL bank shell, our remaining non-interest income increased by $1,196,000 or 19.5% in 2007 compared to 2006. We acquired Mid FL on March 31, 2006, and, as such, we recognized nine months of non interest income generated by Mid FL in 2006, compared to twelve months in 2007. In addition, we acquired VSB on April 2, 2007, and, as such, in this case, we recognized nine months of non interest income generated by VSB in 2007 compared to nothing in 2006. When removing these two subsidiaries from the above non-interest income table, the remaining difference between the two years decreases from $1,196,000, or 19.5% to approximately $439,000, or 7.4%. This remaining increase is primarily due to our general business growth.

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Commissions from mortgage broker activities is dependent on market place forces including supply and demand of single family residential property in our local markets, and the interest rate environment which primarily effects refinancing activity. As the residential real estate market in Florida deteriorated, activity decreased, resulting in decreased commissions earned in 2007 compared to 2006.

Sales of mutual funds and annuities are somewhat dependent on market place forces, but primarily dependent on the successful efforts of our investment sales representatives.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2007 increased $6,988,000, or 23.9%, to $36,192,000, compared to $29,204,000 for 2006. The table below breaks down the individual components. Amounts are in thousands of dollars.

(in thousands of dollars)	2007	2006	$ increase (decrease)	% Increase (decrease)
Employee salaries and wages	$ 14,825	$ 12,063	$ 2,762	22.9%
Employee incentive/bonus compensation	1,501	2,061	(560)	(27.2)%
Employee stock option expense	509	594	(85)	(14.3)%
Health insurance and other employee benefits	2,266	1,760	506	28.8%
Payroll taxes	1,120	932	188	20.2%
Other employee related expenses	840	647	193	29.8%
Incremental direct cost of loan origination	(1,034)	(1,096)	62	5.7%
Total salaries, wages and employee benefits	$ 20,027	$ 16,961	$ 3,066	18.1%
Occupancy expense	3,966	3,240	726	22.4%
Depreciation of premises and equipment	2,305	1,935	370	19.1%
Supplies, stationary and printing	690	607	83	13.7%
Marketing expenses	1,096	585	511	87.4%
Data processing expense	1,452	1,105	347	31.4%
Legal, auditing and other professional fees	1,101	673	428	63.6%
Bank regulatory related expenses	468	326	142	43.6%
Postage and delivery	308	276	32	11.6%
ATM related expenses	667	535	132	24.7%
CDI amortization	842	514	328	63.8%
Loss on sale of repossessed real estate (OREO)	5		5	100.0%
Loss on repossessed assets other than real estate	2	(20)	22	110.0%
Foreclosure related expenses	69	12	57	475.0%
Internet and telephone banking	283	262	21	8.0%
Operational write-offs and losses	314	58	256	441.4%
Correspondent accounts and Federal Reserve charges	259	196	63	32.1%
Conferences/Seminars/Education/Training	199	158	41	25.9%
Director fees	245	159	86	54.1%
Other expenses	1,666	1,399	267	36.8%
Total non-interest expense	$ 35,964	$ 28,981	$ 6,983	24.1%

From a macro viewpoint, the most significant components when comparing current year non-interest expense to prior year are the acquisitions of Mid FL and VSB. We acquired Mid FL on March 31, 2006, and, as such, we recognized nine months of non-interest expense generated by Mid FL during 2006, compared to twelve months in 2007. We acquired VSB on April 2, 2007, and, as such, we recognized nine months of non-interest expense generated by VSB in 2007, compared to nothing in 2006. When removing these two subsidiaries from

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the above non-interest expense table, the remaining difference between the two years decreases from $6,983,000, or 24.1% to approximately $1,788,000, or 6.7%. This remaining increase is primarily due to our general business growth. The narrative below discusses changes in selected line items year to year.

Our largest non-interest expense is employee and employee related expenses. Total salaries, wages and employee benefits for 2007 accounted for 56% of our total non-interest expense, compared to 59% for 2006. Looking at the table above, employee salaries and wages increased by $2,762,000, or 22.9% to $14,825,000 for 2007, compared to $12,063,000 for 2006. Removing the Mid FL component (approximately $1,200,000 in 2007 and $799,000 in 2006) and the VSB component ($1,641,000 in 2007 and nothing in 2006), reduces the net increase from $2,762,000, or 22.9%, to $720,000, or 6.4%. This remaining increase of $720,000 was due to a combination of increase in average FTEs (full time equivalent employees) year to year (289 FTEs versus 283 FTEs, excluding Mid FL and VSB) and salary increases commensurate with our market environment.

We use a combination of performance incentive/bonus guidelines to motivate our employees to perform. These are primarily all tied to earnings performance metrics. As our net income increases and our assets grow, our employee incentive/bonus compensation also increases. Although our total assets grew (primarily due to the VSB acquisition), our net income decreased by 7.8% year to year. Although we have more employees in 2007 versus 2006, primarily due to the 60 FTEs we acquired with the VSB transaction, which would increase our incentive/bonus expense, our actual incentive/bonus compensation decreased by $560,000, or 27.2% year to year, which is directionally consistent with the philosophy of our incentive/bonus guidelines.

Employee health insurance expense increased by $506,000, or 28.8% year to year as listed in the table above. Removing VSB employee health insurance expense (approximately $175,000 VSB was not included in our 2006 expense) results in an adjusted increase of approximately $331,000, or 18.8%. A small part of this increase is related to the increase in FTEs (exclusive of VSB FTEs), but the largest portion is reflective of the increasing costs occurring in the health insurance industry. Effective October 1, 2007, we changed insurance company and third party administrators, and effective January 1, 2008, we initiated a Health Savings Account plan (HSA), as well as other consumer driven initiatives.

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The acquisitions of Mid FL and VSB, as discussed above, significantly contributed to our increase in overall operating expenses. In addition, but to a lesser extent, our branching activity also had an increasing effect on operating expenses. Below is a list of our branching activity during 2006 and 2007.

Subsidiary Bank	Date Opened	branch identification and comments	Average Deposits Dec 2007
CSB/West (formerly Mid FL)	Sep-06	Eustis office Lake County operating out of a temporary location, construction on new permanent facility expected to start in first quarter 2008	$ 6,532,000
CSB/Polk	Oct-06	South Lakeland office Polk County operating out of a permanent facility, new construction	$ 11,619,000
CSB/Polk	Oct-06	Deer Creek office Polk County operating out of a temporary facility, construction on new permanent office completed in January 2008	$ 1,128,000
Central	Feb-07	Ashton office Osceola County operating out of a permanent facility, new construction	$ 5,933,000
VSB	May-07	Fishhawk office Hillsborough County operating out of a permanent facility, new construction	$ 2,380,000
CSB/West	Aug-07	Brooksville office Hernando County operating out of a permanent facility leased property	$ 519,000

As shown in the non-interest expense table above, marketing expenses increased by $511,000, or 87.4% year to year. VSB s marketing expense represents $104,000 of this $511,000 increase. The remaining increase in this item relates to the checking account marketing campaign currently in place at one of our banks. This campaign started during the fourth quarter of 2006.

Legal, auditing and other professional fees increased by $428,000. The increase was a result of legal fees of approximately $90,000 related to the sale of bank shell, $141,000 related to VSB and the remaining amount is due to the continuing increase in bank regulation and requirements.

The CDI amortization increase between the two years is due to the April 2, 2007 acquisition of VSB and a full year of amortization versus nine months in 2006 for the March 31, 2006 acquisition of Mid FL.

Income Tax Provision

The income tax provision for the year ended December 31, 2007, was $3,897,000, an effective tax rate of 33.3%, as compared to $4,859,000 for the year ended December 31, 2006, an effective tax rate of 36.5%. This year we had more tax exempt interest income from tax exempt securities than last year, which had a decreasing effect on our effective tax rate. We also had more Bank Owned Life Insurance (BOLI) income this year than last year, which is also tax exempt and also results in a decreasing effect on our effect tax rate. In addition, we also had less stock option expense this year relating to incentive stock options which are not tax deductible expenses, resulting in a decreasing effect on our effective tax rate. Income taxes are described and discussed further in Note 10 of our notes to our consolidated financial statements.

COMPARISON OF BALANCE SHEETS AT DECEMBER 31, 2008 AND DECEMBER 31, 2007

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Overview

Our total assets grew by $115,713,000, or 9.5%, from $1,217,430,000 at December 31, 2007 to $1,333,143,000 at December 31, 2008. The increase in our total assets was funded primarily by our correspondent bank deposits (federal funds purchased) which we did not have last year and the issuance of preferred stock and warrant pursuant to the U.S. government TARP program.

Securities

We account for our investments at fair value and classify them as available for sale. Unrealized holding gains and losses are included as a separate component of shareholders equity, net of the effect of deferred income taxes.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year end, and forecasted performance of the security.

If a security has a decline in fair value below its amortized cost that is other than temporary, then the security will be written down to its new cost basis by recording a loss in the statement of operations. We do not engage in trading activities as defined in Statement of Financial Accounting Standard Number 115.

Our available for sale portfolio totaled $252,080,000 at December 31, 2008 and $199,434,000 at December 31, 2007, or 19% and 16%, respectively, of total assets. See the tables below for a summary of security type, maturity and average yield distributions.

We use our security portfolio primarily as a source of liquidity and a base from which to pledge assets for repurchase agreements and public deposits. When our liquidity position exceeds expected loan demand, other investments are considered as a secondary earnings alternative. Typically, we remain short-term in our decision to invest in certain securities. As these investments mature, they will be used to meet cash needs or will be reinvested to maintain a desired liquidity position. We have designated all of our securities as available for sale to provide flexibility, in case an immediate need for liquidity arises. We believe the composition of the portfolio offers flexibility in managing our liquidity position and interest rate sensitivity, without adversely impacting our regulatory capital levels. The available for sale portfolio is carried at fair market value and had a net unrealized gain of approximately $2,695,000 at December 31, 2008, compared to a net unrealized gain of approximately $1,135,000 at December 31, 2007.

We invest primarily in direct obligations of the United States, obligations guaranteed as to the principal and interest by the United States, mortgage backed securities, Municipal securities and obligations of agencies of the United States. In addition, we enter into federal funds transactions with our principal correspondent banks, and act as a net seller of such funds. The Federal Reserve Bank and the Federal Home Loan Bank also require equity investments to be maintained by us, which are shown separately in our consolidated balance sheet.

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The table below summarizes the maturity distribution of securities, weighted average yield by range of maturities, and distribution of securities as of December 31, 2008 (dollars are in thousands).

	One year or less		Over one through five years		Over five through ten years		Over ten years		Total	
	$	%	$	%	$	%	$	%	$	%
AVAILABLE-FOR-SALE										
US treasury securities	$ 1,028	4.81%		%		%		%	$ 1,028	4.81%
US government agencies	7,156	4.32%	5,709	4.90%	5,169	5.22%	5,563	5.38%	23,597	4.91%
State, county, & municipal	999	3.64%	9,494	4.01%	16,336	4.01%	8,643	4.11%	35,472	4.03%
Mortgage-backed securities	7,306	3.07%	79,413	5.14%	72,249	5.16%	33,015	5.13%	191,983	5.07%
Total	$ 16,489	3.75%	$ 94,616	5.01%	$ 93,754	4.95%	$ 47,221	4.96%	$ 252,080	4.90%

The table below summarizes the distribution of securities for the periods provided (dollars are in thousands).

Distribution of Investment Securities

(Dollars are in thousands)

	December 31, 2008		December 31, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AVAILABLE-FOR-SALE						
US treasury securities	$ 1,000	$ 1,028	$ 3,001	$ 3,038	$ 40,425	$ 40,265
US government agencies	23,031	23,597	39,771	40,498	38,783	38,732
State, county, & municipal	37,136	35,472	38,325	38,182	27,837	27,981
Mortgage-backed securities	188,218	191,983	117,202	117,716	129,357	128,372
Total	$ 249,385	$ 252,080	$ 198,299	$ 199,434	$ 236,402	$ 235,350

Loans

Lending-related income is the most important component of our net interest income and is a major contributor to profitability. The loan portfolio is the largest component of earning assets, and it therefore generates the largest portion of revenues. The absolute volume of loans and the volume of loans as a percentage of earning assets is an important determinant of net interest margin as loans are expected to produce higher yields than securities and other earning assets. Average loans during the year ended December 31, 2008, were $856,260,000, or 77% of average earning assets, as compared to $791,886,000, or 74% of average earning assets, for the year ending December 31, 2007. Total loans, net of unearned fees and cost, at December 31, 2008 and 2007 were $892,001,000 and $841,405,000, respectively, an increase of $50,596,000, or 6%. This represents a loan to total asset ratio of 67% and 69% and a loan to deposit ratio of 90% and 87%, at December 31, 2008 and 2007, respectively.

Approximately 84% of our loan portfolio is collateralized by real estate, 9% are commercial non real estate loans and the remaining 7% are consumer non real estate loans. The loans collateralized by real estate are further delineated as follows.

Residential real estate loans: These are single family home loans originated within our local market areas by employee loan officers. We do not use loan brokers to originate loans for our own portfolio, nor do we acquire loans

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outside of our geographical markets. The size of this portfolio is $223,290,000 representing approximately 25% of our total loans. Within this category there are approximately $2,121,000 non performing (non accrual) loans (15 loans) as of December 31, 2008.

Commercial real estate loans: This is the largest category ($434,488,000) of our loan portfolio representing approximately 49% of total loans. This category, along with commercial non real estate lending, is our primary business. There is no significant concentration by type of property in this category but there is a geographical concentration such that the properties are all located in Central Florida. The borrowers are a mix of professionals, doctors, lawyers, and other small business people. Approximately 50% of these loans are owner occupied. Within this category there are approximately $10,626,000 non performing (non accrual) loans (25 loans) as of December 31, 2008.

Construction, development and land loans: We have no construction or development loans with national builders. We do business with local builders and developers that have typically been long time customers. This category represents approximately 10% ($92,475,000) of our total loan portfolio. Of this amount, approximately $32,719,000 is construction loans and $59,756,000 is land development, lots, and other land loans. Approximately 29% of the construction loans are single family home construction, and 71% are commercial construction. Within the total of this category ($92,475,000) there are approximately $6,220,000 non performing (non accrual) loans (18 loans) as of December 31, 2008. Of this amount, approximately $1,638,000 relates to residential construction (4 spec single family houses), $1,448,000 relates to 18 developed residential building lots, and the remaining $3,134,000 relates to land other than developed building lots.

Regulatory loan concentrations are considered to exist where there are amounts loaned to multiple borrowers engaged in similar activities, which collectively could be similarly impacted by economic or other conditions and when the total of such amounts would exceed 25% of total capital. Due to the lack of diversified industry and the relative proximity of markets served, we have concentrations in geographic as well as in types of loans funded.

The tables below provide a summary of the loan portfolio composition and maturities for the periods provided below.

Loan Portfolio Composition

(Dollars are in thousands)

Types of Loans

at December 31:	**2008**	**2007**	**2006**	**2005**	**2004**
Real estate loans:					
Residential	$ 223,290	$ 209,186	$ 180,869	$ 148,090	$ 129,796
Commercial	434,488	385,669	291,536	219,094	179,846
Construction, development, land	92,475	108,615	60,950	36,352	20,032
Total real estate loans	750,253	703,470	533,355	403,536	329,674
Commercial	80,523	78,231	68,948	63,475	64,984
Consumer and other loans	61,939	60,687	56,684	50,413	46,883
Total loans gross	892,715	842,388	658,987	517,424	441,541
Less: unearned fees/costs	(714)	(983)	(1,024)	(766)	(536)
Total loans	892,001	841,405	657,963	516,658	441,005
Less: allowance for loan losses	(13,335)	(10,828)	(7,355)	(6,491)	(5,685)
Total loans, net	$ 878,666	$ 830,577	$ 650,608	$ 510,167	$ 435,320

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The repayment of loans is a source of additional liquidity for our Company. The following table sets forth the loans maturing within specific intervals at December 31, 2008.

Loan Maturity Schedule

(Dollars are in thousands)

	December 31, 2008			
	0 12 Months	1 5 Years	Over 5 Years	Total
All loans other than construction, development, land	$ 221,215	$ 361,663	$ 217,362	$ 800,240
Real estate construction, development, land	47,995	37,885	6,595	92,475
Total	$ 269,210	$ 399,548	$ 223,957	$ 892,715
Fixed interest rate	$ 81,575	$ 311,707	$ 101,481	$ 494,763
Variable interest rate	187,635	87,841	122,476	397,952
Total	$ 269,210	$ 399,548	$ 223,957	$ 892,715

The information presented in the above table is based upon the contractual maturities of the individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon their maturity. Consequently, management believes this treatment presents fairly the maturity structure of the loan portfolio. *See* Liquidity and Market Risk Management for a discussion regarding the repricing structure of the loan portfolio.

Credit Quality and Allowance for Loan Losses

We maintain an allowance for loan losses that we believe is adequate to absorb probable losses inherent in our loan portfolio. The allowance is increased by the provision for loan losses, which is a charge to current period earnings and decreased by loan charge-offs net of recoveries of prior period loan charge-offs. Loans are charged against the allowance when management believes collection of the principal is unlikely.

The allowance consists of two components. The first component consists of amounts reserved for impaired loans, as defined by Statement of Financial Accounting Standard No. 114. Impaired loans are those loans that management has estimated will not repay as agreed upon. Each of these loans is required to have a written analysis supporting the amount of specific reserve allocated to the particular loan, if any. That is to say, a loan may be impaired (i.e. not expected to repay as agreed), but may be sufficiently collateralized such that we expect to recover all principle and interest eventually, and therefore no specific reserve is warranted.

The second component is a general reserve on all of the Company s loans other than those identified as impaired. We group these loans into five general categories with similar characteristics as listed below:

Residential real estate loans

Commercial real estate loans

Construction, development, land loans

Commercial loans (not collateralized by real estate)

Consumer and all other loans (not collateralized by real estate)

We then apply an adjusted loss factor to each group of loans to determine the total amount of this second component of our allowance for loan losses. The adjusted loss factor for each category of loans is a derivative of our historical loss factor for that category, adjusted for current internal and external environmental factors, as well as for certain loan grading factors. The environmental factors that we consider are listed below.

We consider changes in the levels of and trends in past due loans, non-accrual loans and impaired loans, and the volume and severity of adversely classified or graded loans. Also, we consider changes in the value of underlying collateral for collateral-dependent loans.

We consider levels of and trends in charge-offs and recoveries.

We consider changes in the nature and volume of the portfolio and in the terms of loans.

We consider changes in lending policies, procedures and practices, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses. We also consider changes in the quality of our loan review system.

We consider changes in the experience, ability, and depth of our lending management and other relevant staff.

We consider changes in international, national, regional, and local economic and business conditions and developments that affect the collectibility of the portfolio, including the condition of various market segments (national and local economic trends and conditions).

We consider the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our existing portfolio (industry conditions).

We consider the existence and effect of any concentrations of credit, and changes in the level of such concentrations.

In the table below we have shown the two components, as discussed above, of our allowance for loan losses at December 31, 2008 and 2007.

	December 31,		increase
(amounts are in thousands of dollars)	**2008**	**2007**	**(decrease)**
Impaired loans	$ 24,191	$ 11,803	$ 12,388
Component 1 (specific allowance)	1,799	812	987
Specific allowance as percentage of impaired loans	7.44%	6.88%	56bps
Total loans other than impaired loans	867,810	829,602	38,208
Component 2 (general allowance)	11,536	10,016	1,520
General allowance as percentage of non impaired loans	1.33%	1.21%	12bps
Total loans	892,001	841,045	50,596
Total allowance for loan losses	13,335	10,828	2,507
Allowance for loan losses as percentage of total loans	1.49%	1.29%	20bps

During 2008, we observed increasing trends in our loan delinquencies and non-accrual loans. We also observed a degradation of real estate values nationally in general, and within Florida specifically. We believe the changes in these trends differ significantly enough from historical trends such that we have increased our general allowance risk factors.

As shown in the table above, our allowance for loan losses (ALLL) as a percentage of total loans outstanding was 1.49% at December 31, 2008 and 1.29% at December 31, 2007. Our ALLL increased by $2,507,000 during this twelve month period. Of this amount, $1,520,000 relates to an increase in our Component 2, or general allowance, which is due to changes in this component s risk factors, as discussed above, and the growth in the loan portfolio.

The remaining $987,000 increase is due to an increase in our Component 1, or specific allowance. This Component is the result of specific allowance analyses prepared for each of our impaired loans.

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We are committed to the early recognition of problems and to maintaining a sufficient allowance. We believe our allowance for loan losses at December 31, 2008 was adequate.

The table below sets forth the activity in the allowance for loan losses for the periods presented.

Activity in Allowance for Loan Losses

(Dollars are in thousands)

	2008	2007	2006	2005	2004
Balance, beginning of year	$ 10,828	$ 7,355	$ 6,491	$ 5,685	$ 4,850
Loans charged-off:					
Commercial	(856)	(206)	(368)	(225)	(133)
Real estate mortgage	(2,697)	(386)	(131)		(112)
Consumer	(636)	(405)	(99)	(134)	(105)
Total loans charged-off	(4,189)	(997)	(598)	(359)	(350)
Recoveries on loans previously charged-off:					
Commercial	14	1	53	52	7
Real estate mortgage	95	16	9	31	3
Consumer	67	44	36	17	35
Total loan recoveries	176	61	98	100	45
Net loans charged-off	(4,013)	(936)	(500)	(259)	(305)
Provision for loan losses charged to expense	6,520	2,792	717	1,065	1,270
Adjustment relating to sale of branches					(130)
Acquisition of Mid FL			647		
Acquisition of VSB		1,617			
Balance, end of year	$ 13,335	$ 10,828	$ 7,355	$ 6,491	$ 5,685
Total loans at year end	$ 892,001	$ 841,405	$ 657,963	$ 516,658	$ 441,005
Average loans outstanding	$ 856,260	$ 791,886	$ 605,236	$ 482,819	$ 421,229
Allowance for loan losses to total loans at year end	1.49%	1.29%	1.12%	1.26%	1.29%
Net charge-offs to average loans outstanding	0.47%	0.12%	0.08%	0.05%	0.07%

Non performing loans consist of non accrual loans and loans past due 90 days or more and still accruing interest. Non performing assets consist of non-performing loans plus (a) OREO (i.e. real estate acquired through foreclosure or deed in lieu of foreclosure); and (b) other repossessed assets that is not real estate. We place loans on non accrual status when they are past due 90 days and management believes the borrower s financial condition, after giving consideration to economic conditions and collection efforts, is such that collection of interest is doubtful. When we place a loan on non-accrual status, interest accruals cease and uncollected interest is reversed and charged against current income. Subsequent collections reduce the principal balance of the loan until the loan is returned to accrual status or interest is recognized only to extent received in cash.

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The largest component of non performing loans is non accrual loans, which as of December 31, 2008 totaled $19,863,000 (74 loans). This amount is further delineated by loan category as follows:

Non accrual loans at 12/31/08 (in thousands of dollars)	Aggregate loan amounts	% of non accrual by category	Number of loans
Residential real estate	$ 2,121	11%	15
Commercial real estate	10,626	54%	25
Construction, development, land	6,220	31%	18
Commercial	808	4%	10
Consumer and other	88	%	6
Total	$ 19,863	100%	74

The other component of non performing loans are loans past due greater than 90 days and still accruing interest. At December 31, 2008 there were three loans in this category with a total aggregate balance of approximately $50,000.

OREO at December 31, 2008 was $4,494,000, which represented nineteen single family homes ($2,539,000), seven residential lots ($668,000), four parcels of unimproved land ($498,000), four mobile homes with land ($302,000), and five commercial real estate properties ($487,000).

At December 31, 2008 repossessed assets other than real estate consisted of nine mobile homes, two vehicles and other assets with an aggregate balance of $428,000.

Non performing loans as of December 31, 2008, increased $15,839,000 or 389% to $19,913,000, compared to $4,074,000 as of December 31, 2007. Non-performing loans, as a percentage of total loans at December 31, 2008 and December 31, 2007, were 2.23% and 0.48%, respectively.

Total non performing assets as of December 31, 2008, increased $20,008,000 or 415% to $24,835,000, compared to $4,827,000 as of December 31, 2007. Non-performing assets, as a percentage of total assets at December 31, 2008 and December 31, 2007, were 1.86% and 0.40%, respectively.

The increases in non performing loans and non performing assets are a reflection of the real estate market in Florida and the overall economy in general.

Interest income not recognized on non-accrual loans was approximately $490,000, $78,000 and $16,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Interest income recognized on impaired loans was approximately $867,000, $492,000 and $363,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The average recorded investment in impaired loans during 2008, 2007 and 2006 were $19,526,000, $6,094,000 and $5,243,000, respectively.

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The table below summarizes non performing assets for the periods provided.

Non Performing Assets

(Dollars are in thousands)

	December 31,				
	2008	2007	2006	2005	2004
Non accrual loans	$ 19,863	$ 3,797	$ 448	$ 852	$ 890
Past due loans 90 days or more and still accruing interest	50	277	162	658	7
Total non performing loans	19,913	4,074	610	1,510	897
Repossessed real estate (OREO)	4,494	583			384
Repossessed assets other than real estate	428	170	35	39	24
Total non performing assets	$ 24,835	$ 4,827	$ 645	$ 1,549	$ 1,305
Total non performing loans as a percentage of total loans	2.23%	0.48%	0.09%	0.29%	0.20%
Total non performing assets as a percentage of total assets	1.86%	0.40%	0.06%	0.18%	0.17%
Allowance for loan losses as a percentage of non performing loans	67%	266%	1,206%	430%	634%
Restructured loans	$	$	$	$	$
Recorded investment in impaired loans	$ 24,191	$ 11,803	$ 4,986	$ 6,346	$ 1,053
Allowance for loan losses related to impaired loans	$ 1,799	$ 812	$ 372	$ 1,017	$ 406

We are continually analyzing our loan portfolio in an effort to recognize and resolve our problem assets as quickly and efficiently as possible. While we believe we use the best information available at the time to make a determination with respect to the allowance for loan losses, we recognize that many factors can adversely impact various segments of our markets, and subsequent adjustments in the allowance may be necessary if future economic indications or other factors differ from the assumptions used in making the initial determination or if regulatory policies change. We continuously focus our attention on promptly identifying and providing for potential problem loans, as they arise. Although the total allowance for loan losses is available to absorb losses from all loans, management allocates the reserve among loan portfolio categories for informational and regulatory reporting purposes. Regulatory examiners may require us to recognize additions to the allowance based upon the regulators judgments about the information available to them at the time of their examination, which may differ from our judgments about the allowance for loan losses.

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While no portion of the allowance is in any way restricted to any individual loan or group of loans, and the entire allowance is available to absorb losses from any and all loans, the following table summarizes our allocation of allowance for loan losses by loan category and loans in each category as a percentage of total loans, for the periods presented. Dollar amounts are in thousands.

	December 31, 2008		2007		2006	
Real estate loans:						
Residential	$ 2,390	25%	$ 1,441	25%	$ 998	28%
Commercial	6,268	49%	5,202	46%	2,969	44%
Construction, development, land	2,058	10%	1,636	13%	1,213	9%
Total real estate loans	10,716	84%	8,279	84%	5,180	81%
Commercial loans	1,726	9%	1,413	9%	1,271	10%
Consumer and other loans	892	7%	929	7%	904	9%
Unallocated	1		207			
Total	$ 13,335	100%	$ 10,828	100%	$ 7,355	100%

	December 31, 2005		2004	
Real estate loans:				
Residential	$ 992	29%	$ 876	29%
Commercial	2,888	42%	2,562	41%
Construction, development, land	435	7%	324	4%
Total real estate loans	4,315	78%	3,762	74%
Commercial loans	1,303	12%	1,184	15%
Consumer and other loans	841	10%	665	11%
Unallocated	32		74	
Total	$ 6,491	100%	$ 5,685	100%

Bank Premises and Equipment

Bank premises and equipment was $61,343,000 at December 31, 2008 compared to $55,458,000 at December 31, 2007, an increase of $5,885,000 or 11%. The increase ($5,885,000) is the result of purchases and construction costs totaling $9,209,000 less $2,590,000 of depreciation expense and $734,000 in asset sales/disposals. Most of these costs relate to the construction of two branch offices completed in 2008, Posner Park in Polk County and Crystal River in Citrus County, in addition to two locations in Lake County where the construction process started late in 2008.

We operated from 37 banking locations in nine central Florida Counties during 2008. Eleven of these locations are leased, we own the other 26. Of the eleven leased locations, two are in temporary leased facilities while permanent office buildings are being constructed, which is in process. During 2008, we sold one of our Orange County branches and leased backed the building for one year with an option for another year. We will not renew the lease and will close the office on March 31, 2009, and transfer all the deposit and loan accounts to another one of our existing branches. We will also be closing two additional branches in April 2009. One was in a leased location. We own the real estate on the other one, which we may offer for sale later in 2009. In addition to our banking locations, we leased non banking office space in Birmingham, Alabama during November 2008 to house our newly formed correspondent banking division. After we close these three branches, our branch network will decrease from 37 to 34. We estimated that the annual cost savings will approximate $500,000. We do not expect to open any new de novo branches during 2009.

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Deposits

Total deposits increased $21,180,000, or 2%, to $993,800,000 as of December 31, 2008, compared to $972,620,000 at December 31, 2007. Average deposit balances for the year 2008 compared to 2007 increased by 1.3%. We initiated and/or continued various incentive programs as well as other marketing efforts focusing on core deposit (defined as non time deposit accounts) growth. Between December 31, 2008 and December 31, 2007, our core deposits increased by $70,372,000, or 16%. Average core deposit balances for the year 2008 compared to 2007 decreased by 1.4%. We can not control the economy, but, what we can influence is the number of accounts and the number of deposit customers. The number of core deposit accounts increased by 3,152, or 7.7% during the twelve month period ending December 31, 2008. During this same period, the number of checking accounts (both non interest bearing and interest bearing) increased by 2,420, or 7.7%. We believe the value of our franchise is our core deposit customers. As the economy eventually improves at some point in the future, real estate transactions will increase, business transactions will increase, and our customer account balances are also likely to increase.

The tables below summarize selected deposit information for the periods indicated.

Average deposit balance by type and average interest rates

(Dollars are in thousands)

	2008		2007		2006	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Non interest bearing demand deposits	$ 152,231	%	$ 187,751	%	$ 196,739	%
NOW accounts	141,756	0.67%	125,468	1.10%	100,268	0.66%
Money market accounts	112,957	2.03%	114,457	2.90%	106,707	2.48%
Savings accounts	67,215	1.09%	53,195	0.81%	48,053	0.71%
Time deposits	501,193	4.18%	482,162	4.89%	355,704	4.31%
Total	$ 975,352	2.56%	$ 963,033	2.98%	$ 807,471	2.35%

Maturity of time deposits of $100,000 or more

(Dollars are in thousands)

	December 31, 2008	2007	2006
Three months or less	$ 80,726	$ 98,752	$ 60,495
Three through six months	64,081	88,224	68,047
Six through twelve months	79,867	76,652	60,311
Over twelve months	44,814	33,673	38,780
Total	$ 269,488	$ 297,301	$ 227,633

Repurchase Agreements

We enter into borrowing arrangements with retail business customers by agreements to repurchase (repurchase agreements) under which we pledge investment securities owned and under our control as collateral against the one-day borrowing arrangement. These arrangements are not transactions with investment bankers or brokerage firms, but rather, with several of our larger commercial customers who periodically have excess cash balances and do not want to keep those balances in non interest bearing checking accounts. Because our banks are not permitted to pay interest on commercial checking accounts, we offer an arrangement via a repurchase agreement whereby balances are transferred from their checking account into a repurchase agreement arrangement which we will pay a daily adjustable interest rate of the federal fund rate minus an amount that generally ranges between 0.35% and 0.75%.

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The daily average balance of these short-term borrowing agreements for the years ended December 31, 2008, 2007 and 2006, was approximately $30,818,000, $58,329,000 and $49,830,000, respectively. Interest expense for the same periods was approximately $459,000, $2,582,000 and $2,156,000, respectively, resulting in an average rate paid of 1.49%, 4.43% and 4.33% for the years ended December 31, 2008, 2007, and 2006, respectively. The table below summarizes our repurchase agreements for the periods presented.

Schedule of short-term borrowing (1)

(Dollars are in thousands)

	Maximum outstanding at any month end	Average balance	Average interest rate during the year	Ending Balance	Weighted Average interest rate at year end
Year ended December 31,					
2008	$ 36,825	$ 30,818	1.49%	$ 26,457	0.19%
2007	74,526	58,329	4.43%	33,128	2.93%
2006	54,812	49,830	4.33%	52,792	4.39%

(1) Consist of securities sold under agreements to repurchase

Other borrowed funds

From time to time we borrow either through Federal Home Loan Bank advances or Federal Funds Purchased. Included in Federal Funds Purchased are overnight deposits from correspondent banks. We began accepting correspondent bank deposits (classified as Federal Funds Purchased) during September 2008 pursuant to the initiation of our new correspondent banking division. At December 31, 2008 we had $88,976,000 overnight Federal Funds Purchased correspondent bank deposits. From the time we began accepting these deposits through year end, the daily average balance was approximately $58,952,000. These accounts are included with other Federal Funds Purchased and Federal Home Loan Bank advances in the table below, which summarizes our other borrowings for the periods presented. For additional information refer to Notes 10 and 11 in our Notes to Consolidated Financial Statements.

Schedule of borrowing (1)

(Dollars are in thousands)

	Maximum outstanding at any month end	Average balance	Average interest rate during the year	Ending Balance	Weighted Average interest rate at year end
Year ended December 31,					
2008	$ 114,726	$ 57,152	2.77%	$ 114,726	0.84%
2007	42,518	8,765	6.07%	42,518	4.44%
2006			%		%

(1) Consist of Federal Home Loan Bank advances and Federal Funds Purchased

Corporate debentures

We formed CenterState Banks of Florida Statutory Trust I (the Trust) for the purpose of issuing trust preferred securities. On September 22, 2003, we issued a floating rate corporate debenture in the amount of $10,000,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture of the Company. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 305 basis points). The rate is subject to change quarterly. The rate in effect during the quarter ended

December 31, 2008 was 6.81%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve Board, if then required. Related debt issuance costs of $188,000 were capitalized and was amortized to interest expense over a five year period ending September 2008. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In September 2004, Valrico Bancorp Inc. (VBI) formed Valrico Capital Statutory Trust (Valrico Trust) for the purpose of issuing trust preferred securities. On September 9, 2004, VBI issued a floating rate corporate debenture in the amount of $2,500,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 270 basis points). The rate is subject to change quarterly. The rate in effect during the quarter that included December 31, 2008 was 4.88%. The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by VBI or the Valrico Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. On April 2, 2007, the Company acquired all the assets and assumed all the liabilities of VBI pursuant to the merger agreement, including VBI s corporate debenture and related trust preferred security discussed above. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

Liquidity and Market Risk Management

Market and public confidence in our financial strength and financial institutions in general will largely determine our access to appropriate levels of liquidity. This confidence is significantly dependent on our ability to maintain sound asset quality and appropriate levels of capital reserves.

Liquidity is defined as the ability to meet anticipated customer demands for funds under credit commitments and deposit withdrawals at a reasonable cost and on a timely basis. We measure our liquidity position by giving consideration to both on- and off-balance sheet sources of and demands for funds on a daily and weekly basis.

Liquidity risk involves the risk of being unable to fund assets with the appropriate duration and rate-based liabilities, as well as the risk of not being able to meet unexpected cash needs. Liquidity planning and management are necessary to ensure the ability to fund operations cost-effectively and to meet current and future potential obligations such as loan commitments, lease obligations, and unexpected deposit outflows. In this process, we focus on both assets and liabilities and on the manner in which they combine to provide adequate liquidity to meet our needs.

Interest rate sensitivity refers to the responsiveness of interest-earning assets and interest-bearing liabilities to changes in market interest rates. The rate sensitive position, or gap, is the difference in the volume of rate-sensitive assets and liabilities, at a given time interval, including both floating rate instruments and instruments which are approaching maturity. The measurement of our interest rate sensitivity, or gap, is one of the principal techniques we use in our asset/liability management effort. Each of our banks, generally attempts to maintain a range, set by policy, between rate-sensitive assets and liabilities by repricing periods. Each of our banks set their own range, approved by their board of directors. If any of our banks fall outside their pre-approved range, it requires board action and board approval, by that particular bank s board of directors. The asset mix of our balance sheet is evaluated continually in terms of several variables: yield, credit quality, and appropriate funding sources and liquidity. Management of the liability mix of the balance sheet focuses on expanding the various funding sources.

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Our gap and liquidity positions are reviewed periodically to determine whether or not changes in policies and procedures are necessary to achieve financial goals. At December 31, 2008, approximately 45% of total gross loans were adjustable rate. Approximately 76% of our investment securities ($191,983,000 fair value) are invested in mortgage backed securities issued by U.S. government-sponsored entities. Although most of these have maturities in excess of five years, these are amortizing instruments that generate cash flows each month. The duration (average life of expected cash flows) of our securities at December 31, 2008 was approximately 4.7 years. Deposit liabilities, at that date, consisted of approximately $143,510,000 (15%) in NOW accounts, $222,367,000 (22%) in money market accounts and savings, $486,694,000 (49%) in time deposits and $141,229,000 (14%) in non-interest bearing demand accounts.

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The table below presents the market risk associated with our financial instruments. In the Rate Sensitivity Analysis table, rate sensitive assets and liabilities are shown by repricing periods. The estimated fair value of each instrument category is also shown in the table. While these estimates of fair value are based on our judgment of the most appropriate factors, there is no assurance that, if we had to dispose of such instruments at December 31, 2008, the estimated fair values would necessarily have been achieved at that date, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2008, should not necessarily be considered to apply at subsequent dates.

RATE SENSITIVITY ANALYSIS

December 31, 2008

(Dollars are in thousands)

	0 - 1Yr	1 - 2Yrs	2 - 3Yrs	3 - 4Yrs	4 - 5Yrs	5 Ys +	TOTAL
INTEREST EARNING ASSETS							
Fixed rate loans (3)	$ 81,575	$ 52,659	$ 67,243	$ 73,570	$ 118,235	$ 101,481	$ 494,763
Average interest rates	6.82%	7.26%	7.88%	7.52%	6.71%	7.21%	7.17%
Variable rate loans (3)	320,101	13,785	19,284	11,247	16,454	17,081	397,952
Average interest rates	4.12%	6.37%	6.58%	6.83%	6.53%	6.65%	4.60%
Investment securities (1)	10,750	6,500	11,844	3,068	4,034	213,189	249,385
Average interest rates	3.28%	4.39%	4.87%	4.79%	4.59%	5.00%	4.90%
Federal funds sold and other (2)	63,177						63,177
Average interest rates	0.93%						0.93%
Total interest-earning assets	$ 475,603	$ 72,944	$ 98,371	$ 87,885	$ 138,723	$ 331,751	$ 1,205,277
	4.14%	6.84%	7.26%	7.34%	6.63%	5.76%	5.53%
INTEREST BEARING LIABILITIES							
NOW accounts	$ 143,510	$	$	$	$	$	$ 143,510
Average interest rates	0.58%						0.58%
Money Market Accounts	137,530						137,530
Average interest rates	2.06%						2.06%
Savings Accounts	84,837						84,837
Average interest rates	1.25%						1.25%
Time deposits	408,116	43,797	15,863	8,894	8,586	1,438	486,694
Average interest rates	3.57%	4.24%	4.63%	4.63%	4.32%	3.01%	3.69%
Securities sold under repurchase agreements	26,457						26,457
Average interest rates	0.19%						0.19%
Other borrowed funds (4)	108,726		6,000				114,726
Average interest rates	0.68%		3.78%				0.84%
Corporate debenture	12,500						12,500
Average interest rates	6.43%						6.43%
Total Interest-Bearing Liabilities	$ 921,676	$ 43,797	$ 21,863	$ 8,894	$ 8,586	$ 1,438	$ 1,006,254
	2.26%	4.24%	4.40%	4.63%	4.32%	3.01%	2.44%
Interest sensitivity gap	(446,073)	29,147	76,508	78,991	130,137	330,313	
Cumulative gap	(446,073)	(416,926)	(340,418)	(261,427)	(131,290)	199,023	
Cumulative gap (RSA/RSL) (5)	0.52	0.57	0.66	0.74	0.87	1.20	

(1) Securities are shown at amortized cost. Includes $188,219 (amortized cost basis) of mortgage backed securities of which the majority are fixed rate. Although most have maturities greater than five years, these are amortizing instruments which generate cash flows on a monthly basis.
(2) Includes federal funds sold and interest earning Federal Reserve stock and Federal Home Loan Bank stock.

(3) Loans are shown at gross value.
(4) Includes federal funds purchased and Federal Home Loan Bank advances.
(5) Rate sensitive assets (RSA) divided by rate sensitive liabilities (RSL), cumulative basis.

As stated earlier, the rate sensitivity table above summarizes our interest earning assets and interest bearing liabilities by repricing periods at a point in time. It does not include assumptions about sensitivity to changes in various interest rates by asset or liability type, correlation between macro environment market rates and specific product types, lag periods, cash flows or other assumptions and projections. However, in addition to static gap analysis, our banks also use simple simulation models to estimate the sensitivity of their net interest income to changes in interest rates. Simulation is a better technique than gap analysis because variables are changed for the various rate conditions. Each category s interest change is calculated as rates ramp up and down. In addition, the repayment speeds and repricing speeds are changed. Rate Shock is a method for stress testing the net interest margin over the next four quarters under several rate change levels. These levels span in 100bps increments up and down from the current interest rates. In order to simulate activity, maturing balances are replaced with the new balances at the new rate level, and repricing balances are adjusted to the new rate shock level. The interest is recalculated for each level along with the new average yield. Net interest margin is then calculated and a margin risk profile is developed. The results of these calculations, as of December 31, 2008 looking four quarters into the future, for our combined banks, are summarized in the table below.

change in interest rates	-400 bps	-300 bps	-200 bps	-100 bps	0 bps	+100 bps	+200 bps	+300 bps	+400 bps
resulting effect on net									
interest income (a)	-5.99%	-3.14%	-1.35%	-0.23%	current	0.35%	0.61%	0.83%	0.80%

(a) The percentage change in each of these boxes represents a percentage change from the net interest income (dollars) that the models projected for the next four quarters. To put this in perspective, as an example, our net interest income for 2008 was $40,285,000. Assuming a 100bps decrease in rates, our models are suggesting that our net interest income would decrease by 0.23%, or approximately $93,000. Likewise, assuming a 100bps increase in rates, our models are suggesting that our net interest income would increase by 0.35%, or approximately $141,000. It is important to reiterate again, that these models are built on a multitude of assumptions and predictions. This is not an exact science. The benefit that we see is measuring our overall interest rate risk profile. Although we are by no means suggesting the exactness of the numbers above, what we see as a take away is that regardless of a plus or minus 400 bps changes in interest rates, the result is not catastrophic to our future earnings. We believe that our interest rate risk is manageable and under control as of December 31, 2008.

Simulation and rate shock stress testing our net interest income (NIM) is a forward looking analysis. That is, it estimates, based on various assumptions, what the effect on our NIM might be given various changes in future interest rates. Another way of analyzing our interest rate risk profile is looking at history. The table below measures the correlation between our NIM and market interest rates over a nine year period starting at the beginning of 2000 and ending on December 31, 2008. We used Prime as a surrogate for market interest rates. This simple correlation is not perfect because we ignore changes in duration of our asset/liability portfolio over time and changes in the slope of the yield curve over time. However, it will demonstrate that over time our asset/liability portfolio generally tended to be asset sensitive. That is, in general, over this historical period, when market interest rates increased, our NIM increased, and when market interest rates decreased, our NIM decreased. In the table below, the Prime rate is measured by the vertical bars, and their scale is on the left hand side of the graph. Each bar represents a month. Our NIM is represented by the line graph and its scale is on the right hand side of the graph. The line graph is connecting a series of dots, which represents our NIM for a given quarter.

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Net Interest Margin vs. Prime

[CHART APPEARS HERE]

Although the graph above and our earlier discussion, indicates that we have historically been asset sensitive, we believe we are less asset sensitive today that in the past and could be approaching a slight liability sensitive position. The reason for this is as follows. Five years ago (2003) 55% of our loan portfolio was variable rate of which most were tied to Prime and adjusted daily or monthly. Today, December 31, 2008, only 45% of our loan portfolio is variable rate. The result is that our loan portfolio is not as sensitive to interest rate changes today as it was in the past. In the past, our investment securities were very short term. We invested primarily in short-term U.S. Treasuries with terms generally less than two years. Today, 76% of our investment securities are U.S. Government Agency mortgage backed securities and 14% are tax exempt municipal securities which tend to be fixed rate long term. Five years ago, the duration of our investment securities portfolio was approximately 1.6 years. Today (December 31, 2008), it is approximately 4.7 years. By lengthening the duration of our investment securities, we have made this portfolio less sensitive to changes in interest rates today, than it was in the past. In terms of the liability side of the balance sheet, consider two funding sources. First, the deposit funding source least sensitive to changes in interest rates is non interest bearing checking accounts. Five years ago, non interest bearing checking accounts represented approximately 22% of our total deposits. Today, at December 31, 2008, they represent only about 14% of our total deposits. Second, consider the deposit funding source most sensitive to interest rate changes, time deposits. Five years ago time deposits were about 40% of our total deposits, three years ago they were about 37% of our total deposits, and had been as low as 32%. At December 31, 2008 time deposits represented approximately 49% of our total deposits.

Managing interest rate risk is a dynamic process. Our philosophy is to not try to guess the market in either direction. We do not want to be excessively asset sensitive or excessively liability sensitive. We try to manage our asset/liability portfolio with the goal of optimizing our yield without taking on excessive interest rate risk.

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Contractual Obligations

While our liquidity monitoring and management considers both present and future demands for and sources of liquidity, the following table of contractual commitments focuses only on our future obligations. In the table, all deposits with indeterminate maturities, such as demand deposits, checking accounts, savings accounts and money market accounts, are presented as having a maturity of one year or less.

	December 31, 2008				
(in thousands of dollars)	Total	Due in one year or less	Due over one year and less than three years	Due over three years and less than five years	Due over five Years
Contractual commitments:					
Deposit maturities	$ 993,800	$ 915,186	$ 59,696	$ 17,480	$ 1,438
Securities sold under agreements to repurchase	26,457	26,457			
Corporate debenture	12,500				12,500
Other borrowed funds	114,726	108,726	6,000		
Deferred compensation	2,969	1,785	550	532	102
Operating lease obligations	1,571	427	569	449	126
Total	$ 1,152,023	$ 1,052,581	$ 66,815	$ 18,461	$ 14,166

Primary Sources and Uses of Funds

Our primary sources of funds during the year ended December 31, 2008 included a $21,146,000 net increase in deposits, a $65,537,000 net increase in borrowings, $27,760,000 of proceeds from the issuance of preferred stock and warrant to the U.S. Treasury, $8,241,000 in funds provided by operations, $335,000 of proceeds received upon exercise of stock options by our employees and/or directors, $590,000 of proceeds from the sale of OREO, and $2,204,000 of proceeds from the sale of branch real estate.

Our primary uses of funds during 2008 included a $50,381,000 increase in investments and securities net of maturities/sales, $59,126,000 increase in net loans outstanding, $9,209,000 net purchases of premises and equipment including construction costs, $1,993,000 in dividends paid to our common shareholders, and a $5,104,000 increase in federal funds sold and other cash items.

Capital Resources

Total stockholders equity at December 31, 2008 was $179,165,000, or 13.4% of total assets compared to $148,282,000, or 12.2% of total assets at December 31, 2007. The $30,883,000 increase was primarily the result of the following items: issuance of preferred stock and warrant ($27,760,000) to the U.S. Treasury, plus net income ($3,421,000), plus exercise of stock options ($335,000), plus stock based compensation expense pursuant to Statement of Accounting Standard No. 123(R) ($402,000), plus net change of unrealized gain in securities available for sale ($958,000), less dividends paid ($1,993,000).

The bank regulatory agencies have established risk-based capital requirements for banks. These guidelines are intended to provide an additional measure of a bank s capital adequacy by assigning weighted levels of risk to asset categories. Banks are also required to systematically maintain capital against such off- balance sheet activities as loans sold with recourse, loan commitments, guarantees and standby letters of credit. These guidelines are intended to strengthen the quality of capital by increasing the emphasis on common equity and restricting the amount of loan loss reserves and other forms of equity such as preferred stock that may be included in capital. Each of our Company s subsidiary Banks objective is to maintain its current status as a well-capitalized institution as that term is defined by its regulators.

Under the terms of the guidelines, banks must meet minimum capital adequacy based upon both total assets and risk-adjusted assets. All banks are required to maintain a minimum ratio of total capital to risk-weighted assets of 8% and a minimum ratio of Tier 1 capital to risk-weighted assets of 4%. Adherence to these guidelines has not had an adverse impact on our Company.

Selected consolidated capital ratios at December 31, 2008, and 2007 were as follows:

Capital Ratios

(Dollars are in thousands)

	Actual		Well Capitalized		Excess
	Amount	Ratio	Amount	Ratio	Amount
As of December 31, 2008:					
Total capital: (to risk weighted assets):	$ 170,164	17.4%	$ 97,648	10.0%	$ 72,516
Tier 1 capital: (to risk weighted assets):	$ 157,944	16.2%	$ 58,589	6.0%	$ 99,355
Tier 1 capital: (to average assets):	$ 157,944	12.6%	$ 62,751	5.0%	$ 95,193
As of December 31, 2007:					
Total capital: (to risk weighted assets):	$ 138,070	15.0%	$ 92,231	10.0%	$ 45,839
Tier 1 capital: (to risk weighted assets):	$ 127,242	13.8%	$ 55,339	6.0%	$ 71,903
Tier 1 capital: (to average assets):	$ 127,242	10.8%	$ 58,995	5.0%	$ 68,247

Effects of Inflation and Changing Prices

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates generally have a more significant impact on the performance of a financial institution than the effects of general levels of inflation. Although interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services, increases in inflation generally have resulted in increased interest rates. In addition, inflation affects financial institutions increased cost of goods and services purchased, the cost of salaries and benefits, occupancy expense, and similar items. Inflation and related increases in interest rates generally decrease the market value of investments and loans held and may adversely affect liquidity, earnings, and shareholders equity. Commercial and other loan originations and refinancings tend to slow as interest rates increase, and can reduce our earnings from such activities.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements, other than approved and unfunded loans and letters and lines of credit to our customers in the ordinary course of business.

Accounting Pronouncements

Refer to Note 1(z) in our Notes to Consolidated Financial Statements for a discussion on the effects of new accounting pronouncements.

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Item 7A. Quantitative and qualitative disclosures about market risk.

Market risk is the risk of economic loss from adverse changes in the fair value of financial instruments due to changes in (a) interest rates, (b) foreign exchange rates, or (c) other factors that relate to market volatility of the rate, index, or price underlying the financial instrument. Our market risk is composed primarily of interest rate risk. Each of our subsidiary Banks has an Asset/Liability Committee (ALCO) which is responsible for reviewing the interest rate sensitivity position, and establishing policies to monitor and limit the exposure to interest rate risk for their specific Bank. Substantially all of our interest rate risk exposure relates to the financial instrument activity of each of our subsidiary Banks. As such, the board of directors of each subsidiary Bank is responsible to review and approve the policies and guidelines established by their Bank s ALCO.

The primary objective of asset/liability management is to provide an optimum and stable net interest margin, after-tax return on assets and return on equity capital, as well as adequate liquidity and capital. Interest rate risk is measured and monitored through gap analysis, which measures the amount of repricing risk associated with the balance sheet at specific points in time. See Liquidity and Market Risk Management presented in Item 7 above for quantitative disclosures in tabular format, as well as additional qualitative disclosures.

Item 8. Financial Statements and Supplementary Data

The financial statements of our Company as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006 are set forth in this Form 10-K at page 73.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) *Evaluation of disclosure controls and procedures*. The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the Chief Executive and Chief Financial officers of the Company concluded that the Company s disclosure controls and procedures were adequate.

(b) *Changes in internal controls.* The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the Chief Executive and Chief Financial officers.

(c) *Management s report on internal control over financial reporting.* The effectiveness of the Company s internal control over financial reporting as of December 31, 2008 has been audited by Crowe Horwath LLP, an independent registered public accounting firm, as stated in their report which is included herein. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations, also referred to as the Treadway Commission. Based upon our evaluation under the framework in *Internal Control Integrated Framework,* management concluded that our internal control over financial reporting was effective as of December 31, 2008.

/s/ Ernest S. Pinner, Chief Executive Officer

/s/ James J. Antal, Chief Financial Officer

Item 9B. Other Information.

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

Our Company has a Code of Ethics that applies to its principal executive officer and principal financial officer (who is also its principal accounting officer), a copy of which is included on the Company s website, *www.centerstatebanks.com*, at Investor Relations / Governance Documents. The website also includes a copy of the Company s Audit Committee Charter, Compensation Committee Charter and Nominating Committee Charter. The information contained under the sections captioned Directors and Executive Officers under Proposal One Election of Directors, and in the sections captioned Audit Committee Report and Section 16(a) Reporting Requirements, in the registrant s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on April 28, 2009, to be filed with the SEC pursuant to Regulation 14A within 120 days of their registrant s fiscal year end (the Proxy Statement), is incorporated herein by reference.

Item 11. Executive Compensation

The information contained in the sections captioned Information About the Board of Directors and Its Committees under Proposal One Election of Directors, and the sections captioned Executive Compensation and Benefits, and Compensation Committee Report, in the Proxy Statement, is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information contained in the section captioned Directors and Management and Principal Stock Ownership under Election of Directors, and under the table captioned Equity Compensation Plan Information, in the Proxy Statement, is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained in the section entitled Certain Transactions under Executive Compensation and Benefits and the section entitled Director Independence in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained in the section captioned Independent Auditors in the Proxy Statement is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements

Reports of Independent Registered Public Accounting Firm Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

Consolidated Statement of Changes in Stockholders Equity and Comprehensive Income for the years ended December 31, 2008, 2007 and 2006

2. Financial Statement Schedules

All schedules have been omitted as the required information is either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

Company s Registration Statement No. 333-95087 (the Registration Statement))

ment)

e Company s Form 8-K dated April 25, 2006.)

mpany s Form 10-K dated March 7, 2008.)

nce to Exhibit 3.1 to the Company s Form 8-K dated November 24, 2008.)

mpany s Form 8-K dated November 24, 2008.)

e Registration Statement)

ion Statement)*

the Company s Proxy Statement dated March 25, 2004.)*

o the Company s Form 8-K dated January 11, 2006)*

resident, CEO and Chairman of the Board, James J. Antal, Senior Vice President, CFO and Corporate Secretary (Incorporated by reference to Exhibit 10.1 to the Con

t, Senior Vice President, Treasurer and Chief Operations Officer, and the Company s four subsidiary bank Presidents Thomas E. White, John C. Corbett and Timoth

Company s Proxy Statement dated March 30, 2007)*

esident Timothy A. Pierson. (Incorporated by reference to Exhibit 10.7 to the Company s Form 10-K dated March 7, 2008.)

on and Thomas E. White (Incorporated by reference to Exhibit 10.2 to the Company s Form 8-K dated November 24, 2008.)

y A. Pierson and Thomas E. White (Incorporated by reference to Exhibit 10.3 to the Company s Form 8-K dated November 24, 2008.)

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ns between the Company and the United States Department of Treasury (Incorporated by reference to Exhibit 10.4 to the Company s Form 8-K dated November 24,

etween the Company and Ernest S. Pinner, its Chairman of the Board, Chief Executive Officer and President (Incorporated by reference to Exhibit 10.1 to the Compa

e Agreement between the Company and John C. Corbett, Timothy A. Pierson and Thomas E. White (Incorporated by reference to Exhibits 10.1, 10.2 and 10.3 to the

hibit 14.1 to the Company s December 31, 2003 Form 10-K dated March 26, 2004)

rida, Inc.

Officer under Section 302 of the Sarbanes Oxley Act of 2002

ection 302 of the Sarbanes-Oxley Act of 2002

Officer under Section 906 of the Sarbanes Oxley Act of 2002

ection 906 of the Sarbanes-Oxley Act of 2002

* Represents a management contract or compensatory plan or arrangement required to be filed as an exhibit.

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CENTERSTATE BANKS OF FLORIDA, INC. and SUBSIDIARIES

Index to consolidated financial statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

CenterState Banks of Florida, Inc.

Davenport, Florida

We have audited the accompanying consolidated balance sheets of CenterState Banks of Florida, Inc. as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders equity, and cash flows for each of the three years ending December 31, 2008, 2007 and 2006. We also have audited the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management s report on internal control over financial reporting contained in Item 9A.(c) of the accompanying Form 10-K. Our responsibility is to express an opinion on these financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CenterState Banks of Florida, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years ending December 31, 2008, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Crowe Horwath LLP

Crowe Horwath LLP

Fort Lauderdale, Florida

March 6, 2009

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2008 and 2007

(in thousands of dollars, except per share data)

	2008	2007
Assets		
Cash and due from banks	$ 19,702	$ 30,293
Federal funds sold	57,850	42,155
Cash and cash equivalents	77,552	72,448
Investment securities available for sale, at fair value	252,080	199,434
Loans	892,001	841,405
Less allowance for loan losses	(13,335)	(10,828)
Net loans	878,666	830,577
Accrued interest receivable	5,406	5,843
Federal Home Loan Bank and Federal Reserve Bank stock	5,327	5,408
Bank premises and equipment, net	61,343	55,458
Deferred income taxes, net	1,682	1,120
Goodwill	28,118	28,118
Core deposit intangible	3,948	4,725
Bank owned life insurance	10,115	9,728
Other real estate owned (OREO)	4,494	583
Prepaid expenses and other assets	4,412	3,988
Total assets	$ 1,333,143	$ 1,217,430
Liabilities and Stockholders Equity		
Deposits:		
Interest bearing	$ 852,571	$ 813,531
Noninterest bearing	141,229	159,089
Total deposits	993,800	972,620
Securities sold under agreement to repurchase	26,457	33,128
Federal funds purchased	88,976	
Federal Home Loan Bank advances and other borrowed funds	25,750	42,518
Corporate debentures	12,500	12,500
Accrued interest payable	1,410	1,940
Accounts payable and accrued expenses	5,085	6,442
Total liabilities	1,153,978	1,069,148
Stockholders equity:		
Preferred stock, $.01 par value, $1,000 liquidation preference; 5,000,000 shares authorized, 27,875 and no shares issued and outstanding at December 31, 2008 and 2007, respectively	26,787	
Common stock, $.01 par value: 40,000,000 shares authorized; 12,474,315 and 12,436,407 shares issued and outstanding at December 31, 2008 and 2007, respectively	125	124
Additional paid-in capital	112,329	110,604

Retained earnings	38,269	36,857
Accumulated other comprehensive income	1,655	697
Total stockholders equity	179,165	148,282
Total liabilities and stockholders equity	$ 1,333,143	$ 1,217,430

See accompanying notes to the consolidated financial statements

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2008, 2007 and 2006

(in thousands of dollars, except per share data)

	2008	2007	2006
Interest income:			
Loans	$ 57,403	$ 61,873	$ 46,469
Investment securities available for sale:			
Taxable	7,822	9,388	9,169
Tax-exempt	1,512	1,381	339
Federal funds sold and other	1,345	2,531	3,136
	68,082	75,173	59,113
Interest expense:			
Deposits	24,936	28,690	18,990
Securities sold under agreement to repurchase	459	2,582	2,156
Corporate debentures	818	1,021	864
Federal funds purchased	200		
Federal Home Loan Bank advances and other borrowings	1,384	532	
	27,797	32,825	22,010
Net interest income	40,285	42,348	37,103
Provision for loan losses	6,520	2,792	717
Net interest income after provision for loan losses	33,765	39,556	36,386
Other income:			
Service charges on deposit accounts	4,490	4,436	3,401
Commissions on bond sales	1,412		
Commissions from mortgage broker activities	87	187	341
Commissions from sale of mutual funds and annuities	503	586	695
Debit card and ATM fees	1,075	905	592
Loan related fees	402	381	315
Gain on sale of bank branch office real estate	1,483		
Sale of bank shell		1,000	
BOLI income	387	353	277
Net gain on sale of securities	661	7	17
Other service charges and fees	307	249	275
	10,807	8,104	5,913
Other expenses:			
Salaries, wages and employee benefits	21,484	20,027	16,961
Occupancy expense	4,143	3,966	3,240
Depreciation of premises and equipment	2,590	2,305	1,935
Marketing expenses	1,359	1,096	585
Data processing expense	1,141	1,452	1,105
Legal, audit and other professional fees	1,245	1,101	673
Supplies, stationary and printing	743	690	607
Core deposit intangible (CDI) amortization	777	842	514
Bank regulatory expenses	1,230	468	326
ATM and debit card related expenses	724	667	535

Postage and delivery		367		308		276
Loss on sale of repossessed real estate (OREO)		51		5		
Valuation write down of repossessed real estate (OREO)		434				
Loss (gain) on repossessed assets other than real estate		125		2		(20)
Foreclosure related expenses		396		69		12
Other expenses		3,127		2,966		2,232
Total other expenses		39,936		35,964		28,981
Income before provision for income taxes		4,636		11,696		13,318
Provision for income taxes		1,215		3,897		4,859
Net income	$	3,421	$	7,799	$	8,459
Earnings per share:						
Basic	$	0.26	$	0.64	$	0.77
Diluted	$	0.26	$	0.63	$	0.75
Common shares used in the calculation of earnings per share:						
Basic		12,452,375		12,108,590		10,964,890
Diluted		12,585,036		12,294,537		11,232,059

See accompanying notes to the consolidated financial statements.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

Years ended December 31, 2008, 2007, and 2006

(in thousands of dollars)

	Number of Preferred Shares	Preferred Stock	Number of Common Shares	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders equity
Balances at January 1, 2006			5,250,386	$ 52	$ 75,001	$ 23,954	$ (1,766)	$ 97,241
Comprehensive income:								
Net income						8,459		8,459
Unrealized holding gain on available for sale securities, net of deferred income taxes of $659							1,120	1,120
Total comprehensive income								9,579
Dividends paid ($0.14 per share)						(1,535)		(1,535)
Stock options exercised, including tax benefit			46,579		488			488
Stock based compensation expense					594			594
Shares issued pursuant to the acquisition of Mid FL			277,305	3	10,962			10,965
Stock split			5,554,750	56	(56)			
Balances at December 31, 2006			11,129,020	$ 111	$ 86,989	$ 30,878	$ (646)	$ 117,332
Comprehensive income:								
Net income						7,799		7,799
Unrealized holding gain on available for sale securities, net of deferred income taxes of $844							1,343	1,343
Total comprehensive income								9,142
Dividends paid ($0.15 per share)						(1,820)		(1,820)
Stock options exercised, including tax benefit			67,470	1	675			676
Stock based compensation expense					509			509
Shares issued pursuant to the acquisition of VSB			1,239,917	12	22,431			22,443
Balances at December 31, 2007			12,436,407	$ 124	$ 110,604	$ 36,857	$ 697	$ 148,282
Comprehensive income:								
Net income						3,421		3,421
Unrealized holding gain on available for sale securities, net of deferred income taxes of $601							958	958
Total comprehensive income								4,379
Dividends paid ($0.16 per share)						(1,993)		(1,993)
Stock options exercised, including tax benefit			37,908	1	334			335
Stock based compensation expense					402			402
Preferred stock issued pursuant to TARP	27,875	$ 26,771						26,771
Preferred stock amortization of discount		16				(16)		
Warrant issued pursuant to TARP					989			989
Balances at December 31, 2008	27,875	$ 26,787	12,474,315	$ 125	$ 112,329	$ 38,269	$ 1,655	$ 179,165

	2008	2007	2006
Disclosure of reclassification amounts:			
Unrealized holding gain arising during the year, net of income taxes	$ 1,370	$ 1,347	$ 1,131

Add: reclassified adjustments for (gain) included in net income, net of income taxes, at December 31, 2008, 2007 and 2006 of $249, $3 and $6, respectively	(412)	(4)	(11)
Net unrealized gain on securities, net of income taxes	$ 958	$ 1,343	$ 1,120

See accompanying notes to the consolidated financial statements.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2008, 2007 and 2006

(in thousands of dollars)

	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 3,421	$ 7,799	$ 8,459
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	6,520	2,792	717
Depreciation of premises and equipment	2,590	2,305	1,935
Amortization of purchase accounting adjustments	581	513	444
Net amortization/accretion of investment securities	36	119	162
Net deferred loan origination fees	(269)	(250)	78
Loss on sale of other real estate owned	51	5	
Valuation write down on other real estate owned	434		
Loss on sale of repossessed assets other than real estate	85		
Valuation write down on repossessed assets other than real estate	40		
(Gain) loss on sale or disposal of fixed assets	(1,470)	20	(10)
Deferred income taxes	(1,163)	(1,366)	155
Net realized gain on sale or call of available for sale securities	(661)	(7)	(17)
Stock based compensation expense	402	509	594
Bank owned life insurance income	(387)	(353)	(277)
Gain on sale of bank shell		(1,000)	
Cash provided by (used in) changes in:			
Net change in accrued interest receivable, prepaid expenses, and other assets	(111)	(2,335)	(1,517)
Net change in interest payable, accounts payable and accrued expenses	(1,858)	(1,087)	(98)
Net cash provided by operating activities	8,241	7,664	10,625
Cash flows from investing activities:			
Purchases of investment securities available for sale	(21,083)	(16,612)	(56,233)
Purchases of mortgage backed securities available for sale	(117,401)	(16,819)	(56,583)
Purchases of FHLB and FRB stock	(2,320)	(1,981)	(385)
Proceeds from callable investment securities available for sale	11,613	1,250	
Proceeds from maturities of investment securities available for sale	5,614	38,000	78,250
Proceeds from pay-downs of mortgage backed securities available for sale	32,761	32,486	28,385
Proceeds from sales of investment securities available for sale	26,012	10,966	117
Proceeds from sales of mortgage backed securities available for sale	12,022		
Proceeds from sales of FHLB and FRB stock	2,401	135	
Purchase of bank owned life insurance			(1,000)
Increase in loans, net of repayments	(59,126)	(62,840)	(88,548)
Purchases of premises and equipment, net	(9,209)	(8,615)	(9,550)
Proceeds from the sale of premises and equipment, net	2,204		
Proceeds from sale of bank shell		1,000	
Proceeds from sale of other real estate owned	590	210	
Net cash from acquisition of Valrico State bank		7,650	
Net cash from acquisition of Mid FL bank			13,646
Net cash used in investing activities	(115,922)	(15,170)	(91,901)
Cash flows from financing activities:			
Net increase (decrease) in deposits	21,146	(50,777)	97,437
Net (decrease) increase in securities sold under agreement to repurchase	(6,671)	(19,664)	10,981
Net increase in federal funds purchased	88,976		
Net (decrease) increase in FHLB advances and other borrowed funds	(16,768)	31,518	(1,000)

Net proceeds from preferred stock and warrant issuance	27,760		
Stock options exercised, including tax benefit	335	676	488
Dividends paid on common stock	(1,993)	(1,820)	(1,535)
Net cash provided by (used in) financing activities	112,785	(40,067)	106,371
Net increase (decrease) in cash and cash equivalents	5,104	(47,573)	25,095
Cash and cash equivalents, at beginning of year	72,448	120,021	94,926
Cash and cash equivalents, at end of year	$ 77,552	$ 72,448	$ 120,021
Transfer of loans to other real estate owned	$ 4,986	$ 798	$
Shares issued pursuant to acquisitions	$	$ 22,443	$ 10,965
Cash paid during the year for:			
Interest	$ 28,328	$ 32,568	$ 21,561
Income taxes	$ 2,796	$ 4,292	$ 6,483

See accompanying notes to the consolidated financial statements.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(amounts are in thousands of dollars, except per share data)

December 31, 2008, 2007 and 2006

(1) Nature of Operations and Summary of Significant Accounting Policies

The consolidated financial statements of CenterState Banks of Florida, Inc. (the Company) include the accounts of CenterState Banks of Florida, Inc. (the Parent Company), its four wholly owned subsidiary banks (CenterState Bank of Florida, CenterState Bank, CenterState Bank Central Florida and Valrico State Bank) and their wholly owned subsidiary, CenterState Shared Services (CSS), formerly C.S. Processing, Inc.

The Company, through its subsidiary banks, operates through 37 full service banking locations in nine Counties throughout Central Florida, providing traditional deposit and lending products and services to its commercial and retail customers. CSS is a 100% owned subsidiary at December 31, 2008, which provides information technology, item processing, credit analysis, single family mortgage loan brokerage and human resource services for the Company s four subsidiary banks. The Company s primary deposit products are checking, savings and term certificate accounts, and its primary lending products include commercial real estate loans, residential real estate loans, commercial loans and consumer loans. Substantially all loans are secured by commercial real estate, residential real estate, business assets or consumer assets. There are no significant concentrations of loans to any one industry or customer. However, the customers ability to repay their loans is dependent on the real estate and general economic conditions in the area. The Company initiated a correspondent banking and bond sales division during the fourth quarter of 2008. The primary revenue generator is commissions earned on fixed income securities sold to other banks. The secondary business activity is correspondent bank deposits, or federal funds purchased.

The following is a description of the basis of presentation and the significant accounting and reporting policies, which the Company follows in preparing and presenting its consolidated financial statements.

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Parent Company, its four wholly owned banking subsidiaries (the Banks) and their wholly owned subsidiary, CSS. The operations of the Company currently consist primarily of the operations of each of the four banks. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include allowance for loan losses, fair values of financial instruments, useful life of intangibles and valuation of goodwill, and fair value estimates of stock-based compensation. Actual results could differ from these estimates.

(c) Cash flow reporting

For purposes of the statement of cash flows, the Company considers cash and due from banks, federal funds sold, money market and non interest bearing deposits in other banks with a purchased maturity of three months or less to be cash equivalents. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2008, 2007 and 2006

(d) Investment securities available for sale

The Company accounts for its investments at fair value and classifies them as available for sale. Unrealized holding gains and losses are included as a separate component of stockholders equity, net of the effect of deferred income taxes.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A decline in the fair value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the security.

(e) Loans

Loans receivable that management has the intent and the Company has the ability to hold for the foreseeable future or payoff are reported at their outstanding unpaid principal balance, net of deferred loan fees and costs, and an allowance for loan losses.

Loan origination fees and the incremental direct cost of loan origination, are capitalized and recognized in income over the contractual life of the loans. If the loan is prepaid, the remaining unamortized fees and costs are charged or credited to interest income. Amortization ceases for non-accrual loans.

Loans are placed on nonaccrual status when the loan becomes 90 days past due as to interest or principal, or when the full timely collection of interest or principal becomes uncertain, unless the loan is both well secured and in the process of collection. All interest accrued but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Company, considering current information and events regarding the borrower s ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is considered to be impaired, the amount of the impairment is measured based on the present value of expected future cash flows discounted at the loan s effective interest rate, the secondary market value of the loan, or the fair value of the collateral for collateral dependent loans. Impaired loans are written down to the extent that principal is judged to be uncollectible and, in the case of impaired collateral dependent loans where repayment is expected to be provided solely by the underlying collateral and there is no other available and reliable sources of repayment, are written down to the lower of cost or collateral value. Impairment losses are included in the allowance for loan losses. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

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(f) Allowance for loan losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management s judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are not individually classified as impaired and is based on historical loss experience adjusted for current factors.

(g) Other real estate owned (OREO)

Other real estate owned is real estate acquired through or instead of loan foreclosure and is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

(h) Premises and equipment

Company premises and equipment are stated at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets (3 to 40 years). Leasehold improvements are depreciated over the shorter of their useful lives or the term of the lease. Major renewals and betterments of property are capitalized; maintenance, repairs, and minor renewals and betterments are expensed in the period incurred. Upon retirement or other disposition of the asset, the asset cost and related accumulated depreciation are removed from the accounts, and gains or losses are included in income.

(i) Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock

The Company s banks are members of the FHLB and FRB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB and FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

(j) Bank owned life insurance (BOLI)

The Company, through its subsidiary banks, has purchased life insurance policies on certain key executives. In accordance with EITF 06-05, bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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(amounts are in thousands of dollars, except per share data)

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(k) Goodwill and intangible assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

The core deposit intangibles are intangible assets arising from whole bank acquisitions. They are initially measured at fair value and then amortized over a ten-year period on an accelerated basis using the projected decay rates of the underlying core deposits.

(l) Long-term assets

Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

(m) Loan commitments and related financial instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

(n) Stock-based compensation

Compensation cost is recognized for stock option awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

(o) Retirement plans

Employee 401(k) plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

(p) Marketing and advertising costs

Marketing and advertising costs are expensed as incurred.

(q) Income taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

The Company adopted FASB Interpretation 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded. The adoption had no affect on the Company s financial statements.

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The Company recognizes interest and/or penalties related to income tax matters in income tax expense

(r) Earnings per common share

Basic earnings per common share is net income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options. Historical earnings and dividends per share have been adjusted to reflect the two for one stock split which occurred in May 2006.

(s) Comprehensive income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of shareholders equity.

(t) Loss contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

(u) Restrictions on cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

(v) Dividend restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the subsidiary banks to the holding company or by the holding company to stockholders.

(w) Fair value of financial instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

(x) Segment reporting

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

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(y) Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation.

(z) Effect of new pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (FAS 157). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard was effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157.* This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. In October 2008, the FASB issued Staff Position (FSP) 157-3, *Determining the Fair Value of a Financial Asset when the Market for That Asset Is Not Active.* This FSP clarifies the application of FAS 157 in a market that is not active. The impact of adoption of FAS 157 and the related FSPs was not material.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

In September 2006, the FASB Emerging Issues Task Force finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue was effective for fiscal years beginning after December 15, 2007. The impact of adoption was not material.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 was effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact of adoption was not material.

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In December 2007, the SEC issued SAB No. 110, which expresses the views of the SEC regarding the use of a simplified method, as discussed in SAB No. 107, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123(R), Share-Based Payment. The SEC concluded that a company could, under certain circumstances, continue to use the simplified method for share option grants after December 31, 2007. The Company uses the simplified method for share options.

Effect of newly issued but not yet effective accounting standards:

In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations (FAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. While there was no immediate impact at adoption, the ongoing impact will be dependent upon whether the Company does any future acquisitions.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. FAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of FAS No. 160 did not have a significant impact on results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133 . FAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. FAS No. 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard did not have a material effect on the Company s results of operations or financial position.

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(2) Investment Securities Available for Sale

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	December 31, 2008		
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. treasury securities	$ 1,028	$ 28	$
Obligations of U.S. government agencies	23,597	566	
Mortgage backed securities	191,983	3,798	33
Municipal securities	35,472	135	1,799
Total	$ 252,080	$ 4,527	$ 1,832

	December 31, 2007		
	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
U.S. treasury securities	$ 3,038	$ 37	$
Obligations of U.S. government agencies	40,498	728	1
Mortgage backed securities	117,716	832	318
Municipal securities	38,182	131	274
Total	$ 199,434	$ 1,728	$ 593

Sales of available for sale securities were as follows:

	2008	2007	2006
Proceeds	$ 38,034	$ 10,966	$ 117
Gross gains	$ 667	$ 7	$ 17
Gross losses	$ 6	$	$

The tax provision related to these net realized gains was $249, $3 and $6, respectively.

The fair value of available for sale securities at year end 2008 by contractual maturity were as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Fair Value
Investment securities available for sale	
Due in one year or less	$ 9,183
Due after one year through five years	15,203
Due after five years through ten years	21,505
Due after ten years through thirty years	14,206
Mortgage backed securities	191,983
	$ 252,080

Securities pledged at December 31, 2008 and 2007 had a carrying amount (estimated fair value) of $113,832 and $106,552, respectively. These securities were pledged primarily to secure public deposits and repurchase agreements.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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At year-end 2008 and 2007, there were no holdings of securities of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of stockholders equity.

The following tables show the Company s investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008 and 2007.

	December 31, 2008					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury securities	$	$	$	$	$	$
Obligations of U.S. government agencies						
Mortgage backed securities	8,969	31	1,347	2	10,316	33
Municipal securities	26,844	1,689	1,390	110	28,234	1,799
Total temporarily impaired securities	$ 35,813	$ 1,720	$ 2,737	$ 112	$ 38,550	$ 1,832

	December 31, 2007					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. treasury securities	$	$	$	$	$	$
Obligations of U.S. government agencies			999	1	999	1
Mortgage backed securities	3,892	49	35,029	269	38,921	318
Municipal securities	17,148	157	5,800	117	22,948	274
Total temporarily impaired securities	$ 21,040	$ 206	$ 41,828	$ 387	$ 62,868	$ 593

Mortgage-backed securities: The unrealized losses on investments in mortgage-backed securities were caused by changes in interest rates. Fannie Mae guarantees the contractual cash flows of these securities. It is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Municipal securities: Unrealized losses on municipal securities have not been recognized into income because the issuers bonds are of high quality, management has the intent and ability to hold for the foreseeable future, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

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December 31, 2008, 2007 and 2006

(3) Loans

Major categories of loans included in the loan portfolio as of December 31, 2008 and 2007 are:

	December 31, 2008	December 31, 2007
Real estate:		
Residential	$ 223,290	$ 209,186
Commercial	434,488	385,669
Construction, development, land	92,475	108,615
Total real estate	750,253	703,470
Commercial	80,523	78,231
Consumer and other loans	61,939	60,687
	892,715	842,388
Less: Deferred loan origination fees, net	714	983
Total loans	892,001	841,405
Less: Allowance for loan losses	13,335	10,828
Total net loans	$ 878,666	$ 830,577

The following is a summary of information regarding impaired loans at December 31, 2008 and 2007:

Individually impaired loans were as follows:	December 31, 2008	December 31, 2007
Impaired loans with no allocated allowance for loan losses	$ 17,575	$ 9,688
Impaired loans with allocated allowance for loan losses	6,616	2,115
Total	$ 24,191	$ 11,803
Amount of the allowance for loan losses allocated to impaired loans	$ 1,799	$ 812

	2008	2007	2006
Average of impaired loans during the year	$ 19,526	$ 6,094	$ 5,243

Interest income recognized on impaired loans during the impairment period during 2008 and 2007 was $867 and $492, respectively. Cash basis interest income recognized during this same periods was $795 and $432, respectively.

Non performing loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Non performing loans were as follows:	**December 31, 2008**	**December 31, 2007**
Non accrual loans	$ 19,863	$ 3,797
Loans past due over 90 days and still accruing interest	50	277
Total non performing loans	$ 19,913	$ 4,074

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

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Changes in the allowance for loan losses for the years ended December 31, 2008, 2007 and 2006, are as follows:

	December 31,		
	2008	2007	2006
Balance, beginning of year	$ 10,828	$ 7,355	$ 6,491
Provision charged to operations	6,520	2,792	717
Loans charged-off	(4,189)	(997)	(598)
Recoveries of previous charge-offs	176	61	98
Acquisition of Mid FL Bank			647
Acquisition of Valrico State Bank		1,617	
Balance, end of year	$ 13,335	$ 10,828	$ 7,355

(4) Other real estate owned

Other real estate owned means real estate acquired through or instead of loan foreclosure. Activity in the valuation allowance was as follows:

	2008	2007	2006
Beginning of year	$	$	$
Additions charged to expenses	434		
Sales and/or dispositions	(95)		
End of year	$ 339	$	$

Expenses related to foreclosed real estate include:

	2008	2007	2006
Net loss on sales	$ 51	$ 5	$
Provision for unrealized losses	$ 434	$	$
Operating expenses, net of rental income	$ 396	$ 69	$ 12
Total	$ 881	$ 74	$ 12

(5) Fair value

FASB Statement No. 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used to in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other benchmark quoted securities (Level 2 inputs).

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair value measurements at December 31, 2008 using		
	Dec 31, 2008	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$ 252,080	$	$ 252,080	$

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair value measurements at December 31, 2008 using		
	Dec 31, 2008	Quoted prices in active markets for identical assets (Level 1)	Significant other observable Inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Impaired loans	$ 4,817	$	$ 4,817	$

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $6,616, with a valuation allowance of $1,799, resulting in an additional provision for loan losses of $987 for the year ending December 31, 2008. The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach.

Fair Value of Financial Instruments

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Fair values for securities and impaired loans are determined as described above within this note. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of Federal Home Loan Bank stock or Federal Reserve Bank stock due to restrictions placed on its transferability. The fair value of off-balance-sheet items is not considered material.

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The following tables present the carrying amounts and estimated fair values of the Company s financial instruments:

	Dec 31, 2008		Dec 31, 2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 77,552	$ 77,552	$ 72,448	$ 72,448
Investment securities available for sale	252,080	252,080	199,434	199,434
FHLB and FRB stock	5,327	n/a	5,408	n/a
Loans, less allowance for loan losses of				
$13,335 and $10,828, at December 31, 2008 and 2007, respectively	878,666	906,355	830,577	833,213
Accrued interest receivable	5,406	5,406	5,843	5,843
Financial liabilities:				
Deposits- without stated maturities	$ 507,106	$ 507,106	$ 436,734	$ 436,734
Deposits- with stated maturities	486,694	491,830	535,886	536,600
Securities sold under agreement to repurchase	26,457	26,457	33,128	33,128
Federal funds purchased	88,976	88,976		
Federal Home Loan Bank advances and other borrowed funds	25,750	26,047	42,518	42,518
Corporate debentures	12,500	7,608	12,500	12,500
Accrued interest payable	1,410	1,410	1,940	1,940

(6) Bank Premises and Equipment

A summary of bank premises and equipment as of December 31, 2008 and 2007, is as follows:

	December 31,	
	2008	**2007**
Land	$ 25,180	$ 22,516
Land improvements	671	606
Buildings	34,463	26,087
Leasehold improvements	1,320	1,291
Furniture, fixtures and equipment	14,080	11,973
Construction in progress	317	6,158
	76,031	68,631
Less: Accumulated depreciation	14,688	13,173
	$ 61,343	$ 55,458

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The Company leases land and certain facilities under noncancellable operating leases. The following is a schedule of future minimum annual rentals under the noncancellable operating leases:

Year ending December 31,	
2009	$ 427
2010	283
2011	286
2012	233
2013	216
Thereafter	126
	$ 1,571

Rent expense for the years ended December 31, 2008, 2007 and 2006, was $684, $626 and $555, respectively, and is included in occupancy expense in the accompanying Consolidated Statements of Operations.

(7) Goodwill and Intangible Assets

The change in balance for goodwill during the years 2008, 2007 and 2006 is as follows:

	2008	**2007**	**2006**
Beginning of year	$ 28,118	$ 9,863	$ 4,675
Acquired goodwill		18,255	5,188
Impairment			
End of year	$ 28,118	$ 28,118	$ 9,863

Acquired intangible assets were as followed for years ended December 31, 2008 and 2007:

	December 31, 2008		**December 31, 2007**	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Amortized intangible assets:				
Core deposit intangibles	$ 6,341	$ 2,393	$ 6,341	$ 1,616

Estimated amortization expense for each of the next five years:

2009	$ 645
2010	548
2011	526
2012	526
2013	458

Aggregate amortization expense was $777, $842 and $514 for 2008, 2007 and 2006, respectively.

CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

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(8) Deposits

A detail of deposits at December 31, 2008 and 2007 is as follows:

	December 31,			
	2008	Weighted Average Interest Rate	2007	Weighted Average Interest Rate
Non-interest bearing deposits	$ 141,229	%	$ 159,089	%
Interest bearing deposits:				
Interest bearing demand deposits	143,510	0.6%	135,442	0.9%
Savings deposits	84,837	1.2%	49,127	0.7%
Money market accounts	137,530	2.1%	93,076	2.6%
Time deposits less than $100,000	217,206	3.5%	238,585	4.8%
Time deposits of $100,000 or greater	269,488	3.8%	297,301	5.0%
	$ 993,800	2.3%	$ 972,620	3.1%

The following table presents the amount of certificate accounts at December 31, 2008, maturing during the periods reflected below:

Year	Amount
2009	$ 408,080
2010	43,833
2011	15,863
2012	8,894
2013	8,586
Thereafter	1,438
Total	$ 486,694

(9) Securities Sold Under Agreements to Repurchase

The Company s subsidiary banks enter into borrowing arrangements with their retail business customers by agreements to repurchase (repurchase agreements) under which the banks pledge investment securities owned and under its control as collateral against the one-day borrowing arrangement.

At December 31, 2008 and 2007, the Company had $26,457 and $33,128 in repurchase agreements. Repurchase agreements are secured by U.S. treasury securities and government agency securities with fair values of $61,050 and $99,888 at December 31, 2008 and 2007, respectively.

Information concerning repurchase agreements is summarized as follows:

	2008	2007	2006
Average daily balance during the year	$ 30,818	$ 58,329	$ 49,830
Average interest rate during the year	1.49%	4.43%	4.33%
Maximum month-end balance during the year	$ 36,825	$ 74,526	$ 54,812
Weighted average interest rate at year end	0.19%	2.93%	4.39%

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(10) Federal Funds Purchased

Federal funds purchased, as listed below, are overnight deposits from correspondent banks. The Company commenced accepting correspondent bank deposits during September 2008. Federal funds purchased acquired from other than our correspondent bank deposits are included with Federal Home Loan Bank advances and other borrowed funds described in note 11 below. Information concerning correspondent bank deposits is summarized as follows:

	2008	2007	2006
Average daily balance between September and year end	$ 58,952		
Average interest rate during the period	1.23%		
Maximum month-end balance during the year	$ 88,976		
Weighted average interest rate at year end	0.45%		

(11) Federal Home Loan Bank advances and other borrowed funds

From time to time, the Company borrows either through Federal Home Loan Bank advances or Federal Funds Purchased, other than correspondent bank deposits listed in note 10 above. At year end, advances from the Federal Home Loan Bank were as follows:

	2008	2007	2006
Daily overnight advances, the interest rate was 0.46% and 4.4% at December 31, 2008 and 2007, respectively	$ 6,750	$ 36,000	$
Matures January 2, 2008, interest rate is fixed at 4.6%		1,518	
Matures March 28, 2008, interest rate is fixed at 5.51%		2,000	
Matures December 31, 2008, interest rate is fixed at 4.11%		3,000	
Matures February 2, 2009, interest rate is fixed at 2.72%	10,000		
Matures June 29, 2009, interest rate is fixed at 1.18%	3,000		
Matures January 7, 2011, interest rate is fixed at 3.63%	3,000		
Matures June 27, 2011, interest rate is fixed at 3.93%	3,000		
Total	$ 25,750	$ 42,518	$

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $211,849 of first mortgage loans under a blanket lien arrangement at year end. Based on this collateral and the Company s holdings of FHLB stock, the Company is eligible to borrow up to $196,530 at year end 2008.

(12) Corporate Debenture

In September 2003, the Company formed CenterState Banks of Florida Statutory Trust I (the Trust) for the purpose of issuing trust preferred securities. On September 22, 2003, the Company issued a floating rate corporate debenture in the amount of $10,000. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month

LIBOR plus 305 basis points). The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Trust, at their respective option after five years, and sooner in specific

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events, subject to prior approval by the Federal Reserve, if then required. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

In September 2004, Valrico Bancorp Inc. (VBI) formed Valrico Capital Statutory Trust (Valrico Trust) for the purpose of issuing trust preferred securities. On September 9, 2004, VBI issued a floating rate corporate debenture in the amount of $2,500. The Trust used the proceeds from the issuance of a trust preferred security to acquire the corporate debenture. On April 2, 2007, the Company acquired all the assets and assumed all the liabilities of VBI pursuant to the merger agreement, including VBI s corporate debenture and related trust preferred security discussed above. The trust preferred security essentially mirrors the corporate debenture, carrying a cumulative preferred dividend at a variable rate equal to the interest rate on the corporate debenture (three month LIBOR plus 270 basis points). The corporate debenture and the trust preferred security each have 30-year lives. The trust preferred security and the corporate debenture are callable by the Company or the Valrico Trust, at their respective option after five years, and sooner in specific events, subject to prior approval by the Federal Reserve, if then required. The Company has treated the trust preferred security as Tier 1 capital up to the maximum amount allowed under the Federal Reserve guidelines for federal regulatory purposes.

(13) Income Taxes

Allocation of federal and state income taxes between current and deferred portions for the years ended December 31, 2008, 2007 and 2006, is as follows:

	Current	Deferred	Total
December 31, 2008:			
Federal	$ 1,941	$ (985)	$ 956
State	437	(178)	259
	$ 2,378	$ (1,163)	$ 1,215
December 31, 2007:			
Federal	$ 4,425	$ (1,171)	$ 3,254
State	838	(195)	643
	$ 5,263	$ (1,366)	$ 3,897
December 31, 2006:			
Federal	$ 3,988	$ 133	$ 4,121
State	716	22	738
	$ 4,704	$ 155	$ 4,859

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The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007, are presented below:

	December 31,	
	2008	**2007**
Deferred tax assets:		
Allowance for loan losses	$ 5,077	$ 4,110
Deferred loan fees	245	320
Stock based compensation	255	225
Deferred compensation	782	725
Intangible assets		49
Net operating loss carryforward	142	26
Other real estate owned expenses	167	
Nonaccrual interest	189	30
Other	59	47
Total deferred tax asset	6,916	5,532
Deferred tax liabilities:		
Premises and equipment, due to differences in depreciation methods and useful lives	(2,631)	(2,232)
Fair value adjustments	(1,206)	(1,376)
Like kind exchange	(300)	(300)
Unrealized gain on investment securities available for sale	(1,039)	(438)
Accretion of discounts on investments	(58)	(66)
Total deferred tax liability	(5,234)	(4,412)
Net deferred tax asset	$ 1,682	$ 1,120

At December 31, 2008 the Company had approximately $367 of net operating loss carryforwards, federal and state, available to offset future taxable income. These carryforwards will begin to expire in 2024.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

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The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Florida. The Company is no longer subject to examination by taxing authorities for the years before 2005.

A reconciliation between the actual tax expense and the expected tax expense, computed by applying the U.S. federal corporate rate of 34 percent (35 percent for 2007 and 2006) is as follows:

		December 31,	
	2008	**2007**	**2006**
Expected tax expense	$ 1,576	$ 4,094	$ 4,661
Tax exempt interest, net	(561)	(515)	(174)
Bank owned life insurance	(132)	(127)	(97)
State income taxes, net of federal income tax benefits	171	418	480
Stock based compensation	110	81	101
Other, net	51	(54)	(112)
	$ 1,215	$ 3,897	$ 4,859

(14) Related-Party Transactions

Loans to principal officers, directors, and their affiliates during 2008 were as follows:

Beginning balance	$ 21,944
New loans	10,340
Effect of changes in composition of related parties	
Repayments	(5,839)
Ending balance	$ 26,445

At December 31, 2008 and 2007 principal officers, directors, and their affiliates had $8,445 and $11,702, respectively, available lines of credit.

Deposits from principal officers, directors, and their affiliates at year-end 2008 and 2007 were approximately $18,122 and $35,180, respectively.

(15) Regulatory Capital Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets. Management believes, as of December 31, 2008, that the Company meets all capital adequacy requirements to which it is subject.

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As of December 31, 2008, the most recent notification from the Office of Comptroller of the Currency and the FDIC categorized the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Banks must maintain total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution s category.

A summary of actual, required, and capital levels necessary to be considered well-capitalized for the Company as of December 31, 2008 and 2007, are presented in the table below.

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2008:						
Total capital (to risk weighted assets)	$ 170,164	17.4%	$ 78,119	≥ 8%	$ 97,648	≥ 10%
Tier 1 capital (to risk weighted assets)	157,944	16.2%	39,059	≥ 4%	58,589	≥ 6%
Tier 1 capital (to average assets)	157,944	12.6%	50,201	≥ 4%	62,751	≥ 5%
December 31, 2007:						
Total capital (to risk weighted assets)	$ 138,070	15.0%	$ 73,785	≥ 8%	$ 92,231	≥ 10%
Tier 1 capital (to risk weighted assets)	127,242	13.8%	36,893	≥ 4%	55,339	≥ 6%
Tier 1 capital (to average assets)	127,242	10.8%	47,196	≥ 4%	58,995	≥ 5%

A summary of actual, required, and capital levels necessary to be considered well-capitalized for each of the Company s subsidiary Banks as of December 31, 2008 and 2007, are presented in the table below.

	Actual		For capital adequacy purposes		To be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2008:						
CenterState Bank Central Florida, N.A.						
Total capital (to risk weighted assets)	$ 26,951	12.2%	$ 17,663	≥ 8%	$ 22,079	≥ 10%
Tier 1 capital (to risk weighted assets)	24,179	11.0%	8,832	≥ 4%	13,247	≥ 6%
Tier 1 capital (to average assets)	24,179	9.0%	10,694	≥ 4%	13,368	≥ 5%
CenterState Bank, N.A.						
Total capital (to risk weighted assets)	40,293	13.3%	24,160	≥ 8%	30,200	≥ 10%
Tier 1 capital (to risk weighted assets)	36,507	12.1%	12,080	≥ 4%	18,120	≥ 6%
Tier 1 capital (to average assets)	36,507	10.6%	13,775	≥ 4%	17,219	≥ 5%
CenterState Bank of Florida, N.A.						
Total capital (to risk weighted assets)	44,706	13.8%	26,002	≥ 8%	32,502	≥ 10%
Tier 1 capital (to risk weighted assets)	41,093	12.6%	13,001	≥ 4%	19,501	≥ 6%
Tier 1 capital (to average assets)	41,093	8.7%	18,804	≥ 4%	23,504	≥ 5%

Valrico State Bank								
Total capital (to risk weighted assets)	22,610	16.8%	10,792	≥	8%	13,491	≥	10%
Tier 1 capital (to risk weighted assets)	20,912	15.5%	5,396	≥	4%	8,094	≥	6%
Tier 1 capital (to average assets)	20,912	13.1%	6,393	≥	4%	7,992	≥	5%

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	Actual		For capital adequacy purposes			To be well capitalized under prompt corrective action provision		
	Amount	Ratio	Amount		Ratio	Amount		Ratio
December 31, 2007:								
CenterState Bank Central Florida, N.A.								
Total capital (to risk weighted assets)	$ 25,464	12.9%	$ 15,829	≥	8%	$ 19,786	≥	10%
Tier 1 capital (to risk weighted assets)	23,149	11.7%	7,914	≥	4%	11,872	≥	6%
Tier 1 capital (to average assets)	23,149	9.2%	10,052	≥	4%	12,564	≥	5%
CenterState Bank, N.A.								
Total capital (to risk weighted assets)	39,622	12.5%	25,433	≥	8%	31,792	≥	10%
Tier 1 capital (to risk weighted assets)	35,734	11.2%	12,717	≥	4%	19,075	≥	6%
Tier 1 capital (to average assets)	35,734	12.2%	11,733	≥	4%	14,667	≥	5%
CenterState Bank of Florida, N.A.								
Total capital (to risk weighted assets)	35,833	12.9%	22,190	≥	8%	27,737	≥	10%
Tier 1 capital (to risk weighted assets)	33,046	11.9%	11,095	≥	4%	16,642	≥	6%
Tier 1 capital (to average assets)	33,046	8.1%	16,412	≥	4%	20,515	≥	5%
Valrico State Bank								
Total capital (to risk weighted assets)	19,838	14.5%	10,934	≥	8%	13,667	≥	10%
Tier 1 capital (to risk weighted assets)	18,119	13.3%	5,467	≥	4%	8,200	≥	6%
Tier 1 capital (to average assets)	18,119	11.3%	6,394	≥	4%	7,992	≥	5%

(16) Dividends

The Company declared and paid cash dividends on its common stock of $1,993, $1,820 and $1,535 during the years ended December 31, 2008, 2007 and 2006, respectively. The Company is restricted from increasing its cash dividend on common shares from its current level of $0.04 per share per quarter during the initial three years it has U.S. Treasury preferred stock outstanding pursuant to the TARP capital purchase program.

Banking regulations limit the amount of dividends that may be paid by the subsidiary banks to the Company without prior approval of the Bank s regulatory agency. At December 31, 2008, dividends from the subsidiary banks available to be paid to the Company, without prior approval of the Banks regulatory agency, was $26,846, subject to the Banks meeting or exceeding regulatory capital requirements.

(17) Stock-Based Compensation

On April 24, 2007, the Company s shareholders approved the CenterState 2007 Equity Incentive Plan (the 2007 Plan). The 2007 Plan replaces the 1999 Plan discussed below. The 2007 Plan authorizes the issuance of up to 700,000 shares of the Company stock. Of this amount, 600,000 shares are allocated to employees, all of which may be issued as incentive stock options, and 100,000 shares are allocated to directors. During 2008, the Company granted employee incentive stock options for 460,000 shares, with a weighted average exercise price of $15.14 per share, and non qualifying director stock options for 80,000 shares, with a weighted average exercise price of $15.16, pursuant to this plan. Options were granted at fair market value of the underlying stock at date of grant. Each option expires ten years from the date of grant. These options vest within a range of three to nine years. At December 31, 2008, there were a total of 95,500 shares available for future grants pursuant to this Plan.

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In 1999, the Company authorized 730,000 common shares for employees of the Company under an incentive stock option and non-statutory stock option plan (the 1999 Plan). Options were granted at fair market value of the underlying stock at date of grant. Each option expires ten years from the date of grant. Options became 25% vested immediately as of the grant date and continued to vest at a rate of 25% on each anniversary date thereafter until fully vested. There were no stock options granted pursuant to the 1999 Plan during 2007 and 2008. The 2007 Plan, discussed above, replaced the 1999 Plan. At December 31, 2008 there were 462,174 stock options outstanding which were granted pursuant to the 1999 Plan, of which 455,299 were currently exercisable. No future stock options will be granted from this Plan.

In addition to the 1999 Plan, the Company assumed and converted the stock option plans of its subsidiary banks consistent with the terms and conditions of their respective merger agreements. These options are all vested and exercisable. At December 31, 2008, they represented exercisable options for 157,882 shares of the Company s common stock.

In 2004, the Company s shareholders authorized an Employee Stock Purchase Plan (ESPP). The number of shares of common stock for which options may be granted under the ESPP is 400,000, which amount shall be increased on December 31 of each calendar year. At December 31, 2008, there were no options outstanding pursuant to this plan, and no activity occurred during the twelve month periods ending December 31, 2008, 2007 and 2006 relating to our ESPP.

The Company s stock-based compensation consists solely of expense related to stock options. During the twelve month period ended December 31, 2008, 2007 and 2006, the Company recognized approximately $402, $509 and $594 of stock-based compensation expense, respectively. The total income tax benefit was $52, $126 and $22. As of December 31, 2008, the total remaining unrecognized compensation cost related to non-vested stock options, net of estimated forfeitures, was approximately $2,654 and will be recognized over the next nine years. The weighted average period over which this expense is expected to be recognized is approximately 4.4 years.

The Company granted stock options for 540,000, 84,000 and 31,500 shares of common stock during the twelve month periods ending December 31, 2008, 2007 and 2006, respectively. The Company also acquired stock options for 77,456 shares of common stock pursuant to the merger with CenterState Bank Mid Florida (Mid FL) as of the close of business March 31, 2006. These options vested immediately upon change of control, and their fair value was included as a portion of the purchase price paid for Mid FL.

The estimated fair value of options granted during these periods were calculated as of the grant date (as of the merger date for those options acquired pursuant to the merger of Mid FL) using the Black-Scholes option-pricing model. The weighted-average assumptions as of the grant date, and as of the merger date in the case of the Mid FL transaction, are as follows:

	2008	2007	2006
Expected option life	7.4 years	6.4 years	6.9 years
Risk-free interest rate	3.04%	4.75%	4.91%
Expected volatility	31.2%	29.7%	29.8%
Dividend yield	1.06%	0.82%	0.76%

In 2008 and 2006, the Company determined the expected life of the stock options using the simplified method approach allowed for plain-vanilla share options as described in SAB 107. For options granted during 2007 and prior to 2006, the Company determined the expected life of the stock options using historical data adjusted for known factors that would alter historical exercise behavior including announced

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retirement dates. The risk-free interest rate is based on the U.S. Treasury yield curve in effect as of the grant date. Expected volatility was determined using historical volatility.

SFAS 123R requires the recognition of stock-based compensation for the number of awards that are ultimately expected to vest. As a result, for most awards, recognized stock compensation would be reduced for estimated forfeitures prior to vesting. Based on historical data, the Company expects the annual forfeiture rates to be immaterial. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances. Prior to January 1, 2006, actual forfeitures were accounted for as they occurred for purposes of required pro forma stock compensation disclosures.

The weighted-average estimated fair value of stock options granted during the twelve month periods ended December 31, 2008, 2007 and 2006 were $5.31 per share, $6.33 per share and $8.35 per share respectively.

The table below present s information related to stock option activity for the years ended December 31, 2008, 2007 and 2006 (in thousands of dollars):

	2008	2007	2006
Total intrinsic value of stock options exercised	$ 292	$ 689	$ 910
Cash received from stock options exercised	283	550	467
Gross income tax benefit from the exercise of stock options	52	126	22

A summary of stock option activity for the years ended December 31, 2008, 2007 and 2006 is as follows (dollars are in thousands, except for per share data):

	December 31, 2008		December 31, 2007		December 31, 2006	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Options outstanding, beginning of period	737,674	$ 12.26	742,236	$ 11.41	706,918	$ 10.43
Options granted	540,000	$ 15.14	84,000	$ 17.32	31,500	$ 18.56
Options exercised	(37,908)	$ 7.45	(67,470)	$ 8.14	(73,638)	$ 6.34
Options forfeited	(15,210)	$ 13.81	(21,092)	$ 15.47		
Options issued pursuant to Mid FL merger					77,456	$ 12.62
Options outstanding, end of period	1,224,556	$ 13.66	737,674	$ 12.26	742,236	$ 11.41

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Contractual Term	Aggregate Intrinsic Value

Options outstanding, December 31, 2008	1,224,556	$ 13.66	6.7 years	$ 4,169
Options fully vested and expected to vest, December 31, 2008	1,156,784	$ 13.57	6.6 years	$ 4,045
Options exercisable, December 31, 2008	620,931	$ 11.94	4.5 years	$ 3,194

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(18) Employee Benefit Plan

Substantially all of the subsidiary banks employees are covered under the Company s 401(k) compensation and incentive plan. Employees are eligible to participate in the plan after completing six months of continuous employment. The Company contributes an amount equal to a certain percentage of the employees contributions based on the discretion of the Board of Directors. In addition, the Company may also make additional contributions to the plan each year, subject to profitability and other factors, and based solely on the discretion of the Board of Directors. For the years ended December 31, 2008, 2007 and 2006, the Company s contributions to the plan were $556, $668 and $842, respectively, which are included in salary and benefits on the Consolidated Statements of Operations.

(19) Parent Company Only Financial Statements

Condensed financial statements of CenterState Banks of Florida, Inc. (parent company only) follow:

Condensed Balance Sheet

December 31, 2008 and 2007

	2008	2007
Assets:		
Cash and due from banks	$ 1,078	$ 524
Inter-company receivable from bank subsidiaries	35,000	17,000
Investment in wholly-owned bank subsidiaries	156,411	144,769
Prepaid expenses and other assets	2,043	2,034
Total assets	$ 194,532	$ 164,327
Liabilities:		
Accounts payable and accrued expenses	$ 2,867	$ 3,545
Corporate debenture	12,500	12,500
Total liabilities	15,367	16,045
Stockholders Equity:		
Preferred stock	26,787	
Common stock	125	124
Additional paid-in capital	112,329	110,604
Retained earnings	38,269	36,857
Accumulated other comprehensive loss	1,655	697
Total stockholders equity	179,165	148,282
Total liabilities and stockholders equity	$ 194,532	$ 164,327

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Condensed Statements of Operations

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Other income	$ 1	$ 4	
Interest expense	818	1,021	864
Operating expenses	2,594	2,721	2,587
Loss before equity in net earnings of subsidiaries	(3,411)	(3,738)	(3,429)
Equity in net earnings of subsidiaries (net of income tax expense of $2,487, $5,213 and $6,010 at December 31, 2008, 2007 and 2006, respectively)	5,683	10,223	10,737
Net income before income tax benefit	2,272	6,485	7,308
Income tax benefit	(1,149)	(1,314)	(1,151)
Net income	$ 3,421	$ 7,799	$ 8,459

Condensed Statements of Cash Flows

Years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Cash flows from operating activities:			
Net income	$ 3,421	$ 7,799	$ 8,459
Adjustments to reconcile net income to net cash used in operating activities:			
Equity in net earnings of subsidiaries	(5,683)	(10,223)	(10,737)
(Decrease) increase in payables and accrued expenses	(334)	307	434
Increase in other assets	(10)	(278)	(189)
Stock based compensation expense	402	509	594
Realized gain on sale of available for sale securities			(17)
Net cash flows used in operating activities	(2,204)	(1,886)	(1,456)
Cash flows from investing activities:			
Inter-company receivables from subsidiary banks	(18,000)	15,000	5,000
Cash payments for merger transaction costs		(454)	(279)
Cash payments to VSB shareholders	(338)	(12,223)	
Cash payments to Mid FL shareholders	(6)	(47)	(4,207)
Proceeds from maturities of investment securities AFS			300

Proceeds from sales of investment securities available for sale			117
Investment in subsidiaries	(5,000)		(1,000)
Net cash flows used in investing activities	(23,344)	2,276	(69)
Cash flows from financing activities:			
Stock options exercised, net of tax benefit	335	676	488
Dividends paid to shareholders	(1,993)	(1,820)	(1,535)
Net proceeds from issuance of preferred stock and warrant	27,760		
Net cash flows provided by financing activities	26,102	(1,144)	(1,047)
Net increase (decrease) in cash and cash equivalents	554	(754)	(2,572)
Cash and cash equivalents at beginning of year	524	1,278	3,850
Cash and cash equivalents at end of year	$ 1,078	$ 524	$ 1,278

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(20) Credit Commitments

The Company has outstanding at any time a significant number of commitments to extend credit. These arrangements are subject to strict credit control assessments and each customer s credit worthiness is evaluated on a case-by-case basis. A summary of commitments to extend credit and standby letters of credit written at December 31, 2008 and 2007, are as follows:

	December 31,	
	2008	**2007**
Standby letters of credit	$ 4,338	$ 4,481
Available lines of credit	98,189	127,079
Unfunded loan commitments fixed	10,863	15,044
Unfunded loan commitments variable	6,846	9,124

Because many commitments expire without being funded in whole or part, the contract amounts are not estimates of future cash flows.

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed completely to perform as contracted. The credit risk amounts are equal to the contractual amounts, assuming that the amounts are fully advanced and that the collateral or other security is of no value.

The Company s policy is to require customers to provide collateral prior to the disbursement of approved loans. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, real estate and income providing commercial properties.

Standby letters of credit are contractual commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Outstanding commitments are deemed to approximate fair value due to the variable nature of the interest rates involved and the short-term nature of the commitments.

(21) Concentrations of Credit Risk

Most of the Company s business activity is with customers located within Osceola, Orange, Pasco, Hernando, Citrus, Sumter, Lake, Hillsborough and Polk Counties of the State of Florida and portions of adjacent counties. The majority of commercial and mortgage loans are granted to customers doing business or residing in these areas. Generally, commercial loans are secured by real estate, and mortgage loans are secured by either first or second mortgages on residential or commercial property. As of December 31, 2008, substantially all of the Company s loan portfolio was secured. Although the Company has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent upon the economy of Osceola, Orange, Pasco, Hernando, Citrus, Sumter, Lake, Hillsborough and Polk Counties and portions of adjacent counties. The Company does not have significant exposure to any individual customer or counterparty.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2008, 2007 and 2006

(22) Basic and Diluted Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding during the periods. Diluted earnings per share includes the weighted average number of common shares outstanding during the periods and the further dilution from stock options using the treasury method. There were 885,000 stock options that were anti dilutive at December 31, 2008. The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations for the periods presented. All per share data has been adjusted to reflect the Company s May 2006 two for one stock split.

	2008	2007	2006
Numerator for basic and diluted earnings per share:			
Net income	$ 3,421	$ 7,799	$ 8,459
Preferred stock dividend accrued	(151)		
Preferred stock discount accretion	(16)		
Net income available for common shareholders	$ 3,254	$ 7,799	$ 8,459
Denominator:			
Denominator for basic earnings per share weighted-average shares	12,452,375	12,108,590	10,964,890
Effect of dilutive securities: Employee stock options	132,661	185,947	267,169
Denominator for diluted earnings per share adjusted weighted-average shares	12,585,036	12,294,537	11,232,059
Basic earnings per share	$ 0.26	$ 0.64	$ 0.77
Diluted earnings per share	$ 0.26	$ 0.63	$ 0.75

(23) Sale of branch real estate

The Company sold one of its branch office buildings on April 1, 2008 for $2,500 and simultaneously entered into an agreement to lease back the real estate for a period of one year with an option to renew the lease for an additional year. A $1,483 pre-tax gain on the sale was recognized on the transaction. The sale was for the real estate only. It is our intention to eventually transfer the related customer accounts to either a new branch office that has not yet been identified or to one of our existing branch locations.

(24) Business combinations

On April 2, 2007, the Company acquired 100% of the outstanding shares of Valrico Bancorp, Inc. (VBI) and its wholly owned subsidiary, Valrico State Bank (VSB). The $36,100 purchase price was a combination of 65% stock and 35% cash. Other cost including change of control payments, accelerated deferred compensation arrangements and other transaction costs approximated $3,200. The total cost of the transaction was approximately $39,300. Operating results of VSB are included in the consolidated financial statements since the date of the acquisition. As a result of this acquisition, the Company expects to further solidify its market share in the Hillsborough County, Florida market, expand its customer base to enhance deposit fee income, and reduce operating costs through economies of scale.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2008, 2007 and 2006

The following table summarizes the fair values of the assets acquired and liabilities assumed at the date of acquisition:

	April 2, 2007 Fair Value
Assets:	
Cash and due from banks	$ 6,789
Federal funds sold	13,039
Securities available for sale	12,177
Loans net	120,226
Premises and equipment	9,289
Goodwill	18,256
Core deposit intangible	2,484
Other assets	1,830
Total assets	$ 184,090
Liabilities:	
Deposits	$ 130,614
Other liabilities	16,898
Total liabilities	147,512
Net assets acquired	36,578
Total liabilities and net assets acquired	$ 184,090

(25) Sale of bank shell

On November 30, 2007 the Company closed a set of related transactions that effectively resulted in combining two of the Company s subsidiary Banks into one and selling the shell of the other. The two Banks combined were CenterState Bank West Florida, N.A. (CSWFL) and CenterState Bank Mid Florida (Mid FL). CSWFL was the surviving bank and its name was subsequently changed to CenterState Bank, N.A. The Company effectively sold the shell of the Mid FL subsidiary Bank to an out of state bank for $1,000.

(26) Subsequent event

On January 30, 2009, the Company purchased the deposits of Ocala National Bank, a failed bank in Ocala, Florida, from the Federal Deposit Insurance Corporation for approximately $3,000, representing a premium of approximately 1.7%. Total deposits purchased approximated $180,000 and loans purchased approximated $20 million. Ocala National Bank operated from four branch banking offices of which two were owned and two were leased. The Company has an option to purchase the two owned offices for fair market value to be determined by appraisal and assume the leases on the remaining two. As a result of this transaction, the Company expects to expand its customer base in Central Florida.

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CENTERSTATE BANKS OF FLORIDA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(amounts are in thousands of dollars, except per share data)

December 31, 2008, 2007 and 2006

(27) Trouble Asset Relief Program (TARP) Capital Purchase Plan

On November 21, 2008, as part of the Troubled Asset Relief Program (TARP) Capital Purchase Program, the Company issued and sold to the U.S. Department of the Treasury (the Treasury), (a) 27,875 shares (the Preferred Shares) of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, having a liquidation preference of $1,000 per share, and (b) a ten-year warrant (the Warrant) to purchase up to 250,825 shares of voting common stock, par value $0.01 per share (Common Stock), at an exercise price of $16.67 per share.

The Preferred Shares along with the Warrant were issued in exchange for $27,875 cash, which the Company received on November 21, 2008. The 5% dividends are paid quarterly and after five years the rate increases to 9% and remains at that level into perpetuity. After the initial three years, the Company is permitted to redeem the Preferred Shares at any time. In addition, the Preferred Shares can be redeemed during the initial three years under certain conditions. If the Company raises qualifying equity capital equal to $27,875 or more prior to December 31, 2009, half of the Warrant (125,412 shares) will be cancelled. The Company is restricted from increasing cash dividends on common shares from its current level of $0.04 per quarter during the initial three years, there are certain restrictions with regard to the Company s ability to repurchase its own common shares and lastly, there are certain restrictions which subject the Company to certain executive compensation limitations included in the Emergency Economic Stabilization Act of 2008 (EESA).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be duly signed on its behalf by the undersigned, thereunto duly authorized, in the City of Winter Haven, State of Florida, on the 6th day of March, 2009.

CenterState BANKS OF FLORIDA, INC.

/s/ Ernest S. Pinner
Ernest S. Pinner
Chairman of the Board,
President and Chief Executive Officer

/s/ James J. Antal
James J. Antal
Senior Vice President and Chief Financial Officer
(Principal financial officer and principal accounting officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on March 6, 2009.

Signature	Title
/s/ Ernest S. Pinner	Chairman of the Board
Ernest S. Pinner	President and Chief Executive Officer
/s/ James H. Bingham **James H. Bingham**	Director
/s/ G. Robert Blanchard, Jr. **G. Robert Blanchard, Jr.**	Director
/s/ C. Dennis Carlton **C. Dennis Carlton**	Director
/s/ Frank M. Foster, Jr. **Frank M. Foster, Jr.**	Director
/s/ Gail E. Gregg-Strimenos **Gail E. Gregg-Strimenos**	Director
/s/ Bryan W. Judge **Bryan W. Judge**	Director
/s/ Samuel L. Lupfer, IV **Samuel L. Lupfer, IV**	Director
/s/ Lawrence W. Maxwell **Lawrence W. Maxwell**	Director
/s/ Rulon D. Munns **Rulon D. Munns**	Director
/s/ G. Tierso Nunez II **G. Tierso Nunez II**	Director
/s/ Thomas E. Oakley **Thomas E. Oakley**	Director
/s/ J. Thomas Rocker **J. Thomas Rocker**	Director

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CenterState Banks of Florida, Inc.

Form 10-K

For Fiscal Year Ending December 31, 2008

EXHIBIT INDEX

Exhibit No.	Exhibit
21.1	Subsidiaries of the Registrant
23.1	Consent of Crowe Horwath LLP
31.1	Certification of President and Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President and Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002