BANCTRUST FINANCIAL GROUP INC

FORM 10-Q
(Quarterly Report)

Filed 11/07/08 for the Period Ending 09/30/08

Address	100 ST JOSEPH ST P O BOX 3067 MOBILE, AL 36602
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Industry	Regional Banks
Sector	Financial
Fiscal Year	12/31

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

X Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30 , 2008 or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from ______ to _______

Commission File Number: **0-15423**

BANCTRUST FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Alabama	**63-0909434**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 St. Joseph Street, Mobile, Alabama	**36602**
(Address of principal executive offices)	(Zip Code)

(251) 431-7800
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Smaller reporting Company ____

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

Shares of common stock ($0.01 par) outstanding at November 5, 2008: 17,661,245

BANCTRUST FINANCIAL GROUP, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION
BANCTRUST FINANCIAL GROUP, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CONDITION

(Dollars and shares in thousands, except per share amounts)	September 30, 2008	December 31, 2007
ASSETS		
Cash and Due from Banks	$ 48,281	$ 58,166
Federal Funds Sold	46,000	59,400
Total Cash and Cash Equivalents	94,281	117,566
Interest-Bearing Deposits in Other Financial Institutions	5,357	11,215
Securities Available for Sale, at Fair Value	215,126	245,877
Loans Held for Sale	1,608	3,631
Loans and Leases	1,520,096	1,629,045

Allowance for Loan and Lease Losses	(25,116)	(23,775)
Loans and Leases, Net	1,494,980	1,605,270
Premises and Equipment, Net	83,868	88,334
Accrued Income Receivable	8,311	12,481
Goodwill	97,506	95,643
Other Intangible Assets	10,256	12,978
Cash Surrender Value of Life Insurance	15,609	15,106
Other Real Estate Owned	46,722	14,524
Other Assets	15,264	17,469
Total Assets	$ 2,088,888	$ 2,240,094
LIABILITIES		
Non-Interest-Bearing Demand Deposits	$ 223,050	$ 242,243
Interest-Bearing Demand Deposits	518,790	629,220
Savings Deposits	111,993	105,166
Large Denomination Time Deposits (of $100 or more)	393,528	426,262
Other Time Deposits	439,755	425,036
Total Deposits	1,687,116	1,827,927
Short-Term Borrowings	959	4,198
Federal Home Loan Bank Advances and Long-Term Debt	134,473	137,341
Other Liabilities	19,848	21,108
Total Liabilities	1,842,396	1,990,574
SHAREHOLDERS' EQUITY		
Preferred Stock - No Par Value, 500 Shares Authorized, None Outstanding	-	-
Common Stock - Par Value $0.01 Per Share, 50,000 Shares Authorized, Shares Issued: 2008-17,803; 2007-17,753	178	178
Additional Paid in Capital	190,349	189,683
Accumulated Other Comprehensive Loss, Net	(1,701)	(291)
Deferred Compensation Payable in Common Stock	1,620	1,432
Retained Earnings	60,074	62,358
Treasury Stock of 256 Shares in 2008 and 2007, at Cost	(2,408)	(2,408)
Common Stock Held in Grantor Trust, 94 Shares in 2008 and 74 Shares in 2007	(1,620)	(1,432)
Total Shareholders' Equity	246,492	249,520
Total Liabilities and Shareholders' Equity	$ 2,088,888	$ 2,240,094

(See accompanying notes to unaudited condensed consolidated financial statements.)

BANCTRUST FINANCIAL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars and shares in thousands, except per share amounts)

		Three Months Ended September 30,	
		2008	2007
Interest Revenue:			
Loans and Leases		$22,384	$20,774
Securities Available for Sale:	Taxable	2,441	978
	Non-Taxable	361	423
Other		80	667
Total Interest Revenue		25,266	22,842

Interest Expense:		
Deposits	9,164	9,597
Short-Term Borrowings	24	19
FHLB Advances and Long-Term Debt	1,710	1,195
Total Interest Expense	10,898	10,811
Net Interest Revenue	14,368	12,031
Provision for Loan Losses	1,863	1,167
Net Interest Revenue after Provision for Loan Losses	12,505	10,864
Non-Interest Revenue:		
Service Charges on Deposit Accounts	2,802	1,501
Trust Income	1,018	611
Securities Gains	3	-
(Losses) Gains on Other Real Estate, Net	(1,709)	8
Other Income	1,764	1,114
Total Non-Interest Revenue	3,878	3,234
Non-Interest Expense:		
Salaries	5,907	3,855
Pensions and Employee Benefits	1,719	1,625
Net Occupancy Expense	1,812	948
Furniture and Equipment Expense	1,186	932
Intangible Amortization	949	187
Other Expense	4,624	3,265
Total Non-Interest Expense	16,197	10,812
Income Before Income Taxes	186	3,286
Income Tax (Benefit) Expense	(37)	927
Net Income	$ 223	$ 2,359
Basic Earnings Per Share	$ 0.01	$ 0.21
Diluted Earnings Per Share	$ 0.01	$ 0.21
Weighted-Average Shares Outstanding - Basic	17,548	11,200
Weighted-Average Shares Outstanding - Diluted	17,721	11,370

(See accompanying notes to unaudited condensed consolidated financial statements.)

BANCTRUST FINANCIAL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars and shares in thousands, except per share amounts)

		Nine Months Ended September 30,	
		2008	2007
Interest Revenue:			
Loans and Leases		$74,509	$62,605
Securities Available for Sale:	Taxable	7,588	2,781
	Non-Taxable	1,143	1,319
Other		642	3,807
Total Interest Revenue		83,882	70,512
Interest Expense:			
Deposits		31,154	30,172
Short-Term Borrowings		64	64
FHLB Advances and Long-Term Debt		5,273	3,965

Total Interest Expense	36,491	34,201
Net Interest Revenue	47,391	36,311
Provision for Loan Losses	7,174	4,886
Net Interest Revenue after Provision for Loan Losses	40,217	31,425
Non-Interest Revenue:		
Service Charges on Deposit Accounts	8,372	4,176
Trust Income	3,018	2,084
Securities Gains	51	-
(Losses) Gains on Other Real Estate, Net	(1,709)	39
Gain on Sale of Derivative	1,115	-
Other Income	4,957	3,109
Total Non-Interest Revenue	15,804	9,408
Non-Interest Expense:		
Salaries	17,732	11,541
Pensions and Employee Benefits	5,943	5,276
Net Occupancy Expense	5,456	2,701
Furniture and Equipment Expense	3,681	2,543
Intangible Amortization	2,721	561
Other Expense	13,786	9,800
Total Non-Interest Expense	49,319	32,422
Income Before Income Taxes	6,702	8,411
Income Tax Expense	1,954	2,345
Net Income	$ 4,748	$ 6,066
Basic Earnings Per Share	$ 0.27	$ 0.54
Diluted Earnings Per Share	$ 0.27	$ 0.53
Weighted-Average Shares Outstanding - Basic	17,535	11,190
Weighted-Average Shares Outstanding - Diluted	17,689	11,381

(See accompanying notes to unaudited condensed consolidated financial statements.)

BANCTRUST FINANCIAL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the Nine Months Ended September 30, 2008 and 2007

(Dollars and shares in thousands, except per share amounts)

	Common Stock Shares Issued	Common Stock Amount	Additional Paid in Capital	Accumulated Other Comprehensive Loss, Net	Deferred Compensation Payable in Common Stock	Retained Earnings	Treasury Stock	Common Stock Held in Grantor Trust	Total
Balance, January 1, 2008	17,753	$178	$189,683	$(291)	$1,432	$62,358	$(2,408)	$(1,432)	$249,520
Comprehensive income:									
Net income						4,748			4,748
Recognized net periodic pension benefit cost				94					94
Change in fair value of securities available for sale, net of taxes				(1,504)					(1,504)
Total comprehensive income									3,338
Adjustment to reflect adoption of EITF 06-4						(156)			(156)

Dividends ($0.39 per share)						(6,876)			(6,876)
Purchase of deferred compensation shares					252			(252)	-
Deferred compensation paid in common stock held in grantor trust					(64)			64	-
Shares issued under dividend reinvestment plan	27		266						266
Stock compensation expense			400						400
Restricted stock fully vested	23								
Balance, September 30, 2008	17,803	$178	$190,349	$(1,701)	$1,620	$60,074	$(2,408)	$(1,620)	$246,492
Balance, January 1, 2007	11,422	$114	$80,425	$(2,241)	$1,157	$62,633	$(2,408)	$(1,157)	$138,523
Comprehensive income:									
Net income						6,066			6,066
Recognized net periodic pension benefit cost				78					78
Change in fair value of securities available for sale, net of taxes				389					389
Total comprehensive income									6,533
Adjustment to reflect change in accounting for tax benefits (FIN 48)						91			91
Dividends ($0.39 per share)						(4,403)			(4,403)
Purchase of deferred compensation shares					261			(261)	-
Deferred compensation paid in common stock held in grantor trust					(21)			21	-
Shares issued under dividend reinvestment plan	10		220						220
Stock compensation expense			491						491
Common stock options exercised	24	1	264						265
Balance, September 30, 2007	11,456	$115	$81,400	$(1,774)	$1,397	$64,387	$(2,408)	$(1,397)	$141,720

(See accompanying notes to unaudited condensed consolidated financial statements.)

BANCTRUST FINANCIAL GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
(Dollars in thousands)	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$4,748	$6,066
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of premises and equipment	4,459	2,538
Amortization and accretion of premiums and discounts, net	(850)	112
Amortization of intangible assets	2,721	561
Provision for loan losses	7,174	4,886
Securities gains	(51)	-
Loss (gain) on sale of other real estate owned	1,709	(39)
Gain on sale of other loans originated for sale	(586)	(1,046)
Gain on Sale of Derivative	(1,115)	-
Stock compensation expense	400	491
Increase in cash surrender value of life insurance	(503)	(202)
Changes in operating assets and liabilities:		
Loans originated for sale	(58,502)	(112,621)
Loans sold	61,111	116,164
Decrease in accrued income receivable	4,170	145
Decrease (increase) in other assets	177	(2,625)
(Decrease) increase in other liabilities	(466)	1,525
Net cash provided by operating activities	24,596	15,955
CASH FLOWS FROM INVESTING ACTIVITIES		

Net decrease (increase) in interest-bearing deposits in other financial institutions	5,858	(9,872)
Net decrease (increase) in loans and leases	65,129	(24,617)
Proceeds from sales of other real estate owned, net	5,925	420
Proceeds from sales of premises and equipment	4,816	-
Purchases of premises and equipment	(4,809)	(4,852)
Proceeds from sales of securities available for sale	16,180	-
Proceeds from maturities of securities available for sale	98,059	13,051
Purchases of securities available for sale	(85,507)	(8,231)
Net cash provided by (used in) investing activities	105,651	(34,101)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net decrease in deposits	(140,764)	(5,858)
Net increase in short-term borrowings	(3,239)	(595)
Proceeds from FHLB advances and long-term debt	94,699	-
Payments of FHLB advances and long-term debt	(97,618)	(20,000)
Proceeds from exercise of common stock options	-	265
Dividends paid	(6,610)	(4,183)
Net cash used in by financing activities	(153,532)	(30,371)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,285)	(48,517)
Cash and cash equivalents at beginning of period	117,566	117,728
Cash and cash equivalents at end of period	$94,281	$69,211
Supplemental disclosures of cash flow information:		
Interest paid	$38,431	$33,455
Income taxes paid, net	448	5,905
Supplemental schedule of non-cash investing and financing activity		
Dividends paid in common stock	266	220
Loans transferred to other real estate owned	39,713	3,927
Adoption of EITF 06-4	156	-

(See accompanying notes to unaudited condensed consolidated financial statements.)

BANCTRUST FINANCIAL GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008 AND 2007

Note A: General Information

The accompanying unaudited condensed consolidated financial statements of BancTrust Financial Group, Inc. and its subsidiary bank (referred to collectively in this discussion as "BancTrust," "the Company," "our," "us" or "we") have been prepared in accordance with U.S. generally accepted accounting principles and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. The information furnished reflects all adjustments and consolidating entries, consisting of normal and recurring accruals, which in the opinion of management of the Company ("Management") are necessary for a fair presentation of the results for the interim periods. Results for interim periods may not necessarily be indicative of results to be expected for the year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's report on Form 10-K for the year ended December 31, 2007.

Estimates

In preparing the consolidated financial statements, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of condition and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the fair value of goodwill.

A substantial portion of the Company's loans are secured by real estate in the Southern two-thirds of Alabama and Northwest Florida. Accordingly, the ultimate collectibility of a substantial portion of the Company's loan portfolio is susceptible to changes in market conditions in these areas. Management believes that the allowance for losses on loans is adequate. While Management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to make changes to the allowance based on their judgment about information available to them at the time of their examination.

The Company tests its goodwill for impairment using two methods, one based on the price as a multiple of tangible equity capital that similar banking companies have sold for and one based on discounted cash flow models with estimated cash flows based on internal forecasts of net income. The Company completed its annual test of goodwill for impairment as of September 30, 2008. The results of this test indicated that none of the Company's goodwill was impaired; however, the excess of the fair value over the carrying value decreased from the previous assessment due to the decline in the Company's stock price and economic conditions prevalent in the Company's markets. If the Company's stock price continues to decline, if the Company does not produce anticipated cash flows, or if similar banking companies begin selling at significantly lower prices than in the past, the Company's goodwill may be impaired in the future.

Reclassifications

Certain reclassifications of 2007 balances have been made to conform to classifications used in 2008. These reclassifications did not change shareholders' equity or net income.

Note B: Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") ratified Emerging Issues Task Force ("EITF") Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* EITF Issue No. 06-4 addresses accounting for split-dollar life insurance arrangements after the employer purchases a life insurance policy on the covered employee. This Issue states that an obligation arises as a result of a substantive agreement with an employee to provide future postretirement benefits. Under EITF Issue No. 06-4, the obligation is not settled upon entering into an insurance arrangement. Since the obligation is not settled, a liability should be recognized in accordance with applicable authoritative guidance. The Company adopted EITF Issue No. 06-4 in the first quarter of 2008. The impact of the implementation of EITF Issue No. 06-4 was a reduction in retained earnings and an increase in other liabilities of $156 thousand. The effect on net income subsequent to adoption was immaterial.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141R, *Business Combinations* ("SFAS No. 141R"). SFAS No. 141(R) will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how the Company will account for business combinations under this Statement include: the acquisition date will be date the acquirer obtains control; all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition-related restructuring costs that do not meet the criteria in SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* , will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS No. 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. The Company will be required to prospectively apply SFAS No. 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS No. 141 (R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. Management is currently evaluating the effects that SFAS 141(R) will have on the financial condition, results of operations, liquidity, and the disclosures that will be presented in the consolidated financial statements.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB No. 109"). SAB No. 109 rescinds SAB No. 105's prohibition on inclusion of expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB No. 109 is effective prospectively for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company adopted the provisions of SAB No. 109 in the first quarter of 2008. The adoption of SAB No. 109 did not have a material impact on the results of operations or financial condition of the Company.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment SFAS No. 115* ("SFAS No. 159"), which permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* , applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. The Company adopted the non-elective provisions of SFAS No. 159 in the first quarter of 2008. The impact was not material to the Company's financial condition or results of operations. No assets or liabilities were selected for fair value measurement under SFAS 159.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51.* SFAS No. 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements include the display of net income and comprehensive income for both the controlling and noncontrolling interests and a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement will be applied prospectively except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. Management is currently evaluating this statement and its effect on the consolidated financial statements of the Company.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* . SFAS No. 161, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* , requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and the Company's strategies and objectives for using derivative instruments. This statement expands the current disclosure framework in SFAS No. 133. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. Management does not expect the adoption of SFAS No. 161 to have an impact on the consolidated financial statements of the Company.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. SFAS 142-3, *Determination of the Useful Life of Intangible Assets* . This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). This FSP applies to all intangible assets, whether acquired in a business combination or otherwise and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. The Company will adopt the provisions of FSP No. SFAS 142-3 in the first quarter of 2009, as required, but does not expect the impact to be material to the Company's financial condition or results of operations.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* . This FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest is recognized in subsequent periods. This FSP is effective for fiscal years beginning after December 15, 2008. Management does not expect the adoption of FSP APB 14-1 to have an impact on the consolidated financial statements of the Company.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* . This FSP addresses whether such instruments are participating securities prior to vesting and, therefore, need to be included in the EPS calculation under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, *Earnings per Share* . This FSP is effective for fiscal years beginning after December 15, 2008. Management does not expect the adoption of FSP EITF 03-6-1 to have an impact on the consolidated financial statements of the Company.

In October 2008, the FASB issued FSP No. 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 SFAS No. 157 in a market that is not active and applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with Statement 157. This FSP also provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance on October 10, 2008 and includes periods for which financial statements have not yet been issued. The adoption of FSP No. 157-3 did not have a material impact on the consolidated financial statements of the Company.

Note C: Change in Allowance for Losses on Loans and Leases and Non-Performing Loans

The changes in the allowance for losses on loans and leases for the three- and nine-month periods ended September 30, 2008 and 2007 are summarized as follows:

	Three Months Ended	
	September 30, 2008	September 30, 2007
(in thousands)		
Balance at beginning of period	$24,642	$19,259
Allowance allocated to sold loans	(345)	-
Provision charged to operating expense	1,863	1,167
Loans charged-off	(1,384)	(912)
Recoveries	340	56
Balance at end of period	$25,116	$ 19,570

Nine Months Ended

(in thousands)	September 30, 2008	September 30, 2007
Balance at beginning of period	$23,775	$16,328
Allowance allocated to sold loans	(345)	-
Provision charged to operating expense	7,174	4,886
Loans charged-off	(6,498)	(2,382)
Recoveries	1,010	738
Balance at end of period	$25,116	$19,570

At September 30, 2008 and December 31, 2007, non-accrual loans totaled $69.884 million and $36.001 million, respectively. The amount of interest income that would have been recorded during the first nine months of 2008, if these non-accrual loans had been current in accordance with their original terms, was $4.166 million. The amount of interest income actually recognized on these loans during the first nine months of 2008 was $1.868 million.

At September 30, 2008 and December 31, 2007, the recorded investments in loans that were considered to be impaired under SFAS No. 114, all of which were on non-accrual, were $66.617 million and $34.438 million, respectively. Included in this amount is $14.845 million at September 30, 2008 and $15.926 million at December 31, 2007 of impaired loans for which the related allowance for loan losses was $4.471 million at September 30, 2008 and $1.844 million at December 31, 2007. The amount of impaired loans that did not have specific allowances for loan losses was $51.772 million at September 30, 2008 and $18.512 million at December 31, 2007.

The Company continues to see a severe downturn in the real estate market primarily in the coastal markets of northwest Florida, and this has led to a significant increase in defaults by borrowers and a reduction in the value of real estate serving as collateral for some of the Company's loans.

As of September 30, 2008, the ratio of non-performing assets to total loans and other real estate owned was 7.43%, which exceeds the 5.00% allowed by the Loan Agreement governing the $38 million loan from Silverton Bank (formerly The Bankers Bank, N.A.). The stock of our subsidiary bank is pledged as collateral for this loan. Silverton Bank has granted a waiver of the breach of the loan covenant regarding non-performing assets. This waiver only applies to the covenant breach as of September 30, 2008, and the situation will be reviewed again as of December 31, 2008. If the Company remains in breach of this covenant and is unable to obtain a waiver or amendment of the loan agreement, Silverton Bank would have the right to give notice of default. If the Company is unable to cure the default within ninety days of notice, then Silverton Bank would have the right to declare the entire balance of the loan due and payable, which could have a material adverse effect on the Company's liquidity and ability to pay dividends. Management intends to continue to vigorously pursue a favorable resolution to this issue.

Note D: Retirement Plans

	Three Months Ended	
(in thousands)	September 30, 2008	September 30, 2007
Service cost	$ 334	$ 143
Interest cost	427	176
Expected return on plan assets	(491)	(208)
Amortization of prior service cost	(3)	2
Amortization of net loss	62	40
Net periodic pension cost	$ 329	$ 153

	Nine Months Ended	
(in thousands)	September 30, 2008	September 30, 2007
Service cost	$1,003	$ 429
Interest cost	1,281	528
Expected return on plan assets	(1,473)	(624)
Amortization of prior service cost	(10)	6
Amortization of net loss	186	120
Net periodic pension cost	$ 987	$ 459

BancTrust previously disclosed, in its annual report on Form 10-K for the year ended December 31, 2007 that it expected to, and presently anticipates that it will, contribute $1.0 million to its pension plan in 2008, of which $732 thousand was contributed in the first nine months of 2008. The weighted-average discount rate assumed in the actuarial calculation of the benefit obligation for 2008 was 5.90 percent.

Note E: Earnings Per Share

Basic earnings per share for the three- and nine- month periods ended September 30, 2008 and 2007 were computed by dividing net income by the weighted-average number of shares of common stock outstanding, which consists of issued shares less treasury stock.

Diluted earnings per share for the three- and nine- month periods ended September 30, 2008 and 2007 were computed by dividing net income by the weighted-average number of shares of common stock outstanding and the dilutive effect of the shares awarded under the Company's stock option plans, based on the treasury stock method using an average fair market value of the stock during the respective periods.

The following tables present the earnings per share calculations for the three-month periods ended September 30, 2008 and 2007:

Three Months Ended September 30, 2008 (in thousands, except per share amounts)	Income	Weighted-Average Shares	Earnings per share
Basic earnings per share:			
Net income	$223	17,548	$0.01
Dilutive securities:			
Stock option plan shares and unvested restricted stock	-	173	-
Diluted earnings per share (1) :			
Net income	$223	17,721	$0.01

Three Months Ended September 30, 2007 (in thousands, except per share amounts)	Income	Weighted-Average Shares	Earnings per share
Basic earnings per share:			
Net income	$2,359	11,200	$0.21
Dilutive securities:			
Stock option plan shares and unvested restricted stock	-	170	-
Diluted earnings per share (1) :			
Net income	$2,359	11,370	$0.21

1. The Company excluded from the calculation of diluted earnings per share 154 thousand shares and 6 thousand shares for the quarters ended September 30, 2008 and 2007, respectively, which shares were subject to options issued with exercise prices in excess of the average market value per share.

The following tables present the earnings per share calculations for the nine-month periods ended September 30, 2008 and 2007:

Nine Months Ended September 30, 2008 (in thousands, except per share amounts)	Income	Weighted-Average Shares	Earnings per share

Basic earnings per share:			
Net income	$4,748	17,535	$0.27
Dilutive securities:			
Stock option plan shares and unvested restricted stock	-	154	-
Diluted earnings per share (2) :			
Net income	$4,748	17,689	$0.27

Nine Months Ended September 30, 2007	Income	Weighted-Average Shares	Earnings per share
(in thousands, except per share amounts)			
Basic earnings per share:			
Net income	$6,066	11,190	$0.54
Dilutive securities:			
Stock option plan shares and unvested restricted stock	-	191	-
Diluted earnings per share (2) :			
Net income	$6,066	11,381	$0.53

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1. The Company excluded from the calculation of diluted earnings per share 147 thousand shares and 4 thousand shares for the nine months ended September 30, 2008 and 2007, respectively, which shares were subject to options issued with exercise prices in excess of the average market value per share.

Note F: Comprehensive Income

The Company has classified all of its securities as available for sale in accordance with SFAS No. 115. Pursuant to SFAS No. 115, any unrealized gain or loss on available for sale securities is to be recorded as an adjustment to a separate component of shareholders' equity, net of income taxes. For the nine-month period ended September 30, 2008, the net unrealized loss on these securities increased by $2.4 million. For the nine-month period ended September 30, 2007, the net unrealized loss on these securities decreased by $622 thousand. The change in unrealized gains and losses serves to increase or decrease comprehensive income. Accordingly, for the nine-month periods ended September 30, 2008 and 2007, the Company recognized, net of related income taxes, a decrease of $1.4 million and an increase of $467 thousand, respectively, in the accumulated other comprehensive loss component of equity.

The following table shows comprehensive income for the three-month periods ended September 30, 2008 and 2007:

(in thousands)	September 30, 2008	September 30, 2007
Net Income	$223	$2,359
Recognized pension net periodic benefit cost, net of taxes of ($28) and ($16), respectively	44	26
Less reclassification adjustments for gains included in net income, net of taxes of $1 and $0, respectively	(2)	0
Net change in fair value of securities available for sale, net of taxes of $374 and $503, respectively	623	839
Comprehensive income	$888	$3,224

The following table shows comprehensive income for the nine-month periods ended September 30, 2008 and 2007:

(in thousands)	September 30, 2008	September 30, 2007
Net Income	$4,748	$6,066

Recognized pension net periodic benefit cost, net of taxes of ($59) and ($48), respectively	94	78
Less reclassification adjustments for gains included in net income, net of taxes of $19 and $0, respectively	(32)	0
Net change in fair value of securities available for sale, net of taxes of $883 and $233, respectively	(1,472)	389
Comprehensive income	$3,338	$6,533

Note G: Segment Reporting

Under SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information* , certain information is required to be disclosed for the reportable operating segments of the Company. During the second quarter of 2008, we merged our two previously reportable segments, BankTrust (the "Alabama Bank"), incorporated in the state of Alabama, and BankTrust (the "Florida Bank"), incorporated in the state of Florida. Because we now operate and manage as a one-bank holding company, we no longer have any reportable segments. Our corporate governance activities likewise are now directed to a single reporting banking segment.

Note H: Commitments

The Company, as part of its ongoing business operations, issues financial guaranties in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Company generally to guarantee the performance of a customer to a third party. A financial standby letter of credit is a commitment by the Company to guarantee a customer's repayment of an outstanding loan or financial obligation. In a performance standby letter of credit, the Company guarantees a customer's performance under a contractual non-financial obligation for which it receives a fee. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. Revenues are recognized over the life of the standby letter of credit. At September 30, 2008, the Company had standby letters of credit outstanding with maturities ranging from less than one year to over five years. The maximum potential amount of future payments the Company could be required to make under its standby letters of credit at September 30, 2008 was $30.2 million, and that sum represents the Company's maximum credit risk. At September 30, 2008, the Company had $302 thousand of liabilities associated with standby letter of credit agreements.

Note I: Adoption of FAS 157

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Statement 157 also 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 statement describes three levels of inputs that may be used to measure fair value: Level 1: Quoted prices (unadjusted) or 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, and other inputs that are observable or can be corroborated by observable market data. Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

All of the Company's available for sale securities fall into Level 2 of the fair value hierarchy. These securities are generally priced via independent service providers. In obtaining such valuation information, the Company has evaluated the valuation methodologies used to develop the fair values. The Company has historically obtained an independent market valuation on a sample of securities, semi-annually, and compared the sample market values to market values provided to the Company by its bond accounting service provider.

Assets and Liabilities Measured on a Recurring Basis:

Assets and liabilities measured at fair value on a recurring basis, including financial liabilities for which the Company has elected the fair value option, are summarized below.

September 30, 2008

(In thousands)

	Carrying Value in Balance Sheet	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Available-for-sale securities	$215,126	-	$215,126	-

Assets and Liabilities Measured on a Nonrecurring Basis:

Assets and liabilities measured at fair value on a nonrecurring basis are summarized below.

September 30, 2008

(In thousands)

	Carrying Value in Balance Sheet	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired Loans	$10,374	-	-	$10,374

Loans considered impaired under SFAS No. 114, *Accounting by Creditors for Impairment of Loans,* as amended by SFAS No. 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure* are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect write-downs that are based on the market price or current appraised value of the collateral, adjusted to reflect local market conditions or other economic factors. After evaluating the underlying collateral, the fair value of the impaired loans is determined by allocating specific reserves from the allowance for loan and lease losses to the loans. Thus, the fair value reflects the loan balance less the specific allocated reserve. Impaired loans for which no reserve has been specifically allocated are not included in the table above.

Note J: Business Combinations

BancTrust acquired The Peoples BancTrust Company, Inc in October 2007. During the first quarter of 2008, BancTrust adjusted goodwill and other liabilities by $900 thousand to properly reflect the pension plan liability of Peoples at the acquisition date. During the second quarter of 2008, BancTrust increased goodwill and deferred tax liabilities by $1.7 million to properly reflect the deferred tax liability of the core deposit intangible. BancTrust also decreased other assets by $217 thousand, increased goodwill by $188 thousand and decreased deferred taxes by $29 thousand to properly reflect the acquisition of Peoples. During the third quarter of 2008, BancTrust increased goodwill by $531 thousand, decreased other assets by $389 thousand, and increased other liabilities by $142 thousand to properly reflect investments in limited partnerships and the deferred liability related to an employee contract. We also sold three branches acquired in the Peoples acquisition as described in the following paragraph.

BancTrust previously announced the sale of three branch offices located in the Tuscaloosa, Alabama market. The branches were acquired as part of the Peoples transaction. The sale closed on August 22, 2008. Because the sale of these branches was in reasonable proximity of the closing of the Peoples purchase transaction, we recorded no gain or loss on the sale of these branches. We reduced intangible assets by approximately $1.47 million and increased deferred tax liabilities by approximately $882 thousand, representing the premium we received on the deposits. The transaction had a small but positive effect on tangible equity and the regulatory capital ratios of the Company. In this sale of branches, we sold loans of approximately $24.6 million, premises and equipment of approximately $3.7 million and deposits of approximately $21.5 million. We received a premium of 11.20 percent on the deposits we sold. The loans and premises and equipment sold in the transaction were valued at their recorded carrying value.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Presented below is an analysis of the consolidated financial condition and results of operations of BancTrust Financial Group, Inc., a one-bank holding company ("BancTrust"), and its wholly owned subsidiary, BankTrust (the "Bank"). As used in the following discussion, the terms "we," "us," "our" and the "Company" mean BancTrust Financial Group, Inc. and its subsidiary on a consolidated basis (unless the context indicates another meaning). This analysis focuses upon significant changes in financial condition between December 31, 2007 and September 30, 2008 and significant changes in operations for the three- and nine- month periods ended September 30, 2008 and 2007.

In October of 2007, the Company completed the acquisition of The Peoples BancTrust Company, Inc. ("Peoples"). On the acquisition date the assets of Peoples were approximately $999 million. The acquisition of Peoples was accounted for under the purchase accounting method as required by United States generally accepted accounting principles. Under this method of accounting, the financial statements and tables do not reflect the results of operations or financial condition of Peoples prior to October 15, 2007. One result of this accounting method is that certain items shown in the financial statements and tables presented in this report are less useful as a means of judging the Company's performance in 2008 compared to 2007.

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements with respect to critical accounting policies, financial condition, liquidity, non-performing assets, results of operations and other matters. Forward-looking statements may be found in the Notes to Unaudited Consolidated Condensed Financial Statements and in the following discussion. These statements can generally be identified by the use of words such as "expect," "may," "could," "should," "intend," "plan," "project," "estimate," "anticipate" or words of similar meaning. The Company cautions readers that forward-looking statements are subject to risks and uncertainties that can cause actual results to differ materially from those indicated by the forward-looking statements. Factors that may cause actual results to differ materially from those contemplated include, among others:

- Interest rate fluctuations;
- Changes in economic conditions;
- Effectiveness of the Company's marketing efforts;
- Acquisitions and the integration of acquired businesses;
- Competition;
- Changes in technology;
- Changes in law;
- Cost and availability of capital;
- Changes in fiscal, monetary, regulatory and tax policy;
- Customers' financial failures;
- Fluctuations in stock and bond markets;
- The discretion of applicable regulatory authorities;
- Changes in political conditions;
- War and terrorist acts;
- Hurricanes and other natural disasters;
- Fluctuations in real estate markets;
- Inflation; and
- Other risks and uncertainties listed from time to time in the Company's public announcements and in its filings with the SEC.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") ratified Emerging Issues Task Force ("EITF") Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* EITF Issue No. 06-4 addresses accounting for split-dollar life insurance arrangements after the employer purchases a life insurance policy on the covered employee. This Issue states that an obligation arises as a result of a substantive agreement with an employee to provide future postretirement benefits. Under EITF Issue No. 06-4, the obligation is not settled upon entering into an insurance arrangement. Since the obligation is not settled, a liability should be recognized in accordance with applicable authoritative guidance. The Company adopted EITF Issue No. 06-4 in the first quarter of 2008. The impact of the implementation of EITF Issue No. 06-4 was a reduction in retained earnings and an increase in other liabilities of $156 thousand. The effect on net income subsequent to adoption was immaterial.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141R, *Business Combinations* ("SFAS No. 141R"). SFAS No. 141(R) will significantly change how entities apply the acquisition method to business combinations. The most significant changes affecting how the Company will account for business combinations under this Statement include: the acquisition date will be date the acquirer obtains control; all (and only) identifiable assets acquired, liabilities assumed, and noncontrolling interests in the acquiree will be stated at fair value on the acquisition date; assets or liabilities arising from noncontractual contingencies will be measured at their acquisition date fair value only if it is more likely than not that they meet the definition of an asset or liability on the acquisition date; adjustments subsequently made to the provisional amounts recorded on the acquisition date will be made retroactively during a measurement period not to exceed one year; acquisition-related restructuring costs that do not meet the criteria in SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* , will be expensed as incurred; transaction costs will be expensed as incurred; reversals of deferred income tax valuation allowances and income tax contingencies will be recognized in earnings subsequent to the measurement period; and the allowance for loan losses of an acquiree will not be permitted to be recognized by the acquirer. Additionally, SFAS No. 141(R) will require new and modified disclosures surrounding subsequent changes to acquisition-related contingencies, contingent consideration, noncontrolling interests, acquisition-related transaction costs, fair values and cash flows not expected to be collected for acquired loans, and an enhanced goodwill rollforward. The Company will be required to prospectively apply SFAS No. 141(R) to all business combinations completed on or after January 1, 2009. Early adoption is not permitted. For business combinations in which the acquisition date was before the effective date, the provisions of SFAS No. 141 (R) will apply to the subsequent accounting for deferred income tax valuation allowances and income tax contingencies and will require any changes in those amounts to be recorded in earnings. Management is currently evaluating the effects that SFAS 141(R) will have on the financial condition, results of operations, liquidity, and the disclosures that will be presented in the consolidated financial statements.

In November 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* ("SAB No. 109"). SAB No. 109 rescinds SAB No. 105's prohibition on inclusion of expected net future cash flows related to loan servicing activities in the fair value measurement of a written loan commitment. SAB No. 109 is effective prospectively for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company adopted the provisions of SAB No. 109 in the first quarter of 2008. The adoption of SAB No. 109 did not have a material impact on the results of operations or financial condition of the Company.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment SFAS No. 115* ("SFAS No. 159"), which permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS No. 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* , applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. The Company adopted the non-elective provisions of SFAS No. 159 in the first quarter of 2008. The impact was not material to the Company's financial condition or results of operations. No assets or liabilities were selected for fair value measurement under SFAS 159.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51.* SFAS No. 160 requires noncontrolling interests to be treated as a separate component of equity, not as a liability or other item outside of equity. Disclosure requirements include the display of net income and comprehensive income for both the controlling and noncontrolling interests and a separate schedule that shows the effects of any transactions with the noncontrolling interests on the equity attributable to the controlling interest. The provisions of this statement are effective for fiscal years beginning after December 15, 2008. This statement will be applied prospectively except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. Management is currently evaluating this statement and its effect on the consolidated financial statements of the Company.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* . SFAS No. 161, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* , requires companies with derivative instruments to disclose information about how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and the Company's strategies and objectives for using derivative instruments. This statement expands the current disclosure framework in SFAS No. 133. SFAS No. 161 is effective prospectively for periods beginning on or after November 15, 2008. Management does not expect the adoption of SFAS No. 161 to have an impact on the consolidated financial statements of the Company.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. SFAS 142-3, *Determination of the Useful Life of Intangible Assets* . This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). This FSP applies to all intangible assets, whether acquired in a business combination or otherwise and shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and applied prospectively to intangible assets acquired after the effective date. Early adoption is prohibited. The Company will adopt the provisions of FSP No. SFAS 142-3 in the first quarter of 2009, as required, but does not expect the impact to be material to the Company's financial condition or results of operations.

In May 2008, the FASB issued FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* . This FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest is recognized in subsequent periods. This FSP is effective for fiscal years beginning after December 15, 2008. Management does not expect the adoption of FSP APB 14-1 to have an impact on the consolidated financial statements of the Company.

In June 2008, the FASB issued FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* . This FSP addresses whether such instruments are participating securities prior to vesting and, therefore, need to be included in the EPS calculation under the two-class method described in paragraphs 60 and 61 of SFAS No. 128, *Earnings per Share* . This FSP is effective for fiscal years beginning after December 15, 2008. Management does not expect the adoption of FSP EITF 03-6-1 to have an impact on the consolidated financial statements of the Company.

In October 2008, the FASB issued FSP No. 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 SFAS No. 157 in a market that is not active and applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with Statement 157. This FSP also provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP was effective upon issuance on October 10, 2008 and includes periods for which financial statements have not yet been issued. The adoption of FSP No. 157-3 did not have a material impact on the consolidated financial statements of the Company.

Critical Accounting Policies

Basis of Financial Statement Presentation

The financial statements included in this report have been prepared in conformity with accounting principles generally accepted in the United States of America and with general practices within the banking industry. In preparing the consolidated financial statements, Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of condition and revenues and expenses for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the fair value of goodwill.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level considered by Management to be sufficient to absorb losses inherent in the loan portfolio. Loans and leases are charged off against the allowance for loan and lease losses when Management believes that the collection of the principal is unlikely. Subsequent recoveries are added to the allowance. BancTrust's determination of its allowance for loan losses is made in accordance with Statement of Financial Accounting Standards ("SFAS") Nos. 114 and 5. The amount of the allowance for loan losses and the amount of the provision charged to expense is based on periodic reviews of the portfolio, past loan loss experience, current economic conditions and such other factors which, in Management's judgment, deserve current recognition in estimating loan losses.

Management has developed and documented a systematic methodology for determining and maintaining an allowance for loan losses. A regular, formal and ongoing loan review is conducted to identify loans with unusual risks and probable loss. Management uses the loan review process to stratify the loan portfolio into risk grades. For higher-risk graded loans in the portfolio, Management determines estimated amounts of loss based on several factors, including historical loss experience, Management's judgment of economic conditions and the resulting impact on higher-risk graded loans, the financial capacity of the borrower, secondary sources of repayment, including collateral, and regulatory guidelines. This determination also considers the balance of impaired loans. Specific allowances for impaired loans are based on comparisons of the recorded carrying values of the loans to the fair value of the collateral. Recovery of the carrying value of loans is dependent to a great extent on economic, operating and other conditions that may be beyond the Company's control.

In addition to evaluating probable losses on individual loans, Management also determines probable losses for all other loans that are not individually evaluated. The amount of the allowance for loan losses related to all other loans in the portfolio is determined based on historical and current loss experience, portfolio mix by loan type and by collateral type, current economic conditions, the level and trend of loan quality ratios and such other factors that, in Management's judgment, deserve current recognition in estimating inherent loan losses. The methodology and assumptions used to determine the allowance are continually reviewed as to their appropriateness given the most recent losses realized and other factors that influence the estimation process. The model assumptions and resulting allowance level are adjusted accordingly as these factors change.

Other Real Estate Owned

Other real estate owned is initially accounted for at fair value, less estimated costs to dispose of the property. Any excess of the recorded investment over fair value, less costs to dispose, is charged to the allowance for loan losses at the time of foreclosure. A provision is charged to earnings and a related valuation account for subsequent losses on other real estate owned is established when, in the opinion of Management, such losses have occurred. The ability of the Company to recover the carrying value of real estate is based upon future sales of the real estate. Our ability to effect such sales is subject to market conditions and other factors, all of which are beyond our control. The recognition of sales and sales gains is dependent upon whether the nature and terms of the sales, including possible future involvement of the Company, if any, meet certain defined requirements. If those requirements are not met, sale and gain recognition is deferred.

Goodwill

Net assets of entities acquired in purchase transactions are recorded at fair value at the date of acquisition. Identified intangibles are amortized over the period benefited. Goodwill is not amortized, although it is reviewed for impairment on an annual basis or more frequently if events or circumstances indicate potential impairment. The impairment test is performed in two steps. The first step compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, a second step analysis must be undertaken. The second step analysis compares the implied fair value of the reporting unit's goodwill (as defined in SFAS No. 142, *Goodwill and Other Intangible Assets*) with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

The fair value of our enterprise is determined using two methods, one based on the price as a multiple of tangible equity capital that similar banking companies have sold for and one based on discounted cash flow models with estimated cash flows based on internal forecasts of net income. These two methods provide a range of valuations that Management uses in evaluating goodwill for possible impairment. The Company completed its annual test of goodwill for impairment as of September 30, 2008. The results of this test indicated that none of the Company's goodwill was impaired; however, the excess of the fair value over the carrying value decreased from the previous assessment due to the decline in the Company's stock price and economic conditions prevalent in the Company's markets. If the Company's stock price continues to decline, if the Company does not produce anticipated cash flows, or if similar banking companies begin selling at significantly lower prices than in the past, the Company's goodwill may be impaired in the future.

Financial Condition at September 30, 2008 and December 31, 2007

Overview

Total assets at September 30, 2008 were $2.089 billion, a decrease of $151.2 million, or 6.7 percent, from $2.240 billion at December 31, 2007. Loans decreased by $111.0 million due to (i) the sale of our three Tuscaloosa area branches' loans of approximately $24.6 million, (ii) a decrease in loan demand in our Florida and central Alabama markets, and (iii) the transfer of approximately $39.7 million in loans to other real estate owned. Loan demand in certain of our markets remains relatively strong, especially in the Mobile/Baldwin county markets in Alabama.

We experienced a decrease in loan demand in late 2007, and this, together with a decrease in market interest rates, led us to begin offering lower rates on deposits, which, we believe, contributed to a reduction in deposits of $124.6 million from December 31, 2007 to June 30, 2008. From June 30, 2008 to September 30, 2008, deposits decreased by $16.2 million. The sale in the third quarter of 2008 of three Tuscaloosa area branches resulted in a decrease in deposits of $21.5 million; however, deposits increased during the third quarter of 2008 apart from the sale. During the second quarter of 2008 the decrease in deposits caused us to become a net borrower of overnight funds. During the third quarter of 2008 we were able to shift to our preferred position as a net seller of funds. We accomplished this in part by offering higher rates on some deposits to increase our liquidity and by offering fully insured time deposits through the CDARS program. The CDARS program allows us to increase the deposit protection offered on time deposits. Through this program, we divide customers' time deposits that are uninsured into time deposits under the FDIC insurance limit and swap the resulting time deposits with other financial institutions.

Federal Funds Sold and Interest Bearing Deposits, which together represent our overnight investments, decreased by $19.3 million from $70.6 million at December 31, 2007 to $51.4 million at September 30, 2008. Short-term borrowings decreased $3.2 million, or 77.2 percent, from $4.2 million at December 31, 2007 to $959 thousand at September 30, 2008. Our net interest margin for the first nine months of 2008 was 3.49 percent compared to 3.99 percent for the same period last year. The general decrease in interest rates due to Federal Reserve actions, the increase in non-performing assets and rate competition for deposits and commercial loans all contributed to this decrease in our net interest margin.

We continue to experience a severe downturn in the real estate market, primarily in our coastal markets of northwest Florida, and this has led to a significant increase in defaults by borrowers, a significant increase in loans charged-off and a reduction in the value of real estate serving as collateral for some of our loans. We have slowed loan growth in our Florida markets in response to the depressed real estate market; however, we have experienced loan growth in our Mobile market during 2008 due to its more stable economy, and we expect this growth to continue through the final quarter of 2008. Our loans in central Alabama have decreased due to lower demand. Management is committed to minimizing further losses in the loan portfolio. We have established a special assets committee to focus on credit quality in the Company's Florida markets and have assembled a team of senior credit officers charged with focussing on loan quality throughout the Company.

Recent Government Action

In response to the challenges facing the financial services sector, several regulatory and governmental actions have recently been announced including:

-The Emergency Economic Stabilization Act of 2008, approved by Congress and signed by President Bush on October 3, 2008, which, in part, allowed the U.S. Treasury to purchase troubled assets from banks, authorized the Securities and Exchange Commission to suspend the application of mark-to-market accounting, and temporarily raised the basic limit of FDIC deposit insurance from $100,000 to $250,000 until December 31, 2009;

-On October 7, 2008, the FDIC approved a plan to increase the rates banks pay for deposit insurance;

-On October 14, 2008, the U.S. Treasury announced the creation of a new program, the Troubled Asset Relief Program ("TARP") Capital Purchase Program that encourages and allows financial institutions to obtain capital through the sale of senior preferred shares to the U.S. Treasury on terms that are non-negotiable;

-On October 14, 2008, the FDIC announced the creation of the Temporary Liquidity Guarantee Program (TLGP), which seeks to strengthen confidence and encourage liquidity in the banking system. The TLGP has two primary components that are available on a voluntary basis to financial institutions:

> -Guarantee of newly-issued senior unsecured debt. This the guarantee would apply to new debt issued on or before June 30, 2009 and would provide protection until June 30, 2012; issuers electing to participate would pay a 75 basis point fee for the guarantee;
>
> -Unlimited deposit insurance for non-interest bearing deposit transaction accounts. Financial institutions electing to participate will pay a 10 basis point premium in addition to the insurance premiums paid for standard deposit insurance;

BancTrust has applied for $50 million of capital from the TARP Capital Purchase Program. If the Company's application to participate is granted and the Company chooses to proceed with the issuance, BancTrust would issue to the U.S. Treasury senior cumulative preferred stock, liquidation preference of $1,000 per share, having such terms as are required by the U.S. Treasury and approved by management of BancTrust after consultation with the Strategic Advisory Committee of the BancTrust Board of Directors. Funding is expected to occur by year-end 2008.

We plan to participate in the TLGP's enhanced deposit insurance program. As a result of the enhancements to deposit insurance protection and the expectation that there will be demands on the FDIC's deposit insurance fund, we expect our deposit insurance costs to increase significantly during 2009.

Although it is likely that further regulatory actions will arise as the Federal government attempts to address the economic situation, management is not aware of any further recommendations by regulatory authorities that, if implemented, would have or would be reasonably likely to have a material effect on liquidity, capital ratios or results of operations.

Loans

Total loans and leases and loans held for sale, net of unearned loan income and deferred loan fees, decreased from $1.633 billion at December 31, 2007 to $1.522 billion at September 30, 2008, a decrease of $111.0 million, or 6.8 percent. The decrease in loans is attributable to the sale of the three Tuscaloosa branches, the transfer of loans to other real estate owned, loan charge-offs, loan participation payoffs and a decrease in loans in our Florida market as we have focused our attention in this market on managing our non-performing assets. We expect total loans to be lower at year end 2008 than at September 30, 2008 due to our cautious lending stance in Florida and our Gulf coast markets. We expect to focus more on credit quality than on growing loans in these markets until we see some stabilization in those economies and firming up of real estate values. In addition, we remain aggressive in moving non-performing loans through the work out process in order to minimize potential losses.

The following table shows the breakdown of loans at September 30, 2008 and December 31, 2007.

(In thousands)	**September 30, 2008**	**December 31, 2007**
Commercial, Financial and Agricultural	$344,751	$381,366
Real Estate - Construction	443,441	476,330
Real Estate - Mortgage	649,591	681,027
Installment	88,237	101,366
Total Loans and Loans Held for Sale	1,526,020	1,640,089
Unearned Discount on Leases	(5,679)	(7,815)
Unearned Loan Income and Deferred Loan (Fees) Cost, Net	1,363	402
Total Loans and Loans Held for Sale, Net of Unearned Income and Deferred Loan Costs	$1,521,704	$1,632,676

Investment Securities

The composition of the investment portfolio by carrying amount is 0.62 percent U.S. Treasuries, 16.20 percent U.S. securities of government sponsored enterprises, 14.84 percent securities of state and political subdivisions, and 68.34 percent mortgage-backed securities at September 30, 2008. The tax-equivalent yield of the portfolio at September 30, 2008 and December 31, 2007, was 5.31 percent and 5.29 percent, respectively. The average maturity of the portfolio, excluding mortgage-backed securities (as these have monthly principal payments), at September 30, 2008 and December 31, 2007, was 5.29 years and 1.92 years, respectively. We hold no trading securities or securities that are classified as held-to-maturity. The net unrealized loss on securities available-for-sale increased by $2.4 million from December 31, 2007 to September 30, 2008. The decline in fair value of our investment securities was attributable to changes in interest rates. The Company does not believe any other-than-temporary impairments exist related to these investment securities because the Company has the ability and positive intent to hold the securities until maturity. The Company does not own, and has not owned, preferred or common stock issue by the Federal National Mortgage Association (Fannie Mae) or the Federal Home Loan Mortgage Corporation (Freddie Mac).

Deposits

Total deposits decreased from $1.828 billion at December 31, 2007 to $1.687 billion at September 30, 2008, a decrease of $140.8 million, or 7.7 percent. The sale of our three Tuscaloosa area branches in August 2008 accounted for approximately $21.5 million of this decrease. Core deposits, considered to be total deposits less time deposits of $100 thousand or more, decreased by $108.1 million, or 7.7 percent. Earlier in the year, as loans decreased, we lowered the rates we offered on deposits to a level that was less competitive but which management considered to be appropriate at the time. Beginning in the second quarter of 2008 and continuing to date, we have focused on retaining deposits we currently have but have not been aggressive in attracting new deposits. Excluding the deposits of the three branches we sold, total deposits increased by $5.3 million from June 30, 2008 to September 30, 2008. We have had customers withdraw funds due to concerns about balances above FDIC insurance limits. To retain deposits, we have expanded our use of the CDARS program, which allows us to offer to our customers fully insured time deposits. We believe the increase in FDIC insurance coverage from $100 thousand to $250 thousand for interest bearing accounts and to an unlimited amount for non-interest bearing transaction accounts, will help stabilize our deposit base. Our primary focus continues to be attracting and retaining core deposits from customers who will use other products and services we offer. During 2008, due to liquidity considerations, we replaced non-core funding sources such as brokered deposits and other borrowed funds such as Federal Home Loan Bank ("FHLB") advances as they matured, but we have not increased the amount of funding from these sources. At September 30, 2008, we had $48.2 million in brokered time deposits and $55.7 million of CDARS brokered time deposits compared to $56.4 million and $13.1 million, respectively, at December 31, 2007. We also had FHLB advances of $61.6 million at September 30, 2008 compared to $65.3 million at December 31, 2007.

The following table shows the breakdown of deposits at September 30, 2008 and December 31, 2007.

(In thousands)	September 30, 2008	December 31, 2007
Non-Interest-Bearing Demand Deposits	$ 223,050	$ 242,243
Interest-Bearing Demand Deposits	518,790	629,220
Savings Deposits	111,993	105,166
Large Denomination Time Deposits (of $100 or more)	393,528	426,262
Other Time Deposits	439,755	425,036
Total Deposits	$1,687,116	$1,827,927

Federal Home Loan Bank Advances and Long-term Debt

As of September 30, 2008, our long-term debt consisted of advances from the FHLB of $61.6 million, a loan from an unaffiliated bank of $38.0 million, $34.0 million in junior subordinated notes issued by BancTrust to statutory trust subsidiaries in connection with offerings of $34.0 million of trust preferred securities and $845 thousand of other long term debt. During the first nine months of 2008, we paid off $37.0 million in long-term FHLB advances with the proceeds of new fixed rate advances of $37.0 million. Also, in the third quarter, we borrowed funds from the FHLB under a variable rate credit facility on a short-term basis.

As of September 30, 2008, the ratio of non-performing assets to total loans and other real estate owned was 7.43%, which exceeds the 5.00% allowed by the Loan Agreement governing the $38 million loan from Silverton Bank (formerly The Bankers Bank, N.A.). The stock of our subsidiary bank is pledged as collateral for this loan. Silverton Bank has granted a waiver of the breach of the loan covenant regarding non-performing assets. This waiver only applies to the covenant breach as of September 30, 2008, and the situation will be reviewed again as of December 31, 2008. If we remain in breach of this covenant and are unable to obtain a waiver or amendment of the loan agreement, Silverton Bank would have the right to give notice of default. If we are unable to cure the default within ninety days of notice, then Silverton Bank would have the right to declare the entire balance of the loan due and payable, which could have a material adverse effect on our liquidity and ability to pay dividends. We intend to continue to vigorously pursue a favorable resolution of this issue .

Asset Quality and Allowance for Loan Losses

Non-performing assets include accruing loans 90 days or more past due, loans on non-accrual, renegotiated loans and other real estate owned. Commercial, business and installment loans are classified as non-accrual by Management upon the earlier of: (i) a determination that collection of interest is doubtful, or (ii) the time at which such loans become 90 days past due, unless collateral or other circumstances reasonably assure full collection of principal and interest.

The following table is a summary of non-performing assets.

(Dollars in Thousands)

	September 30, 2008	December 31, 2007
Accruing loans 90 days or more past due		
Commercial and industrial loans	$ 0	$ 18
Consumer loans	-	7
Total accruing loans 90 days or more past due	0	25
Loans on non-accrual		
Construction, land development and other land loans	59,552	27,329
1-4 family residential loans	4,389	3,131
Non-farm non-residential property loans	2,752	4,927
Commercial and industrial loans	2,441	217
Consumer loans	728	397
Other loans	22	0
Total loans on non-accrual	69,884	36,001
Total non-performing loans	69,884	36,026
Other real estate owned		
Construction, land development and other land	42,841	10,648
1-4 family residential properties	1,305	758
Non-farm non-residential properties	2,576	3,118
Total other real estate owned	46,722	14,524
Total non-performing assets	$116,606	$50,550
Accruing loans 90 days or more past due as a percentage of loans and leases	0.00%	0.00%
Total non-performing loans as a percentage of loans and leases	4.59%	2.21%
Total non-performing assets as a percentage of loans, leases and other real estate owned	7.43%	3.07%

The following table contains a break out by location of non-performing assets at September 30, 2008.

(Dollars in Thousands)	Non-performing loans	Other Real Estate Owned	Total
Central Alabama	$14,722	$ 5,296	$ 20,018
Southern Alabama	2,746	12,495	15,241
Northwest Florida	52,238	27,304	79,542
Other	178	1,627	1,805
Total	$69,884	$46,722	$116,606

Loans on non-accrual at September 30, 2008 increased by $33.9 million when compared to December 31, 2007 due to our challenging operational environment. Most of this increase occurred in our Florida market. Other real estate owned increased by $32.2 million, from year-end 2007 to September 30, 2008. We are continuing to work through very difficult real estate markets, especially in Florida and along the Alabama coast. Most of our non-performing assets are located in the northwest Florida coastal markets and consist primarily of loans for land acquisition, construction and land development.

Not included in the non-performing assets table are potential problem loans totaling $31.1 million at September 30, 2008, which compares to $21.5 million at December 31, 2007. Potential problem loans are loans as to which Management has serious doubts as to the ability of the borrowers to comply with present repayment terms. These loans do not meet the criteria for, and are therefore not included in, non-performing assets. These loans were considered in determining the adequacy of the allowance for loan losses and are closely and regularly monitored to protect BancTrust's interest. Most of these loans are residential and commercial real estate development loans in our primary markets.

Management is continuing to closely monitor the value of real estate serving as collateral for our loans, especially in our coastal markets, due to Management's concern that the significant slowing of real estate sales activity in those markets will continue to have a negative impact on the value of real estate collateral. In addition, depressed market conditions have adversely impacted, and may continue to adversely impact, the financial condition of certain of our borrowers. In many situations, adverse market conditions have placed stress on borrower liquidity levels, and collateral values have declined.

The allowance for loan losses represents Management's assessment and estimates of the risks associated with extending credit and its evaluation of the quality of the loan portfolio. Management analyzes the loan portfolio to determine the adequacy of the allowance for loan losses and the appropriate provision required to maintain the allowance for loan losses at a level believed to be adequate to absorb anticipated loan losses. In assessing the adequacy of the allowance, Management reviews the size, quality and risk characteristics of loans in the portfolio. Management also considers such factors as our loan loss experience, the amount of past due and non-performing loans, specific known risks, the status, amounts and values of non-performing assets (including loans), underlying collateral values securing loans, current and anticipated economic conditions and other factors which affect the allowance for loan losses. Impaired loans as determined under SFAS No. 114 were considered in determining the adequacy of the allowance for loan losses and are regularly monitored for changes within a particular industry or general economic trends that could cause the borrowers severe financial difficulties.

The allowance for loan losses represented 0.359 times non-performing loans at September 30, 2008 and 0.660 times non-performing loans at December 31, 2007. The allowance for loan losses as a percentage of loans, net of unearned income, was 1.65 percent at September 30, 2008 and 1.46 percent at December 31, 2007. Management reviews the adequacy of the allowance for loan losses on a continuous basis by assessing the quality of the loan portfolio, including non-performing loans and classified loans, and adjusting the allowance when appropriate. Management considered the allowance for loan losses adequate at September 30, 2008 to absorb probable losses inherent in the loan portfolio. No assurance can be given, however, that adverse economic circumstances or other events, including additional loan review, future regulatory examination findings or changes in borrowers' financial conditions, will not result in increased losses in the loan portfolio or in the need for increases in the allowance for loan losses.

Capital Resources

Our equity as a percentage of total assets at September 30, 2008 was 11.80 percent, compared to 11.14 percent at December 31, 2007. This increase resulted primarily from the decrease in total assets.

We are required by our various banking regulators to maintain certain capital-to-asset ratios under the regulators' risk-based capital guidelines. These guidelines are intended to provide an additional measure of a financial institution's capital adequacy by assigning weighted levels of risk to various components of the institution's assets, both on and off the statement of condition. Under these guidelines capital is measured in two tiers. These capital tiers are used in conjunction with "risk-weighted" assets in determining "risk-weighted" capital ratios. If we fail to meet minimum capital adequacy requirements, our banking regulators could take regulatory action against us that could have a direct material adverse effect on our consolidated financial statements.

Our Tier 1 capital, which is shareholders' equity plus debt related to issuance of trust preferred securities less goodwill and accumulated other comprehensive loss, was $173.6 million at September 30, 2008 and $174.2 million at December 31, 2007. Our Tier 2 capital consists of the allowable portion of the allowance for loan losses, which was $21.4 million at September 30, 2008 and $22.4 million at December 31, 2007. Total capital, which is Tier 1 capital plus Tier 2 capital, was $195.0 million at September 30, 2008, and $196.6 million at December 31, 2007. Our consolidated Tier 1 and Total capital ratios, expressed as a percentage of total risk-weighted assets, were 10.18 percent and 11.43 percent, respectively, at September 30, 2008, and 9.60 percent and 10.84 percent, respectively, at December 31, 2007. Both the September 30, 2008 and December 31, 2007 ratios exceed the minimum required ratios of four percent and eight percent for Tier 1 and Total capital, respectively.

We closely monitor the adequacy of regulatory capital and strive to maintain adequate capital at our Bank and on a consolidated basis. At September 30, 2008 the Bank was considered "well capitalized" by regulatory definitions.

The components of our risk-based capital calculations for September 30, 2008 are shown below:

	September 30, 2008 (dollars in thousands)
Tier 1 capital-	
Tangible common shareholders' equity	$ 140,622
Debt related to issuance of trust preferred securities	33,000
Total Tier 1 capital	173,622
Tier 2 capital-Allowable portion of the allowance for loan losses	21,356
Total capital (Tiers 1 and 2)	$ 194,978

Risk-weighted assets	$ 1,705,321
Quarterly average assets	1,980,257
Risk-based capital ratios:	
Tier 1 capital ratio	10.18%
Total capital ratio (Tiers 1 and 2)	11.43%

During the third quarter of 2008, BancTrust declared a regular quarterly dividend of $0.13 per share, payable October 1, 2008 to shareholders of record as of September 15, 2008.

Liquidity

Liquidity management involves the ability to meet the day-to-day cash flow requirements of customers, primarily depositors' withdrawals and borrowers' requirements for funds, in a cost efficient and timely manner. Appropriate liquidity management is achieved by carefully monitoring anticipated liquidity demands and the amount of available liquid assets to meet those demands. Liquid assets (cash and cash items, interest-bearing deposits in other financial institutions, federal funds sold and securities available for sale, excluding pledged assets) totaled $135.4 million at September 30, 2008 and $179.3 million at December 31, 2007. Liquid assets represented 6.48 percent of total assets at September 30, 2008 compared to 8.00 percent at December 31, 2007. The net change in cash and cash equivalents for the nine-month period ended September 30, 2008 was a decrease of $23.3 million or 19.8 percent. This decrease in cash and cash equivalents was due primarily to the decrease in deposits. Cash includes currency on hand and demand deposits with other financial institutions. Cash equivalents are defined as short-term and highly liquid investments, which are readily convertible to known amounts of cash and so near maturity that there is no significant risk of changes in value due to changes in interest rates. We had available unused federal fund lines of credit and FHLB lines of credit totaling approximately $101.9 million at September 30, 2008.

The parent company has available cash and cash equivalents and our subsidiary bank's ability to pay dividends to the parent as sources of liquidity. These sources of liquidity are used to meet the operating expenses of the parent, including debt service requirements and dividend payments to our shareholders.

Except as discussed in this Management's Discussion and Analysis, Management is not aware of any trends, events or uncertainties that will have or that are reasonably likely to have a material adverse effect on our liquidity, capital resources or operations, and Management is not aware of any current proposals or recommendations by applicable regulatory authorities which, if implemented, would have such an effect.

Results of Operations

The acquisition of Peoples was accounted for under the purchase method of accounting as required by United States generally accepted accounting principles. Under this method of accounting, the financial statements of the Company do not reflect results of operations of Peoples for periods before October 15, 2007. This acquisition has made comparison of the third quarter of 2008 to the third quarter of 2007, as well as comparison of the first nine months of 2008 to the first nine months of 2007, less useful as a means of judging the Company's performance.

Three Months Ended September 30, 2008 and 2007

Net Income

The Company recorded net income of $223 thousand, or $0.01 per basic and diluted share, during the third quarter of 2008, compared to net income in the third quarter of 2007 of $2.4 million, or $0.21 per basic and diluted share. The increase in the provision for loan losses, the losses on both the sale and further impairment write-downs of other real estate owned and the increase in non-performing assets are primarily responsible for the decrease in net income. Quarterly average interest-earning assets increased to $1.774 billion for the third quarter of 2008 from $1.199 billion in the third quarter of 2007, an increase of $575.0 million or 47.9 percent. This increase is attributable to the Peoples acquisition. Net interest revenue increased by $2.3 million, or 19.4 percent, from the three months ended September 30, 2007 to the three months ended September 30, 2008, due to the Peoples purchase. Our quarterly net interest margin decreased to 3.25 percent for the third quarter of 2008 from 4.03 percent for the third quarter of 2007. The recent decreases in interest rates and our high level of non-performing assets have contributed to the decrease in our net interest margin. Further interest rate cuts would also have the effect of decreasing our margins.

Provision for Loan Losses

The provision for loan losses is the charge to earnings that is added to the allowance for loan losses in order to maintain the allowance at a level that Management deems adequate to absorb inherent losses in our loan portfolio. See "Asset Quality and Allowance for Loan Losses," above. Net charge-offs in the third quarter of 2008 were $1.0 million compared to $856 thousand in the same period for 2007. The provision for loan losses was $1.9 million in the third quarter of 2008, compared to $1.2 million for the comparable period in 2007. The allowance for loan losses as a percentage of loans, net of unearned income, was 1.65 percent at September 30, 2008 and 1.46 percent at December 31, 2007. Management has increased the allowance for loan losses as a percentage of loans, net of unearned income, primarily as a result of the increase in non-performing assets and difficult market conditions.

Non-Interest Revenue and Expense

Non-interest revenue was $3.9 million for the third quarter of 2008, an increase of $644 thousand from the third quarter of 2007, resulting primarily from the Peoples purchase. We recorded a loss on the sale and further impairment write-downs of foreclosed real estate of $1.7 million in the third quarter of 2008. Service charges on deposit accounts increased $1.3 million, or 86.7 percent from $1.5 million for the third quarter of 2007 to $2.8 million for the same period in 2008, with approximately $1.2 million of the increase attributable to the Peoples purchase. Trust revenue in the third quarter of 2008 of $1.0 million was up from $611 thousand for the same period in 2007. Most of the increase in trust revenue is attributable to the Peoples purchase. Trust assets increased from $702 million at September 30, 2007 to $807 million at September 30, 2008.

Salary and employee benefit expense increased $2.1 million, or 39.2 percent, from the third quarter of 2007 to the third quarter of 2008. Full time equivalent employees increased from 418 at September 30, 2007 to 627 at September 30, 2008. Both the increase in salary and employee benefits and the increase in full time equivalent employees is primarily attributable to the Peoples purchase.

Net occupancy expense was $1.8 million in the third quarter of 2008, an increase of $864 thousand, or 91.1 percent, from the same period of 2007. The Peoples purchase accounts for an increase in net occupancy expense of approximately $876 thousand. Furniture and equipment expense increased by $254 thousand, or 27.3 percent with the Peoples purchase accounting for approximately $178 thousand of this increase. The Company now operates in 51 branches as compared to 31 before the Peoples acquisition in October of 2007. The Company also operates operations centers in Mobile and Selma, Alabama.

Other expense was $4.6 million for the quarter ended September 30, 2008, an increase of $1.4 million from the third quarter of 2007, primarily due to the Peoples purchase. Other expense includes items such as advertising, legal and audit fees, director fees, FDIC insurance, insurance costs, stationery and supplies and loan collection fees. Computer software amortization related to the conversion of the core processing system of our bank, insurance and other expenses associated with other real estate owned, and increased legal fees related to loan collection also contributed to the increase.

In the second quarter, we merged our Alabama and Florida banks and continued the process of integrating the operations of Peoples. We now operate as a one-bank holding company. BancTrust has consolidated all of its banking operations into a single subsidiary and has eliminated approximately $5 million in annual costs as a part of the merger and integration process. We expect to reduce our non-interest costs by another $3 million on an annualized basis as we realize additional savings from these mergers.

Income tax benefit was $37 thousand for the third quarter of 2008, compared to income tax expense of $927 thousand for the same period in 2007, reflecting lower taxable income.

Nine Months Ended September 30, 2008 and 2007

Net Income

The Company recorded net income of $4.7 million, or $0.27 per basic and diluted share, during the first nine months of 2008, compared to net income in the first nine months of 2007 of $6.1 million, or $0.54 per basic, and $0.53 per diluted, share. The increase in the provision for loan losses, the losses on sale of other real estate owned and the increase in non-performing assets are primarily responsible for the decrease in net income. Average interest-earning assets increased from $1.236 billion for the first nine months of 2007 to $1.828 billion in the first nine months of 2008, an increase of $592.0 million or 47.9 percent. This increase is primarily attributable to the Peoples acquisition. Net interest revenue increased by $11.1 million, or 30.5 percent, from the nine months ended September 30, 2007 to the nine months ended September 30, 2008, due primarily to the Peoples purchase. Our net interest margin decreased to 3.49 percent for the first nine months of 2008 from 3.99 percent for the same period in 2007. The recent decreases in interest rates have contributed to the decrease in our net interest margin. Also contributing to the decrease in our net interest margin is our high level of non-performing assets.

Provision for Loan Losses

The provision for loan losses is the charge to earnings that is added to the allowance for loan losses in order to maintain the allowance at a level that is adequate to absorb inherent losses in our loan portfolio. See "Asset Quality and Allowance for Loan Losses," above. Net charge-offs in the first nine months of 2008 were $5.5 million compared to $1.6 million in the same period for 2007. The provision for loan losses was $7.2 million in the first nine months of 2008, compared to $4.9 million for the comparable period in 2007. The allowance for loan losses as a percentage of loans, net of unearned income, was 1.65 percent at September 30, 2008 and 1.46 percent at December 31, 2007. Management has increased the allowance for loan losses as a percentage of loans, net of unearned income, primarily as a result of the increase in non-performing assets and difficult market conditions.

Non-Interest Revenue and Expense

Non-interest revenue was $15.8 million for the first nine months of 2008, an increase of $6.4 million from the first nine months of 2007, resulting primarily from the Peoples purchase. Non-interest revenue in the first nine months of 2008 includes a gain of $1.1 million from the sale of an interest rate floor that was acquired in the Peoples purchase and losses on the sale and further impairment write-downs of foreclosed property of $1.7 million. Trust revenue in the first nine months of 2008 of $3.0 million was up from $2.1 million for the same period in 2007. Most of the increase in trust revenue is attributable to the Peoples purchase.

Salary and employee benefit expense increased $6.9 million, or 40.8 percent, from the first nine months of 2007 to the first nine months of 2008 due primarily to the Peoples purchase.

Net occupancy expense was $5.5 million in the first nine months of 2008, an increase of $2.8 million, or 102.0 percent, from the same period of 2007. Furniture and equipment expense increased by $1.1 million, or 44.8 percent. Both increases are due primarily to the increase in the number of branches operated by the Company following the Peoples purchase, from 31 in the first nine months of 2007 to 51 in the first nine month of 2008. The Company also operates operations centers in Mobile and Selma, Alabama.

Other expense was $13.8 million for the nine months ended September 30, 2008, an increase of $4.0 million from the first nine months of 2007, resulting primarily from the Peoples purchase. Other expense includes items such as advertising, legal and audit fees, director fees, FDIC insurance, insurance costs, stationery and supplies and loan collection fees. Computer software amortization related to the conversion of the core processing system of our bank, insurance and other expenses associated with other real estate owned, and increased legal fees related to loan collection also contributed to the increase.

Income tax expense was $2.0 million for the first nine months of 2008, compared to $2.3 million for the same period in 2007, reflecting decreased taxable income in 2008. The effective combined federal and state income tax rates for the first nine months of 2008 and 2007 were 29.2 percent and 27.9 percent, respectively. Non-taxable income as a percentage of income before income taxes decreased in the first nine months of 2008 compared to the same period in 2007, and this contributed to the increase in the effective combined federal and state income tax rate.

Contractual Obligations

In the normal course of business, the Company enters into various contractual obligations. For a discussion of contractual obligations see "Contractual Obligations and Off-Balance Sheet Arrangements" in BancTrust's 2007 Annual Report on Form 10-K. Items disclosed in the Annual Report on Form 10-K have not changed materially since the report was filed.

Off-Balance Sheet Arrangements

The Company, as part of its ongoing business operations, issues financial guaranties in the form of financial and performance standby letters of credit. Standby letters of credit are contingent commitments issued by the Company generally to guarantee the performance of a customer to a third party. A financial standby letter of credit is a commitment by the Company to guarantee a customer's repayment of an outstanding loan or financial obligation. In a performance standby letter of credit, the Company guarantees a customer's performance under a contractual non-financial obligation for which it receives a fee. The Company has recourse against the customer for any amount it is required to pay to a third party under a standby letter of credit. Revenues are recognized over the life of the standby letter of credit. At September 30, 2008, the Company had standby letters of credit outstanding with maturities ranging from less than one year to over five years. The maximum potential amount of future payments the Company could be required to make under its standby letters of credit at September 30, 2008 was $30.2 million, and that sum represents the Company's maximum credit risk. At September 30, 2008, the Company had $302 thousand of liabilities associated with standby letter of credit agreements.

Registration Statement

On October 6, 2008, the Company filed a shelf registration statement on Form S-3 with the SEC. Once the registration statement is declared effective by the SEC, BancTrust will be able to periodically offer and sell, individually or in any combination, common stock, preferred stock, rights and/or warrants of BancTrust up to a total of $75 million, subject to market conditions and the company's capital needs. The specific terms of any securities to be offered, and the specific manner in which they may be offered, will be described in one or more supplements to the base prospectus contained in the registration statement. The registration statement has not yet been declared effective by the SEC. BancTrust has not yet determined the terms of the securities which may be offered under this registration statement.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

Market risk is a risk of loss arising from adverse changes in market prices and rates. The Company's market risk is composed primarily of interest rate risk created by its lending and deposit taking activities. The primary purpose of managing interest rate risk is to reduce the effects of interest rate volatility on our financial condition and results of operations. Management addresses this risk through an active Asset/Liability management process and through management of maturities and repricing of interest-earning assets and interest-bearing liabilities. The Company's market risk and strategies for market risk management are more fully described in its 2007 annual report on Form 10-K. There have been no changes in the assumptions used in monitoring interest rate risk as of September 30, 2008. Through September 30, 2008, Management has not utilized derivatives as a part of this process, but it may do so in the future. We acquired an interest rate floor contract in the Peoples purchase, which we sold in the first quarter of 2008.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Disclosure controls are controls and other procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's ("SEC") rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to Management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on their evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe the controls and procedures in place are effective to ensure that information required to be disclosed complies with the SEC's rules and forms.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases by or on behalf of BancTrust or any affiliated purchaser (as defined in SEC Rule 10b-18(a)(3)) of BancTrust during the quarter ended September 30, 2008 of equity securities that are registered by BancTrust pursuant to Section 12 of the Exchange Act.

Period	Total Number Of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number of Shares That May Yet Be Purchased Under The Plans Or Programs(2)
07/01/08-07/31/08	3,092	$ 8.12	0	229,951
08/01/08-08/31/08	891	$ 8.50	0	229,951
09/01/08-09/30/08	723	$ 14.09	0	229,951
Total	4,706	$ 9.11	0	229,951

1. 4,706 shares were purchased on the open market to provide shares to participants in BancTrust's grantor trust related to its deferred compensation plan for directors.
2. Under a share repurchase program announced on September 28, 2001, BancTrust may buy up to 425,000 shares of its common stock. The repurchase program does not have an expiration date. Shares purchased in BancTrust's grantor trust do not decrease the number of shares that may be purchased under the share repurchase program.

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

The shareholders approved, during a special meeting on September 30, 2008, an increase in the number of shares the Company is authorized to issue from 20 million to 50 million. A total of 14,657,513 shares of Common Stock, or 83.03 percent of the total outstanding, were represented either in person or by proxy at the meeting. The increase in the number of authorized shares was approved, as follows:

Votes in Favor	12,828,371
Votes Against	1,795,313
Abstaining	33,829

A complete copy of the Company's Articles of Incorporation, as amended, are attached hereto as Exhibit 3.1.

Item 6. Exhibits

3.1 Amended and Restated Articles of Incorporation, as Amended.

31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

BancTrust Financial Group, Inc.

November 7, 2008
Date

By: /s/W. Bibb Lamar, Jr.
W. Bibb Lamar, Jr.
President and Chief Executive Officer

November 7, 2008
Date

By: /s/F. Michael Johnson
F. Michael Johnson
Chief Financial Officer and Secretary

EXHIBIT INDEX

SEC Assigned Exhibit No.	Description of Exhibit	Page No.
3.1	Amended and Restated Articles of Incorporation, as	

	Amended.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 3.1

AMENDED AND RESTATED ARTICLES OF INCORPORATION OF BANCTRUST FINANCIAL GROUP, INC.

ARTICLE ONE

The name of the Corporation shall be "BancTrust Financial Group, Inc."

ARTICLE TWO

(a) Capital Stock. The total number of shares of capital stock which the Corporation shall have authority to issue is 20,500,000 shares, consisting of:

(1) 20,000,000 shares of Common Stock with a par value of $.01 per share and (2) 500,000 shares of Preferred Stock.

(b) Preferred Stock. Shares of Preferred Stock may be issued from time to time in one or more classes or series as may be determined from time to time by the Board of Directors, each such class or series to be distinctly designated. Except in respect of the particulars fixed by the Board of Directors for classes or series provided for by the Board of Directors as permitted hereby, all shares of Preferred Stock shall be of equal rank and shall be identical. All shares of any one series of Preferred Stock so designated by the Board of Directors shall be alike in every particular, except that shares of any one series issued at different times may differ as to the dates from which dividends thereon shall be cumulative. The voting powers, if any, of each such class or series and the preferences and relative, participating, optional and other special rights of each such class or series and the qualifications, limitations and restrictions thereof, if any, may differ from those of any and all other classes or series at any time outstanding; and the Board of Directors of the Corporation is hereby expressly granted authority to fix, by resolutions duly adopted prior to the issuance of any shares of a particular class or series of Preferred Stock so designated by the Board of Directors, the voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions of the class or series of Preferred Stock, including, but without limiting the generality of the foregoing, the following:

(1) The distinctive designation of, and the number of shares of Preferred Stock which shall constitute, such class or series; such number may be increased (except where otherwise provided by the Board of Directors) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;

(2) The rate and time at which, and the terms and conditions upon which, dividends, if any, on Preferred Stock of such class or series shall be paid, the extent of the preference or relation, if any, of such dividends to the dividends payable on any other class or classes or series of the same or other classes of stock, and whether such dividends shall be cumulative or non-cumulative;

(3) The right, if any, of the holders of Preferred Stock of such class or series to convert the same into, or exchange the same for, shares of any other class or classes or of any series of the same or any other class or classes of stock and the terms and conditions of such conversion or exchange;

(4) Whether or not Preferred Stock of such class or series shall be subject to redemption, and the redemption price or prices and the time or times at which, and the terms and conditions upon which, Preferred Stock of such class or series may be redeemed;

(5) The rights, if any, of the holders of Preferred Stock of such class or series upon the voluntary or involuntary liquidation of the Corporation;

(6) The terms of the sinking fund or redemption or purchase account, if any, to be provided for the Preferred Stock of such class or series; and

(7) The voting powers, full or limited, or no voting powers, of the holders of such class or series of Preferred Stock. The Board of Directors of the Corporation is further expressly vested with the authority to make the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of any class or series of Preferred Stock dependent upon facts ascertainable outside these Articles of Incorporation or of any amendment hereto, or outside the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors, provided that the manner in which such facts shall operate upon the voting powers, designations, preferences, rights and qualifications, limitations or restrictions of such class or series of Preferred Stock is clearly and expressly set forth in the resolution or resolutions providing for the issuance of such stock adopted by the Board of Directors.

(c) Board of Directors Authority. Except as otherwise provided in these Articles of Incorporation, the Board of Directors shall have authority to authorize the issuance, from time to time without any vote or other action by the shareholders, of any or all shares of stock of the Corporation of any class or series at any time authorized, and any securities convertible into or exchangeable for any such shares, and any options, rights or warrants to purchase or acquire any such shares, in each case to such persons and on such terms (including as a dividend or distribution on or with respect to, or in connection with a split or combination of, the outstanding shares of stock of the same or any other class) as the Board of Directors from time to time in its discretion lawfully may determine; provided, however, that the consideration for the issuance of shares of stock of the Corporation having par value (unless issued as such a dividend or distribution or in connection with such a split or combination) shall not be less than such par value. Shares so issued shall be fully paid stock, and the holders of such stock shall not be liable for any further call or assessments thereon.

ARTICLE THREE

The location and mailing address of the Corporation's initial registered office, and the name of its initial registered agent at such address, are as follows:

F. Michael Johnson
BancTrust Financial Group, Inc.
100 St. Joseph Street
Mobile, Alabama 36602

ARTICLE FOUR

The name and address of the incorporator are as follows:

Brooks P. Milling, Esq.
Hand Arendall, L.L.C.
3000 AmSouth Bank Building
Mobile, Alabama 36602

ARTICLE FIVE

(a) The number of directors which shall constitute the whole board shall not be less than three nor more than thirty. The number of directors constituting the initial board of directors shall be three (3), and the names and addresses of the persons who are to serve as directors until the first annual meeting of shareholders, or until their successors be elected and qualify, are as follows:

W. Bibb Lamar, Jr.
BancTrust Financial Group, Inc.
100 St. Joseph Street
Mobile, Alabama 36602

F. Michael Johnson
BancTrust Financial Group, Inc.
100 St. Joseph Street
Mobile, Alabama 36602

Stephen G. Crawford
Hand Arendall, L.L.C.
3000 AmSouth Bank Building
Mobile, Alabama 36602

(b) The board at the time these Amended and Restated Articles of Incorporation become effective consists of nineteen (19) directors. Thereafter, within the limits above specified and subject to the limitation contained in Section 10-2B-8.03(b) of the Alabama Business Corporation Act, the number of directors shall be determined by resolution of the board of directors. The directors shall be elected at the annual meeting of the shareholders, except as provided in Subparagraph (c) of this Article, and each director elected shall hold office until his successor is elected and qualified, unless sooner displaced. Directors need not be shareholders.

(c) Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

ARTICLE SIX

The purpose of the Corporation is to own and hold capital stock and other ownership interests in state and national banks and other entities permitted to be owned by bank holding companies, to be a registered bank holding company and to engage in any lawful act or activity which is now or hereafter permitted to a bank holding company or other corporation organized under the Alabama Business Corporation Act (the "ABCA") or by any other law of Alabama and by these Articles of Incorporation, and to exercise any and all powers incidental thereto.

ARTICLE SEVEN

The affirmative vote of the holders of not less than seventy-five percent (75%) of the outstanding stock of the Corporation entitled to vote shall be required for approval if (1) this Corporation merges or consolidates with any other corporation if such other corporation and its affiliates in the aggregate are directly or indirectly the beneficial owners of more than five percent (5%) of the total voting power of all outstanding shares of the voting stock of this Corporation (such other corporation being herein referred to as a "Related Corporation"), or if (2) this Corporation sells or exchanges all or a substantial part of its assets to or with such Related Corporation, or if (3) this Corporation issues or delivers any stock or other securities of its issue in exchange or payment for any properties or assets of such Related Corporation or securities issued by such Related Corporation, or in a merger of any affiliate of this Corporation with or into such Related Corporation or any of its affiliates; provided, however, that the foregoing shall not apply to any such merger, consolidation, sale or exchange, or issuance or delivery of stock or other securities which was approved by the affirmative vote of not fewer than seventy-five percent (75%) of the directors of this Corporation, nor shall it apply to any such transaction solely between this Corporation and another corporation fifty percent (50%) or more of the voting stock of which is owned by this Corporation. For the purposes hereof, an "affiliate" is any person (including a corporation, partnership, trust, estate or individual) who directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified. "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise; and, in computing the percentage of outstanding voting stock beneficially owned by any person, the shares outstanding and the shares owned shall be determined as of the record date fixed to determine the shareholders entitled to vote or express consent with respect to such proposal. The shareholder vote, if any, required for mergers, consolidations, sales or exchanges of assets or issuances of stock or other securities not expressly provided for in this Article, shall be such as may be required by applicable law. A "substantial part" of the Corporation's assets shall mean assets the book value of which comprises more than twenty percent (20%) of the book value, or the fair market value of which comprises more than twenty percent (20%) of the fair market value, of the total assets of the Corporation and its subsidiaries taken as a whole, as of the end of the most recent fiscal year ended prior to the time the determination is made.

ARTICLE EIGHT

No action shall be taken by the shareholders except at an annual or special meeting of shareholders. No action shall be taken by shareholders by written consent.

ARTICLE NINE

Special meetings of the shareholders of the Corporation for any purpose or purposes may be called at any time in the manner specified in Sections 10-2B-7.02(a)2 and 7.02(a)(3) of the Alabama Business Corporation Act, by the Board of Directors, or by a majority of the members of the Board of Directors, or by a committee of the Board of Directors which has been duly designated by the Board of Directors and whose powers and authority, as provided in a resolution of the Board of Directors or in the bylaws of the Corporation, include the power to call such meetings, but such special meetings may not be called by any other person or persons.

ARTICLE TEN

In furtherance and not in limitation of the powers now or hereafter conferred by statute, the Board of Directors is expressly authorized:

(a) To make, alter or repeal the bylaws of the Corporation.

(b) To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

(c) To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

(d) By a majority of the whole board, to designate one or more committees, each committee to consist of one or more of the directors of the Corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. The bylaws may provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors, or in the bylaws of the Corporation, shall have and may exercise all the powers and authority of the Board of Directors to the extent permitted by law.

ARTICLE ELEVEN

(a) Personal Liability of Directors

(1) A director of the Corporation shall not be personally liable to the Corporation or its shareholders for monetary damages for any action taken,

or any failure to take action, as a director, except for liability for (i) the amount of a financial benefit received by a Director to which he or she is not entitled, (ii) an intentional infliction of harm on the Corporation or the shareholders, (iii) a violation of ss. 10-2B-8.33 of the ABCA, (iv) an intentional violation of criminal law, or (v) a breach of the director's duty of loyalty to the Corporation or its shareholders. If the ABCA is amended after these Articles of Incorporation are filed to authorize corporate action further eliminating or limiting the personal liability of directors, the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the ABCA, as so amended.

(2) Any repeal or modification of the foregoing subparagraph (1) by the shareholders of the Corporation shall not affect adversely any right or protection of a director of the Corporation existing at the time of that repeal or modification.

(b) Indemnification.

(1) Actions Against Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed claim, action, suit or proceeding, whether civil, criminal, administrative or investigative, including appeals (other than an action by or in the right of the Corporation in which such person was adjudged liable to the Corporation or any proceeding in which such person is adjudged liable on the basis of receipt of improper personal benefit), by reason of the fact that he is or was a director or officer of the Corporation (including, without limitation, conduct with respect to an employee benefit plan), or is or was serving at the request of the Corporation as a director, officer or partner of another corporation, partnership, joint venture, trust or other enterprise, against reasonable expenses (including attorneys' fees), judgments, fines and amounts paid in settlement and incurred by him in connection with such claim, action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or, if not acting in his official capacity, not opposed to the best interests of the Corporation (or of the participants or beneficiaries of an employee benefit plan, in the case of conduct with respect to such a plan), and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any claim, action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, be determinative that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, as the case may be, and with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful.

(2) Actions by or in the Right of the Corporation. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed claim, action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer or partner of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or, if not acting in his official capacity, not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any such claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation, unless and only to the extent that the court in which such action or suit was brought or another court of competent jurisdiction shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses as such court shall deem proper.

(3) Successful Defense. To the extent that a director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Subparagraphs (1) or (2) of Subsection (b) of this Article Eleven, or in defense of any claim, issue or matter therein, he shall be indemnified against reasonable expenses (including attorneys' fees) incurred by him in connection therewith, notwithstanding that he has not been successful on any other claim, issue or matter in any such action, suit or proceeding.

(4) Determination of Indemnification. Any indemnification under Subparagraphs (1) or (2) of Subsection (b) of this Article Eleven (unless ordered by a court of competent jurisdiction) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer or partner is proper in the circumstances because he has met the applicable standard of conduct set forth in Subparagraphs (1) or (2) of Subsection (b) of this Article Eleven. Such determination shall be made (A) by the board of directors by a majority vote of a quorum consisting of directors not at the time parties to such claim, action, suit or proceeding, or its said committee referred to in this section or (B) if such quorum is not obtainable, by a majority vote of a committee duly designated by the directors (with participation in such designation permitted by directors who are parties) consisting solely of two or more directors not at the time parties thereto, or (C) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by special legal counsel selected in accordance with the Alabama Business Corporation Act, or (D) by the shareholders except that shares owned by or voted under the control of directors who are at the time parties to the proceeding may not be voted on the determination. A majority of the shares remaining entitled to vote on the determination (that is after the exclusion of the said shares not entitled to be so voted thereon) constitutes a quorum for the purposes of taking shareholder action under this Article Eleven.

(5) Advanced Expenses. Expenses (including attorneys' fees) incurred in defending a civil or criminal claim, action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such claim, action, suit or proceeding as authorized in the manner provided in Subparagraph (4) of Subsection (b) of this Article Eleven upon (A) receipt of a written affirmation by the director or officer seeking the advance of a good faith belief that he or she has met the standard of conduct required under this Article Eleven, (B) receipt of an undertaking as an unlimited general obligation (without the necessity of security and without reference to financial ability to make repayment) by or on behalf of the director or officer to repay such amount if and to the extent that it shall be ultimately determined that he is not entitled to be indemnified by the Corporation as authorized in this Article Eleven and (C) a determination (made by the person or persons and in the manner specified in Subparagraph (4) of Subsection (b) of this Article Eleven) that the facts then known to those making said determination would not preclude indemnification under this Article Eleven.

(6) Non-Exclusiveness. The indemnification authorized by this Article Eleven shall not be deemed exclusive of and shall be in addition to any

other right (whether created prior or subsequent to the adoption of these Articles of Incorporation) to which those indemnified may be entitled under any statute, rule of law, provisions of Articles of Incorporation, bylaws, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer or partner and shall inure to the benefit of the heirs, executors and administrators of such a person. This Article Eleven does not and shall not be deemed to limit or restrict the authority and power of the Corporation to pay or reimburse expenses incurred by such person in connection with his or her appearance as a witness in a proceeding at a time when he or she has not been made a named defendant or respondent therein.

(7) Insurance. The Corporation shall have power to purchase and maintain insurance or furnish similar protection (including, but not limited to, trust funds, self-insurance reserves, or the like) on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article Eleven.

ARTICLE TWELVE

(a) Nominations for the election of directors and proposals for any new business to be taken up at any annual or special meeting of shareholders may be made by the board of directors of the Corporation or by any shareholder of the Corporation entitled to vote generally in the election of directors. In order for a shareholder of the Corporation to make any such nominations and/or proposals, he or she shall give notice thereof in writing, delivered or mailed by first class United States mail, postage prepaid, to the Secretary of the Corporation not less than thirty days nor more than sixty days prior to the date of any such meeting. Each such notice given by a shareholder with respect to nominations for the election of directors shall set forth (i) the name, age, business address and, if known, residence address of each nominee proposed in such notice, (ii) the principal occupation or employment of each such nominee, and (iii) the number of shares of stock of the Corporation which are beneficially owned by each such nominee. In addition, the shareholder making such nomination shall promptly provide any other information reasonably requested by the Corporation.

(b) Each such notice given by a shareholder to the Secretary with respect to business proposals to be brought before a meeting shall set forth in writing as to each matter: (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting; (ii) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business; (iii) the class and number of shares of the Corporation which are beneficially owned by the shareholder; and (iv) any material interest of the shareholder in such business. Notwithstanding anything in these Articles of Incorporation to the contrary, no new business shall be conducted at the meeting except in accordance with the procedures set forth in this Article.

(c) The Chairman of the annual or special meeting of shareholders may, if the facts warrant, determine and declare to such meeting that a nomination or proposal was not made in accordance with the foregoing procedure, and, if he should so determine, he shall so declare to the meeting and the defective nomination or proposal shall be disregarded and laid over for action at the next succeeding special or annual meeting of the shareholders taking place thirty days or more thereafter. This provision shall not require the holding of any adjourned or special meeting of shareholders for the purpose of considering such defective nomination or proposal.

ARTICLE THIRTEEN

The Corporation reserves the right to amend or repeal any provisions contained in these Articles of Incorporation in the manner now or hereafter prescribed by statute, and all rights conferred upon shareholders herein are granted subject to this reservation; provided, however, that the provisions of Articles Seven, Eight, Nine and Twelve and this Article Thirteen may not be repealed or amended in any respect unless, in addition to other statutory requirements, such repeal or amendment is approved by either the affirmative vote of the holders of not less than seventy-five percent (75%) of the outstanding stock of the Corporation entitled to vote or the affirmative vote of not less than seventy-five percent (75%) of the directors.

ARTICLE FOURTEEN

Shareholders of the Corporation shall not have any preemptive right to acquire the Corporation's unissued shares.

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
BANCTRUST FINANCIAL GROUP, INC.

These Articles of Amendment are made and entered into by the undersigned on this 30 th day of September, 2008 in accordance with Section 10-2B-10.03, Code of Ala . (1975).

ARTICLE ONE

The name of the corporation is BancTrust Financial Group, Inc.

ARTICLE TWO

The Articles of Incorporation of the corporation are amended by deleting subparagraph (a) of Article Two in its entirety and replacing the same with the following:

> "(a) Capital Stock. The total number of shares of capital stock which the Corporation shall have authority to issue is 50,500,000 shares, consisting of: (1) 50,000,000 shares of Common Stock with a par value of $.01 per share, and (2) 500,000 shares of Preferred Stock."

ARTICLE THREE

The foregoing amendment was duly adopted by the corporation in the manner prescribed by law on September 30, 2008.

ARTICLE FOUR

(a) The number of outstanding shares entitled to vote on the foregoing amendment is 17,653,866 shares of common stock. The corporation has no separate voting groups, and 14,657,513 shares were represented at the meeting.

(b) The shares were voted 12,828,371 shares for said amendment, 1,795,313 shares against said amendment and 33,829 shares abstaining.

IN WITNESS WHEREOF, the undersigned has caused these Articles of Amendment to be executed by its duly authorized officer on the day and year first above written.

BANCTRUST FINANCIAL GROUP, INC.

By: */s/ W. Bibb Lamar, Jr.*

W. BIBB LAMAR, JR.

Its President and Chief Executive Officer

Exhibit 31.1

Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, W. Bibb Lamar, Jr., certify that:

1. I have reviewed this report on Form 10-Q of BancTrust Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008

/s/W. Bibb Lamar, Jr.
W. Bibb Lamar, Jr.
President and Chief Executive Officer

Exhibit 31.2

Certification by the Chief Financial Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, F. Michael Johnson, certify that:

1. I have reviewed this report on Form 10-Q of BancTrust Financial Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2008
/s/F. Michael Johnson
F. Michael Johnson
Chief Financial Officer

Exhibit 32.1

Certification by the Chief Executive Officer Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U. S. C. Section 1350, I, W. Bibb Lamar, Jr., hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of BancTrust Financial Group, Inc. for the fiscal quarter ended September 30, 2008 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of BancTrust Financial Group, Inc.

/s/W. Bibb Lamar, Jr.
W. Bibb Lamar, Jr.
President and Chief Executive Officer
November 7, 2008

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Exhibit 32.2

Certification by the Chief Financial Officer Pursuant to 18 U. S. C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U. S. C. Section 1350, I, F. Michael Johnson, hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of BancTrust Financial Group, Inc. for the fiscal quarter ended September 30, 2008 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of BancTrust Financial Group, Inc.

/s/F. Michael Johnson
F. Michael Johnson
Chief Financial Officer
November 7, 2008

This certification accompanies this Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.