

CAPITAL CITY BANK GROUP INC  
Form 10-K  
March 13, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008  
OR  
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

(Exact name of Registrant as specified in its charter)

Florida 0-13358 59-2273542  
(State of Incorporation) (Commission File Number) (IRS Employer Identification No.)

217 North Monroe Street, Tallahassee, Florida 32301  
(Address of principal executive offices) (Zip Code)  
(850) 671-0300  
(Registrant's telephone number, including area code)

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

Title of Each Class Name of Each Exchange on Which Registered  
Common Stock, \$0.01 par value The NASDAQ Stock Market LLC

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

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incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  ]

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

Large accelerated filer   
]

Accelerated filer   
Non-accelerated filer  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

The aggregate market value of the registrant's common stock, \$0.01 par value per share, held by non-affiliates of the registrant on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$204,847,378 (based on the closing sales price of the registrant's common stock on that date). Shares of the registrant's common stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting power of the registrant have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes.

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

| Class                                    | Outstanding at February 27, 2009 |
|--|----------------------------------|
| Common Stock, \$0.01 par value per share | 17,139,730 shares                |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the Annual Meeting of Shareowners to be held on April 21, 2009, are incorporated by reference in Part III.

CAPITAL CITY BANK GROUP, INC.  
ANNUAL REPORT FOR 2008 ON FORM 10-K

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## INTRODUCTORY NOTE

This Annual Report on Form 10-K contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words “may,” “could,” “should,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “target,” “goal,” and similar are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements.

In addition to those risks discussed in this Annual Report under Item 1A Risk Factors, factors that could cause our actual results to differ materially from those in the forward-looking statements, include, without limitation:

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
  - changes in the securities and real estate markets;
- changes in monetary and fiscal policies of the U.S. Government;
  - inflation, interest rate, market and monetary fluctuations;
  - legislative or regulatory changes;
  - the frequency and magnitude of foreclosure of our loans;
- the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision;
  - our need and our ability to incur additional debt or equity financing;
- our ability to integrate the business and operations of companies and banks that we have acquired, and those we may acquire in the future;
  - the effects of harsh weather conditions, including hurricanes;
  - our ability to comply with the extensive laws and regulations to which we are subject;
- the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
  - increased competition and its effect on pricing;
    - technological changes;
  - the effects of security breaches and computer viruses that may affect our computer systems;
    - changes in consumer spending and saving habits;
    - growth and profitability of our noninterest income;
  - changes in accounting principles, policies, practices or guidelines;
    - the limited trading activity of our common stock;
    - the concentration of ownership of our common stock;
- anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
  - other risks described from time to time in our filings with the Securities and Exchange Commission; and
    - our ability to manage the risks involved in the foregoing.

However, other factors besides those listed in Item 1A Risk Factors or discussed in this Annual Report also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.



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PART I

Item 1. Business

About Us

General

Capital City Bank Group, Inc. (“CCBG”) is a financial holding company registered under the Gramm-Leach-Bliley Act of 1999 (“Gramm-Leach-Bliley Act”). CCBG was incorporated under Florida law on December 13, 1982, to acquire five national banks and one state bank that all subsequently became part of CCBG’s bank subsidiary, Capital City Bank (“CCB” or the “Bank”). In this report, the terms “Company”, “we”, “us”, or “our” mean CCBG and all subsidiaries included in our consolidated financial statements.

We provide traditional deposit and credit services, asset management, trust, mortgage banking, merchant services, bank cards, data processing, and securities brokerage services through 68 full-service banking locations in Florida, Georgia, and Alabama. CCB operates these banking locations.

At December 31, 2008, we had total consolidated assets of approximately \$2.5 billion, total deposits of approximately \$2 billion and shareowners’ equity was approximately \$279 million. Our financial condition and results of operations are more fully discussed in our consolidated financial statements.

CCBG’s principal asset is the capital stock of the Bank. CCB accounted for approximately 100% of consolidated assets at December 31, 2008, and approximately 100% of consolidated net income for the year ended December 31, 2008. In addition to our banking subsidiary, we have seven indirect subsidiaries, Capital City Trust Company, Capital City Mortgage Company (inactive), Capital City Banc Investments, Inc., Capital City Services Company, First Insurance Agency of Grady County, Inc., Southern Oaks, Inc., and FNB Financial Services, Inc., all of which are wholly-owned subsidiaries of CCB, and two direct subsidiaries CCBG Capital Trust I and CCBG Capital Trust II, both wholly-owned subsidiaries of CCBG.

Dividends and management fees received from the Bank are our only source of income. Dividend payments by the Bank to us depend on the capitalization, earnings and projected growth of the Bank, and are limited by various regulatory restrictions. See the section entitled “Regulatory Considerations” in this Item 1 and Note 15 in the Notes to Consolidated Financial Statements for additional information. We had a total of 1,042 (full-time equivalent) associates at February 27, 2009. Page 25 contains other financial and statistical information about us.

We have one reportable segment with the following principal services: Banking Services, Data Processing Services, Trust and Asset Management Services, and Brokerage Services.

Banking Services

CCB is a Florida chartered full-service bank engaged in the commercial and retail banking business. Significant services offered by the Bank include:

- Business Banking – The Bank provides banking services to corporations and other business clients. Credit products are available for a wide variety of general business purposes, including financing for commercial business properties, equipment, inventories and accounts receivable, as well as commercial leasing and letters of credit. We also provide treasury management services, and, through a marketing alliance with Elavon, Inc., merchant credit

card transaction processing services.

- Commercial Real Estate Lending – The Bank provides a wide range of products to meet the financing needs of commercial developers and investors, residential builders and developers, and community development. Credit products are available to facilitate the purchase of land and/or build structures for business use and for investors who are developing residential or commercial property.
- Residential Real Estate Lending – The Bank provides products to help meet the home financing needs of consumers, including conventional permanent and construction/permanent (fixed or adjustable rate) financing arrangements, and FHA/VA loan products. The bank offers both fixed-rate and adjustable rate (ARM) residential mortgage loans. As of December 31, 2008, approximately 14.1% of the Bank's loan portfolio consisted of residential ARM loans. A portion of our loans originated are sold into the secondary market. We do not originate subprime residential real estate loans.

The Bank offers these products through its existing network of offices in addition to a mortgage lending office in Gainesville, Florida (Alachua County).

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- Retail Credit – The Bank provides a full range of loan products to meet the needs of consumers, including personal loans, automobile loans, boat/RV loans, home equity loans, and credit card programs.
- Institutional Banking – The Bank provides banking services to meet the needs of state and local governments, public schools and colleges, charities, membership and not-for-profit associations including customized checking and savings accounts, cash management systems, tax-exempt loans, lines of credit, and term loans.
- Retail Banking - The Bank provides a full range of consumer banking services, including checking accounts, savings programs, automated teller machines (ATMs), debit/credit cards, night deposit services, safe deposit facilities, and PC/Internet banking. Clients can use the Capital City Bank Direct which offers both a “live” call center between the hours of 8 a.m. to 6 p.m. five days a week, and an automated phone system offering 24-hour access to their deposit and loan account information, and transfer funds between linked accounts. The Bank is a member of the “Star” ATM Network that permits banking clients to access cash at ATMs or point of sale merchants.

### Data Processing Services

Capital City Services Company (the “Services Company”) provides data processing services to financial institutions (including CCB), government agencies, and commercial clients located throughout North Florida and South Georgia. As of February 27, 2009, the Services Company is providing data processing services to seven correspondent banks, which have relationships with CCB.

### Trust Services and Asset Management

Capital City Trust Company (the “Trust Company”) is the investment management arm of CCB. The Trust Company provides asset management for individuals through agency, personal trust, IRAs, and personal investment management accounts.

Administration of pension, profit sharing, and 401(k) plans is a significant product line. Associations, endowments, and other non-profit entities hire the Trust Company to manage their investment portfolios. Additionally, a staff of well-trained professionals serves individuals requiring the services of a trustee, personal representative, or a guardian. The market value of trust assets under discretionary management exceeded \$664.0 million as of December 31, 2008, with total assets under administration exceeding \$677.0 million.

### Brokerage Services

We offer access to retail investment products through Capital City Banc Investments, Inc., a wholly-owned subsidiary of CCB. These products are offered through INVEST Financial Corporation, a member of FINRA and SIPC. Non-deposit investment and insurance products are: (1) not FDIC insured; (2) not deposits, obligations, or guaranteed by any bank; and (3) subject to investment risk, including the possible loss of principal amount invested. Capital City Banc Investments, Inc. offers a full line of retail securities products, including U.S. Government bonds, tax-free municipal bonds, stocks, mutual funds, unit investment trusts, annuities, life insurance and long-term health care. We are not an affiliate of INVEST Financial Corporation.

### Expansion of Business

Since 1984, we have completed 15 acquisitions totaling approximately \$1.6 billion in deposits within existing and new markets. In addition, since 2003, we have opened 12 new banking offices to improve service and product delivery within our markets, two of which were opened during 2008 (Macon, Georgia and Brooksville, Florida). We



currently have in construction, three replacement banking offices (Macon, Georgia, Palatka, Florida and Gainesville, Florida scheduled for opening in the first half of 2010.

We plan to continue our expansion, emphasizing a combination of growth in existing markets and acquisitions. The restructuring in late 2007 of our community banking sales and service model has resulted in a more tactical focus on certain higher growth metro markets, including Macon, Tallahassee, Gainesville, and Hernando/Pasco counties. Acquisitions will be focused on a three state area including Florida, Georgia, and Alabama with a particular focus on acquiring banks and banking offices, which are \$100 million to \$400 million in asset size, located on the outskirts of major metropolitan areas. We will evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management and mortgage banking.

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## Competition

The banking business is rapidly changing. We operate in a highly competitive environment, especially with respect to services and pricing. The on-going consolidation of the banking industry has altered and continues to significantly alter the competitive environment within the Florida, Georgia, and Alabama markets. We believe this consolidation further enhances our competitive position and opportunities in many of our markets. Our primary market area is 20 counties in Florida, five counties in Georgia, and one county in Alabama. In these markets, the Bank competes against a wide range of banking and nonbanking institutions including savings and loan associations, credit unions, money market funds, mutual fund advisory companies, mortgage banking companies, investment banking companies, finance companies and other types of financial institutions.

All of Florida's major banking concerns have a presence in Leon County. CCB's Leon County deposits totaled \$783 million, or 39.3%, of our consolidated deposits at December 31, 2008.

The following table depicts our market share percentage within each respective county, based on total commercial bank deposits within the county.

|                   | Market Share as of June 30,(1) |       |       |
|-------------------|--------------------------------|-------|-------|
|                   | 2008                           | 2007  | 2006  |
| <b>Florida</b>    |                                |       |       |
| Alachua County    | 4.6%                           | 4.7%  | 5.6%  |
| Bradford County   | 50.1%                          | 47.6% | 44.6% |
| Citrus County     | 3.1%                           | 3.0%  | 3.3%  |
| Clay County       | 1.9%                           | 2.0%  | 2.0%  |
| Dixie County      | 23.4%                          | 22.9% | 20.8% |
| Gadsden County    | 55.7%                          | 61.0% | 64.9% |
| Gilchrist County  | 37.8%                          | 33.6% | 47.1% |
| Gulf County       | 9.1%                           | 11.7% | 14.3% |
| Hernando County   | 1.2%                           | 1.2%  | 1.5%  |
| Jefferson County  | 21.9%                          | 22.8% | 24.6% |
| Leon County       | 17.6%                          | 16.2% | 18.0% |
| Levy County       | 31.7%                          | 33.0% | 34.4% |
| Madison County    | 12.1%                          | 13.1% | 14.9% |
| Pasco County      | 0.2%                           | 0.2%  | 0.2%  |
| Putnam County     | 19.7%                          | 11.1% | 12.3% |
| St. Johns County  | 1.1%                           | 1.2%  | 1.5%  |
| Suwannee County   | 7.2%                           | 7.7%  | 11.8% |
| Taylor County     | 31.1%                          | 30.1% | 28.6% |
| Wakulla County    | 5.5%                           | 2.6%  | 2.9%  |
| Washington County | 17.0%                          | 13.8% | 17.4% |
| <b>Georgia</b>    |                                |       |       |
| Bibb County       | 2.1%                           | 2.5%  | 2.9%  |
| Burke County      | 7.4%                           | 7.8%  | 9.2%  |
| Grady County      | 16.7%                          | 18.7% | 20.0% |
| Laurens County    | 16.2%                          | 19.2% | 23.8% |
| Troup County      | 5.6%                           | 6.2%  | 8.2%  |
| <b>Alabama</b>    |                                |       |       |
| Chambers County   | 7.3%                           | 6.5%  | 4.7%  |

(1) Obtained from the June 30, 2008 FDIC/OTS Summary of Deposits Report.

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The following table sets forth the number of commercial banks and offices, including our offices and our competitors' offices, within each of the respective counties.

| County         | Number of Commercial Banks | Number of Commercial Bank Offices |
|----------------|----------------------------|-----------------------------------|
| <b>Florida</b> |                            |                                   |
| Alachua        | 14                         | 66                                |
| Bradford       | 3                          | 3                                 |
| Citrus         | 14                         | 49                                |
| Clay           | 14                         | 31                                |
| Dixie          | 3                          | 4                                 |
| Gadsden        | 4                          | 6                                 |
| Gilchrist      | 3                          | 6                                 |
| Gulf           | 6                          | 9                                 |
| Hernando       | 13                         | 43                                |
| Jefferson      | 2                          | 2                                 |
| Leon           | 19                         | 96                                |
| Levy           | 3                          | 13                                |
| Madison        | 6                          | 6                                 |
| Pasco          | 26                         | 120                               |
| Putnam         | 6                          | 16                                |
| St. Johns      | 23                         | 66                                |
| Suwannee       | 5                          | 8                                 |
| Taylor         | 3                          | 4                                 |
| Wakulla        | 4                          | 7                                 |
| Washington     | 5                          | 5                                 |
| <b>Georgia</b> |                            |                                   |
| Bibb           | 12                         | 57                                |
| Burke          | 5                          | 10                                |
| Grady          | 5                          | 8                                 |
| Laurens        | 10                         | 20                                |
| Troup          | 12                         | 27                                |
| <b>Alabama</b> |                            |                                   |
| Chambers       | 5                          | 10                                |

Data obtained from the June 30, 2008 FDIC/OTS Summary of Deposits Report.

## Seasonality

We believe our commercial banking operations are not generally seasonal in nature. However, public deposits tend to increase with tax collections in the second and fourth quarters and decline with spending thereafter.

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Regulatory Considerations

We must comply with state and federal banking laws and regulations that control virtually all aspects of our operations. These laws and regulations generally aim to protect our depositors, not our shareowners or our creditors. Any changes in applicable laws or regulations may materially affect our business and prospects. Such legislative or regulatory changes may also affect our operations. The following description summarizes some of the laws and regulations to which we are subject. References to applicable statutes and regulations are brief summaries, do not purport to be complete, and are qualified in their entirety by reference to such statutes and regulations.

The Company

CCBG is registered with the Board of Governors of the Federal Reserve System (the “Federal Reserve”) as a financial holding company under the Gramm-Leach-Bliley Act and is registered with the Federal Reserve as a bank holding company under the Bank Holding Company Act of 1956. As a result, we are subject to supervisory regulation and examination by the Federal Reserve. The Gramm-Leach-Bliley Act, the Bank Holding Company Act, and other federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Permitted Activities. The Gramm-Leach-Bliley Act, enacted on November 12, 1999, amended the Bank Holding Company Act by (i) allowing bank holding companies that qualify as “financial holding companies” to engage in a broad range of financial and related activities; (ii) allowing insurers and other financial service companies to acquire banks; (iii) removing restrictions that applied to bank holding company ownership of securities firms and mutual fund advisory companies; and (iv) establishing the overall regulatory scheme applicable to bank holding companies that also engage in insurance and securities operations. The general effect of the law was to establish a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers. Activities that are financial in nature are broadly defined to include not only banking, insurance, and securities activities, but also merchant banking and additional activities that the Federal Reserve, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally.

In contrast to financial holding companies, bank holding companies are limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Except for the activities relating to financial holding companies permissible under the Gramm-Leach-Bliley Act, these restrictions will apply to us. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity reasonably can be expected to produce benefits to the public that outweigh possible adverse effects. Possible benefits include greater convenience, increased competition, and gains in efficiency. Possible adverse effects include undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices. Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any activity or to terminate ownership or control of any subsidiary when the Federal Reserve has reasonable cause to believe that a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company may result from such an activity.

Changes in Control. Subject to certain exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with the applicable regulations, require Federal Reserve approval (or, depending on the circumstances,

no notice of disapproval) prior to any person or company acquiring “control” of a bank or bank holding company. A conclusive presumption of control exists if an individual or company acquires the power, directly or indirectly, to direct the management or policies of an insured depository institution or to vote 25% or more of any class of voting securities of any insured depository institution. A rebuttable presumption of control exists if a person or company acquires 10% or more but less than 25% of any class of voting securities of an insured depository institution and either the institution has registered securities under Section 12 of the Securities Exchange Act of 1934 or as we will refer to as the Exchange Act, or no other person will own a greater percentage of that class of voting securities immediately after the acquisition.

As a bank holding company, we are required to obtain prior approval from the Federal Reserve before (i) acquiring all or substantially all of the assets of a bank or bank holding company, (ii) acquiring direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank or bank holding company (unless we own a majority of such bank’s voting shares), or (iii) merging or consolidating with any other bank or bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, the public benefits expected to be received from the acquisition, the projected capital ratios and levels on a post-acquisition basis, and the acquiring institution’s record of addressing the credit needs of the communities it serves, including the needs of low and moderate income neighborhoods, consistent with the safe and sound operation of the bank, under the Community Reinvestment Act of 1977.

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Under Florida law, a person or entity proposing to directly or indirectly acquire control of a Florida bank must first obtain permission from the Florida Office of Financial Regulation. Florida statutes define “control” as either (a) indirectly or directly owning, controlling or having power to vote 25% or more of the voting securities of a bank; (b) controlling the election of a majority of directors of a bank; (c) owning, controlling, or having power to vote 10% or more of the voting securities as well as directly or indirectly exercising a controlling influence over management or policies of a bank; or (d) as determined by the Florida Office of Financial Regulation. These requirements will affect us because the Bank is chartered under Florida law and changes in control of us are indirect changes in control of the Bank.

**Tying.** Bank holding companies and their affiliates are prohibited from tying the provision of certain services, such as extending credit, to other services or products offered by the holding company or its affiliates, such as deposit products.

**Capital; Dividends; Source of Strength.** The Federal Reserve imposes certain capital requirements on bank holding companies under the Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of “qualifying” capital to risk-weighted assets. These requirements are described below under “Capital Regulations.” Subject to its capital requirements and certain other restrictions, we are able to borrow money to make a capital contribution to the Bank, and such loans may be repaid from dividends paid from the Bank to us.

The ability of the Bank to pay dividends, however, will be subject to regulatory restrictions that are described below under “Dividends.” We are also able to raise capital for contributions to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

In accordance with Federal Reserve policy, we are expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which we might not otherwise do so. In furtherance of this policy, the Federal Reserve may require a financial holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve’s determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal bank regulatory authorities have additional discretion to require a financial holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution’s financial condition.

### Capital City Bank

CCB is a banking institution that is chartered by and headquartered in the State of Florida, and it is subject to supervision and regulation by the Florida Office of Financial Regulation. The Florida Office of Financial Regulation supervises and regulates all areas of the Bank’s operations including, without limitation, the making of loans, the issuance of securities, the conduct of the Bank’s corporate affairs, the satisfaction of capital adequacy requirements, the payment of dividends, and the establishment or closing of branches. The Bank is also a member bank of the Federal Reserve System, which makes the Bank’s operations subject to broad federal regulation and oversight by the Federal Reserve. In addition, the Bank’s deposit accounts are insured by the Federal Deposit Insurance Corporation (“FDIC”) to the maximum extent permitted by law, and the FDIC has certain enforcement powers over the Bank.

As a state chartered banking institution in the State of Florida, the Bank is empowered by statute, subject to the limitations contained in those statutes, to take and pay interest on savings and time deposits, to accept demand deposits, to make loans on residential and other real estate, to make consumer and commercial loans, to invest, with certain limitations, in equity securities and in debt obligations of banks and corporations and to provide various other banking services on behalf of the Bank’s clients. Various consumer laws and regulations also affect the operations of

the Bank, including state usury laws, laws relating to fiduciaries, consumer credit and equal credit opportunity laws, and fair credit reporting. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”) prohibits insured state chartered institutions from conducting activities as principal that are not permitted for national banks. A bank, however, may engage in an otherwise prohibited activity if it meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the Deposit Insurance Fund (“DIF”).

**Reserves.** The Federal Reserve requires all depository institutions to maintain reserves against some transaction accounts (primarily NOW and Super NOW checking accounts). The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements. An institution may borrow from the Federal Reserve Bank “discount window” as a secondary source of funds, provided that the institution meets the Federal Reserve Bank’s credit standards.

**Dividends.** The Bank is subject to legal limitations on the frequency and amount of dividends that can be paid to us. The Federal Reserve may restrict the ability of the Bank to pay dividends if such payments would constitute an unsafe or unsound banking practice. These regulations and restrictions may limit our ability to obtain funds from the Bank for our cash needs, including funds for acquisitions and the payment of dividends, interest, and operating expenses.



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In addition, Florida law also places certain restrictions on the declaration of dividends from state chartered banks to their holding companies. Pursuant to the Florida Financial Institutions Code, the board of directors of state chartered banks, after charging off bad debts, depreciation and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may quarterly, semi-annually or annually declare a dividend of up to the aggregate net profits of that period combined with the bank's retained net profits for the preceding two years and, with the approval of the Florida Office of Financial Regulation, declare a dividend from retained net profits which accrued prior to the preceding two years. Before declaring such dividends, 20% of the net profits for the preceding period as is covered by the dividend must be transferred to the surplus fund of the bank until this fund becomes equal to the amount of the bank's common stock then issued and outstanding. A state chartered bank may not declare any dividend if (i) its net income from the current year combined with the retained net income for the preceding two years is a loss or (ii) the payment of such dividend would cause the capital account of the bank to fall below the minimum amount required by law, regulation, order or any written agreement with the Florida Office of Financial Regulation or a federal regulatory agency. See Management Discussion and Analysis (Liquidity and Capital Resources - Dividends) and Note 15 in the Notes to Consolidated Financial Statements for additional information on the impact of this regulatory requirement on us.

Insurance of Accounts and Other Assessments. The FDIC merged the Bank Insurance Fund and the Savings Association Insurance Fund to form the DIF on March 31, 2006. The Bank pays its deposit insurance assessments to the DIF, which insures the Bank's deposit accounts.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted, which temporarily raises the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor. The legislation provides that the basic deposit insurance limit will return to \$100,000 after December 31, 2009. This increase in coverage does not in itself increase our DIF assessment.

In addition, on November 26, 2008 the FDIC issued a final rule under its Transaction Account Guarantee Program ("TAGP"), pursuant to which the deposit insurance coverage limits for all non-interest bearing transaction deposit accounts, including all personal and business checking deposit accounts that do not earn interest, lawyer trust accounts where interest does not accrue to the account owner (IOLTA), and NOW accounts with interest rates no higher than 0.50%. Thus, all money in these accounts is fully insured by the FDIC regardless of dollar amount. This second increase to coverage is in effect through December 31, 2009. The cost to us for participating in this expanded deposit insurance coverage program is a 10-basis point surcharge to our current insurance assessment rate with respect to the portions of the TAGP covered deposit accounts not otherwise covered by the existing deposit insurance limit of \$250,000. We have elected to participate in the TAGP.

On February 27, 2009, the FDIC announced an amendment to its restoration plan for the DIF by imposing an emergency special assessment on all insured financial institutions. This special assessment of 20 basis points will occur on June 30, 2009, and will be payable by us on September 30, 2009. The FDIC may impose an additional special assessment of up to 10 basis points if necessary to maintain public confidence in federal deposit insurance. Subsequently, the FDIC has announced its willingness to lower the special assessment to 10 basis points, but as of March 9, 2009, no final determination has been made. Based on our deposits as of December 31, 2008, we anticipate our special assessment, based on the current guidance from the FDIC of a 20 basis point special assessment, to be approximately \$3.9 million.

Effective January 1, 2007, the FDIC established a risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under the current assessment system, the FDIC assigns an institution to one of four risk categories, with the first category having two sub-categories based on the institution's most recent supervisory and capital evaluations, designed to measure risk. Assessment rates currently range from

0.12% of deposits for an institution in the highest sub-category of the highest category to 0.50% of deposits for an institution in the lowest category. Beginning with the second quarter of 2009, the FDIC has announced it will make changes to the deposit insurance assessment system to require riskier institutions to pay a larger share of the DIF assessment. The FDIC has announced that the new assessment rates will range from 0.08% to 0.775%. Any changes to our DIF assessment rate will impact our earnings.

In addition, all FDIC insured institutions are required to pay assessments to the FDIC at an annual rate of approximately one basis point (the rate is adjusted quarterly) of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

Transactions With Affiliates. Pursuant to Sections 23A and 23B of the Federal Reserve Act and Regulation W, the authority of the Bank to engage in transactions with related parties or “affiliates” or to make loans to insiders is limited. Loan transactions with an “affiliate” generally must be collateralized and certain transactions between the Bank and its “affiliates”, including the sale of assets, the payment of money or the provision of services, must be on terms and conditions that are substantially the same, or at least as favorable to the Bank, as those prevailing for comparable nonaffiliated transactions. In addition, the Bank generally may not purchase securities issued or underwritten by affiliates.

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Loans to executive officers, directors or to any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls or has the power to vote more than 10% of any class of voting securities of a bank, which we refer to as 10% Shareholders, or to any political or campaign committee the funds or services of which will benefit those executive officers, directors, or 10% Shareholders or which is controlled by those executive officers, directors or 10% Shareholders, are subject to Sections 22(g) and 22(h) of the Federal Reserve Act and its corresponding regulations (Regulation O) and Section 13(k) of the Exchange Act relating to the prohibition on personal loans to executives which exempts financial institutions in compliance with the insider lending restrictions of Section 22(h) of the Federal Reserve Act. Among other things, these loans must be made on terms substantially the same as those prevailing on transactions made to unaffiliated individuals and certain extensions of credit to those persons must first be approved in advance by a disinterested majority of the entire board of directors. Section 22(h) of the Federal Reserve Act prohibits loans to any of those individuals where the aggregate amount exceeds an amount equal to 15% of an institution's unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all of the extensions of credit outstanding to all of these persons would exceed the Bank's unimpaired capital and unimpaired surplus. Section 22(g) identifies limited circumstances in which the Bank is permitted to extend credit to executive officers.

Community Reinvestment Act. The Community Reinvestment Act and its corresponding regulations are intended to encourage banks to help meet the credit needs of their service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. These regulations provide for regulatory assessment of a bank's record in meeting the needs of its service area. Federal banking agencies are required to make public a rating of a bank's performance under the Community Reinvestment Act. The Federal Reserve considers a bank's Community Reinvestment Act rating when the bank submits an application to establish branches, merge, or acquire the assets and assume the liabilities of another bank. In the case of a financial holding company, the Community Reinvestment Act performance record of all banks involved in the merger or acquisition are reviewed in connection with the filing of an application to acquire ownership or control of shares or assets of a bank or to merge with any other financial holding company. An unsatisfactory record can substantially delay or block the transaction. CCB received a satisfactory rating on its most recent Community Reinvestment Act assessment.

Capital Regulations. The Federal Reserve has adopted risk-based, capital adequacy guidelines for financial holding companies and their subsidiary state-chartered banks that are members of the Federal Reserve System. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and financial holding companies, to account for off-balance sheet exposure, to minimize disincentives for holding liquid assets and to achieve greater consistency in evaluating the capital adequacy of major banks throughout the world. Under these guidelines, assets and off-balance sheet items are assigned to broad risk categories each with designated weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

The current guidelines require all financial holding companies and federally regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% must be Tier I Capital. Tier I Capital, which includes common shareholders' equity, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock and trust preferred securities, less certain goodwill items and other intangible assets, is required to equal at least 4% of risk-weighted assets. The remainder ("Tier II Capital") may consist of (i) an allowance for loan losses of up to 1.25% of risk-weighted assets, (ii) excess of qualifying perpetual preferred stock, (iii) hybrid capital instruments, (iv) perpetual debt, (v) mandatory convertible securities, and (vi) subordinated debt and intermediate-term preferred stock up to 50% of Tier I Capital. Total capital is the sum of Tier I and Tier II Capital less reciprocal holdings of other banking organizations' capital instruments, investments in unconsolidated subsidiaries and any other deductions as determined by the appropriate regulator (determined on a case by case basis or as a matter of

policy after formal rule making).

In computing total risk-weighted assets, bank and financial holding company assets are given risk-weights of 0%, 20%, 50% and 100%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. Most loans will be assigned to the 100% risk category, except for performing first mortgage loans fully secured by 1- to 4-family and certain multi-family residential property, which carry a 50% risk rating. Most investment securities (including, primarily, general obligation claims on states or other political subdivisions of the United States) will be assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weight, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. Government, which have a 0% risk-weight. In covering off-balance sheet items, direct credit substitutes, including general guarantees and standby letters of credit backing financial obligations, are given a 100% conversion factor. Transaction-related contingencies such as bid bonds, standby letters of credit backing non-financial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one year) have a 50% conversion factor. Short-term commercial letters of credit are converted at 20% and certain short-term unconditionally cancelable commitments have a 0% factor.

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The federal bank regulatory authorities have also adopted regulations that supplement the risk-based guidelines. These regulations generally require banks and financial holding companies to maintain a minimum level of Tier I Capital to total assets less goodwill of 4% (the “leverage ratio”). The Federal Reserve permits a bank to maintain a minimum 3% leverage ratio if the bank achieves a 1 rating under the CAMELS rating system in its most recent examination, as long as the bank is not experiencing or anticipating significant growth. The CAMELS rating is a non-public system used by bank regulators to rate the strength and weaknesses of financial institutions. The CAMELS rating is comprised of six categories: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

Banking organizations experiencing or anticipating significant growth, as well as those organizations which do not satisfy the criteria described above, will be required to maintain a minimum leverage ratio ranging generally from 4% to 5%. The bank regulators also continue to consider a “tangible Tier I leverage ratio” in evaluating proposals for expansion or new activities. The tangible Tier I leverage ratio is the ratio of a banking organization’s Tier I Capital, less deductions for intangibles otherwise includable in Tier I Capital, to total tangible assets.

Federal law and regulations establish a capital-based regulatory scheme designed to promote early intervention for troubled banks and require the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” To qualify as a “well-capitalized” institution, a bank must have a leverage ratio of no less than 5%, a Tier I risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. Generally, a financial institution must be “well capitalized” before the Federal Reserve will approve an application by a financial holding company to acquire or merge with a bank or bank holding company.

Under the regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to (i) submit a capital restoration plan; (ii) raise additional capital; (iii) restrict their growth, deposit interest rates, and other activities; (iv) improve their management; (v) eliminate management fees; or (vi) divest themselves of all or a part of their operations. Financial holding companies controlling financial institutions can be called upon to boost the institutions’ capital and to partially guarantee the institutions’ performance under their capital restoration plans.

It should be noted that the minimum ratios referred to above are merely guidelines and the bank regulators possess the discretionary authority to require higher ratios.

We currently exceed the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy, and are unaware of any material violation or alleged violation of these regulations, policies or directives.

**Basel II Capital Standards.** We may decide to adopt certain new capital and other regulatory requirements proposed by the Basel Committee on Banking Supervision. The federal banking regulators have implemented new risk-based capital requirements in the United States. These new requirements, which are often referred to as the Basel II Accord, modify the capital charge applicable to credit risk and incorporate a capital charge for operational risk. The Basel II Accord also places greater reliance on market discipline than previous standards. The Basel II standards will be mandatory only with respect to banking organizations with total banking assets of \$250 billion or more or total on-balance-sheet foreign exposure of \$10 billion or more. We will continue to closely monitor developments on these

matters and assess their impact on us.

**Interstate Banking and Branching.** The Bank Holding Company Act was amended by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Interstate Banking Act”). The Interstate Banking Act provides that adequately capitalized and managed financial and bank holding companies are permitted to acquire banks in any state.

State laws prohibiting interstate banking or discriminating against out-of-state banks are preempted. States are not permitted to enact laws opting out of this provision; however, states are allowed to adopt a minimum age restriction requiring that target banks located within the state be in existence for a period of years, up to a maximum of five years, before a bank may be subject to the Interstate Banking Act. The Interstate Banking Act establishes deposit caps which prohibit acquisitions that result in the acquiring company controlling 30% or more of the deposits of insured banks and thrift institutions held in the state in which the target maintains a branch or 10% or more of the deposits nationwide. States have the authority to waive the 30% deposit cap. State-level deposit caps are not preempted as long as they do not discriminate against out-of-state companies, and the federal deposit caps apply only to initial entry acquisitions.

The Interstate Banking Act also provides that adequately capitalized and managed banks are able to engage in interstate branching by merging with banks in different states. Unlike the interstate banking provision discussed above, states were permitted to opt out of the application of the interstate merger provision by enacting specific legislation.

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Florida responded to the enactment of the Interstate Banking Act by enacting the Florida Interstate Branching Act (the “Florida Branching Act”). The purpose of the Florida Branching Act was to permit interstate branching through merger transactions under the Interstate Banking Act. Under the Florida Branching Act, with the prior approval of the Florida Office of Financial Regulation, a Florida bank may establish, maintain and operate one or more branches in a state other than the State of Florida pursuant to a merger transaction in which the Florida bank is the resulting bank. In addition, the Florida Branching Act provides that one or more Florida banks may enter into a merger transaction with one or more out-of-state banks, and an out-of-state bank resulting from this transaction may maintain and operate the branches of the Florida bank that participated in this merger. An out-of-state bank, however, is not permitted to acquire a Florida bank in a merger transaction unless the Florida bank has been in existence and continuously operated for more than three years.

**BankSecrecy Act/Anti-Money Laundering.** The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA PATRIOT Act”) was enacted in response to the terrorist attacks occurring on September 11, 2001. The USA PATRIOT Act is intended to strengthen the U.S. law enforcement and intelligence communities’ ability to work together to combat terrorism. Title III of the USA PATRIOT Act, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, amended the Bank Secrecy Act and adopted additional provisions that increased the obligations of financial institutions, including the Bank, to file reports and maintain records, to identify their clients, watch for and report upon suspicious transactions, respond to requests for information by federal banking and law enforcement agencies, and share information with other financial institutions. In addition, the collected client identification information must be verified within a reasonable time after a new account is opened through documentary or non-documentary methods.

In 2007, the Federal Reserve and the other federal financial regulatory agencies issued an interagency policy on the application of section 8(s) of the Federal Deposit Insurance Act. This provision generally requires each federal banking agency to issue an order to cease and desist when a bank is in violation of the requirement to establish and maintain a Bank Secrecy Act/anti-money laundering (BSA/AML) compliance program or, in the alternative, the Bank fails to correct a deficiency which has been previously cited by the federal banking agency with respect to the Bank’s BSA/AML compliance program. The policy statement provides that, in addition to the circumstances where the agencies will issue a cease and desist order in compliance with section 8(s), they may take other actions as appropriate for other types of BSA/AML program concerns or for violations of other BSA requirements. The policy statement also does not address the independent authority of the U.S. Department of the Treasury’s Financial Crimes Enforcement Network to take enforcement action for violations of the BSA.

**Securities Activities.** In 2007, the SEC adopted Regulation R, which implements the bank broker-dealer exceptions enacted in the Gramm-Leach-Bliley Act. Regulation R affects the way the Bank’s employees who are not registered with the SEC may be compensated for referrals to a third-party broker-dealer for which the Bank has entered into a networking arrangement. In addition, Regulation R broadens the ability of the Bank to effect securities transactions in a trustee or fiduciary capacity without registering as a broker, permit banks to effect certain sweep account transactions, and to accept orders for securities transactions from employee plan accounts, individual retirement plan accounts, and other similar accounts. Regulation R went into effect for us on January 1, 2009.

**Privacy.** Under the Gramm-Leach-Bliley Act, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties.

**Fair and Accurate Credit Transaction Act of 2003.** The Fair and Accurate Credit Transaction Act of 2003, which amended the Fair Credit Reporting Act, enhances consumers’ ability to combat identity theft, increases the accuracy of

consumer reports, allows consumers to exercise greater control over the type and amount of marketing solicitations they receive, restricts the use and disclosure of sensitive medical information, and establishes uniform national standards in the regulation of consumer reporting.

In 2007, the Federal Reserve and the other federal financial regulatory agencies together with the U.S. Department of the Treasury and the Federal Trade Commission issued final regulations (Red Flag Regulations) enacting Sections 114 and 315 of the Fair and Accurate Credit Transaction Act of 2003. The Red Flag Regulations required the Bank to have identity theft policies and programs in place by no later than November 1, 2008. The Red Flag Regulations require the Bank to develop and implement an identity theft protection program for combating identity theft in connection with new and existing consumer accounts and other accounts for which there is a reasonably foreseeable risk of identity theft.



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Consumer Laws and Regulations. The Bank is also subject to other federal and state consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth below is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Check Clearing for the 21st Century Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with clients when taking deposits or making loans to such clients. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing client relations.

## Future Legislative Developments

Various legislative acts are from time to time introduced in Congress and the Florida legislature. This legislation may change banking statutes and the environment in which our banking subsidiary and we operate in substantial and unpredictable ways. We cannot determine the ultimate effect that potential legislation, if enacted, or implementing regulations with respect thereto, would have upon our financial condition or results of operations or that of our banking subsidiary. See page 28 for further discussion of recent legislation.

## Effect of Governmental Monetary Policies

The commercial banking business in which the Bank engages is affected not only by general economic conditions, but also by the monetary policies of the Federal Reserve. Changes in the discount rate on member bank borrowing, availability of borrowing at the “discount window,” open market operations, the imposition of changes in reserve requirements against member banks’ deposits and assets of foreign branches and the imposition of and changes in reserve requirements against certain borrowings by banks and their affiliates are some of the instruments of monetary policy available to the Federal Reserve. These monetary policies are used in varying combinations to influence overall growth and distributions of bank loans, investments and deposits, and this use may affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks and are expected to do so in the future. The monetary policies of the Federal Reserve are influenced by various factors, including inflation, unemployment, and short-term and long-term changes in the international trade balance and in the fiscal policies of the U.S. Government. Future monetary policies and the effect of such policies on the future business and earnings of the Bank cannot be predicted.

Since December 2008, the Federal Reserve has adopted a zero interest rate policy to help combat the severe economic downturn in the United States and growing deflationary pressure. For banks, one of the most significant downsides with a zero interest rate policy is that it causes the yield curve to flatten (i.e. there is little difference between short and long term interest rates). Because banks make money by lending long term and borrowing short term funds, the narrowing of this gap narrows profit margins.

## Income Taxes

We are subject to income taxes at the federal level and subject to state taxation based on the laws of each state in which we operate. We file a consolidated federal tax return with a fiscal year ending on December 31. We have filed tax returns for each state jurisdiction affected in 2007 and will do the same for 2008.

## Website Access to Company's Reports

Our Internet website is [www.ccbg.com](http://www.ccbg.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, including any amendments to those reports filed or furnished pursuant to section 13(a) or 15(d), and reports filed pursuant to Section 16, 13(d), and 13(g) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission. The information on our website is not incorporated by reference into this report.

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Risk Factors

You should consider carefully the following risk factors before deciding whether to invest in our common stock. Our business, including our operating results and financial condition, could be harmed by any of these risks. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in our filings with the SEC, including our financial statements and related notes.

Risks Related to Our Business

Difficult market conditions and economic trends have adversely affected our industry and our business.

Dramatic declines in the housing market, with decreasing home prices and increasing delinquencies and foreclosures, have negatively impacted the credit performance of mortgage and construction loans and resulted in significant write-downs of assets by many financial institutions. General downward economic trends, reduced availability of commercial credit and increasing unemployment have negatively impacted the credit performance of commercial and consumer credit, resulting in additional write-downs. Concerns over the stability of the financial markets and the economy have resulted in decreased lending by financial institutions to their customers and to each other. This market turmoil and tightening of credit has led to increased commercial and consumer deficiencies, lack of customer confidence, increased market volatility and widespread reduction in general business activity. Financial institutions have experienced decreased access to deposits and borrowings.

The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets may adversely affect our business, financial condition, results of operations and stock price.

Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. We also expect to face increased regulation and government oversight as a result of these downward trends. This increased government action may increase our costs and limit our ability to pursue certain business opportunities. We also may be required to pay even higher FDIC premiums than the recently increased level, because financial institution failures resulting from the depressed market conditions have depleted and may continue to deplete the deposit insurance fund and reduce its ratio of reserves to insured deposits.

We do not believe these difficult conditions are likely to improve in the near future. A worsening of these conditions would likely exacerbate the adverse effects of these difficult economic conditions on us, our clients and the other financial institutions in our market. As a result, we may experience increases in foreclosures, delinquencies, and client bankruptcies, as well as more restricted access to funds.

Recent legislative and regulatory initiatives to address difficult market and economic conditions may not stabilize the U.S. banking system.

The recently enacted Emergency Economic Stabilization Act of 2008 (the "EESA") authorizes the United States Treasury to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies, under a troubled asset relief program, or "TARP." The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other.

The EESA followed, and has been followed by, numerous actions by the Board of Governors of the Federal Reserve System, the U.S. Congress, Treasury, the FDIC, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

In 2009, with the change in presidential administrations, additional changes have been announced, such as the creation of a Public-Private Investment Fund to purchase “toxic assets”, which are primarily mortgage-backed securities and nonperforming mortgage loans, from financial institutions. Further, a new capital injection plan has been unveiled accompanied with significantly more restrictions on the payment of executive compensation and dividends, and a prohibition on acquisitions.

The purpose of all of these legislative and regulatory actions is to stabilize the U.S. banking system. The EESA and the other regulatory initiatives described above may not have their desired effects. If the volatility in the markets continues and economic conditions fail to improve or worsen, our business, financial condition and results of operations could be materially and adversely affected.

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Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year. In recent months, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition, and results of operations.

An impairment in the carrying value of our goodwill could negatively impact our earnings and capital.

Goodwill is initially recorded at fair value and is not amortized, but is reviewed for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Given the current economic environment and conditions in the financial markets, we could be required to evaluate the recoverability of goodwill prior to our normal annual assessment if we experience disruption in our business, unexpected significant declines in our operating results, or sustained market capitalization declines. These types of events and the resulting analyses could result in goodwill impairment charges in the future. These non-cash impairment charges could adversely affect our results of operations in future periods, and could also significantly impact certain financial ratios and limit our ability to obtain financing or raise capital in the future. A goodwill impairment charge does not adversely affect the calculation of our risk based and tangible capital ratios. As of December 31, 2008, we had \$84.8 million in goodwill, which represented approximately 3.41% of our total assets.

State law may limit our ability to declare and pay dividends.

Under applicable statutes and regulations, the Bank's board of directors, after charging off bad debts, depreciation and other worthless assets, if any, and making provisions for reasonably anticipated future losses on loans and other assets, may declare dividends of up to the aggregate net profits of that period combined with the Bank's retained net profits for the preceding two years and, with the approval of the Florida Office of Financial Regulation, declare a dividend from retained net profits which accrued prior to the preceding two years. If the Bank does not earn an amount approximately equal to CCBG's anticipated 2009 dividend, CCBG may be unable to declare and pay a dividend to its shareowners. See section entitled "Liquidity and Capital Resources – Dividends" in Management's Discussion and Analysis for further discussion.

An inadequate allowance for loan losses would reduce our earnings.

We are exposed to the risk that our clients will be unable to repay their loans according to their terms and that any collateral securing the payment of their loans will not be sufficient to assure full repayment. This will result in credit losses that are inherent in the lending business. We evaluate the collectability of our loan portfolio and provide an allowance for loan losses that we believe is adequate based upon such factors as:

- the risk characteristics of various classifications of loans;
  - previous loan loss experience;
  - specific loans that have loss potential;
    - delinquency trends;
  - estimated fair market value of the collateral;
    - current economic conditions; and
  - geographic and industry loan concentrations.

If our estimate of credit losses inherent in the loan portfolio is incorrect, our earnings could be significantly and adversely affected because our allowance may not be adequate. Additionally, we may experience losses in our loan portfolios or encounter adverse trends that require us to significantly increase our allowance for loan losses in the future, which could also have an adverse affect on our earnings.

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Our concentration in loans secured by real estate may increase our credit losses, which would negatively affect our financial results.

Due to the lack of diversified industry within the markets served by the Bank and the relatively close proximity of our geographic markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the portfolio has historically been secured with real estate. As of December 31, 2008, approximately 33.6% and 35.9% of our \$1.958 billion loan portfolio was secured by commercial real estate and residential real estate, respectively. As of this same date, approximately 7.3% was secured by property under construction.

The current downturn in the real estate market, the deterioration in the value of collateral, and the local and national economic recessions, have adversely affected our clients' ability to repay their loans. If these conditions persist, or get worse, our clients' ability to repay their loans will be further eroded. In the event we are required to foreclose on a property securing one of our mortgage loans or otherwise pursue our remedies in order to protect our investment, we may be unable to recover funds in an amount equal to our projected return on our investment or in an amount sufficient to prevent a loss to us due to prevailing economic conditions, real estate values and other factors associated with the ownership of real property. As a result, the market value of the real estate or other collateral underlying our loans may not, at any given time, be sufficient to satisfy the outstanding principal amount of the loans, and consequently, we would sustain loan losses.

If our nonperforming loans continue to increase, our earnings will suffer.

At December 31, 2008, our non-performing loans (which consist of non-accrual and restructured loans) totaled \$98.6 million, or 5.04% of the total loan portfolio, which is an increase of \$73.5 million, or 293% over non-performing loans at December 31, 2007. At December 31, 2008, our nonperforming assets (which include foreclosed real estate) were \$107.8 million, or 4.33% of total assets. In addition, the Bank had approximately \$0.1 million in accruing loans that were over 90 days delinquent and still accruing as of December 31, 2008. Our non-performing assets adversely affect our net income in various ways. We do not record interest income on non-accrual loans or real estate owned. We must reserve for probable losses, which is established through a current period charge to the provision for loan losses as well as from time to time, as appropriate, write down the value of properties in our other real estate owned portfolio to reflect changing market values. Additionally, there are legal fees associated the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our other real estate owned. Further, the resolution of nonperforming assets requires the active involvement of management, which can distract them from more profitable activity. Finally, if our estimate for the recorded allowance for loan losses proves to be incorrect and our allowance is inadequate, we will have to increase the allowance accordingly.

We may incur losses if we are unable to successfully manage interest rate risk.

Our profitability depends largely on the Bank's net interest income, which is the difference between income on interest-earning assets such as loans and investment securities, and expense on interest-bearing liabilities such as deposits and our borrowings. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control including inflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets. Our net interest income may be reduced if: (i) more interest-earning assets than interest-bearing liabilities reprice or mature during a time when interest rates are declining or (ii) more interest-bearing liabilities than interest-earning assets reprice or mature during a time when interest rates are rising.

Changes in the difference between short- and long-term interest rates may also harm our business. For example, short-term deposits may be used to fund longer-term loans. When differences between short-term and long-term interest rates shrink or disappear, as is likely in the current zero interest rate policy environment, the spread between rates paid on deposits and received on loans could narrow significantly, decreasing our net interest income.

If market interest rates rise rapidly, interest rate adjustment caps may limit increases in the interest rates on adjustable rate loans, thus reducing our net interest income.

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Our loan portfolio is heavily concentrated in mortgage loans secured by properties in Florida and Georgia.

Our interest-earning assets are heavily concentrated in mortgage loans secured by real estate, particularly real estate located in Florida and Georgia. As of December 31, 2008, approximately 75.9% of our loans had real estate as a primary, secondary, or tertiary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower; however, the value of the collateral may decline during the time the credit is extended. If we are required to liquidate the collateral securing a loan during a period of reduced real estate values, such as in today's market, to satisfy the debt, our earnings and capital could be adversely affected.

Additionally, as of December 31, 2008, substantially all of our loans secured by real estate are secured by commercial and residential properties located in Northern Florida and Middle Georgia. The concentration of our loans in this area subjects us to risk that a downturn in the economy or recession in those areas, such as the one the areas are currently experiencing, could result in a decrease in loan originations and increases in delinquencies and foreclosures, which would more greatly affect us than if our lending were more geographically diversified. In addition, since a large portion of our portfolio is secured by properties located in Florida and Georgia, the occurrence of a natural disaster, such as a hurricane, could result in a decline in loan originations, a decline in the value or destruction of mortgaged properties and an increase in the risk of delinquencies, foreclosures or loss on loans originated by us. We may suffer further losses due to the decline in the value of the properties underlying our mortgage loans, which would have an adverse impact on our operations.

Since we engage in lending secured by real estate and may be forced to foreclose on the collateral property and own the underlying real estate, we may be subject to the increased costs associated with the ownership of real property, which could result in reduced net income.

Since we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate.

The amount that we, as a mortgagee, may realize after a default is dependent upon factors outside of our control, including, but not limited to:

- general or local economic conditions;
  - environmental cleanup liability;
    - neighborhood values;
      - interest rates;
      - real estate tax rates;
    - operating expenses of the mortgaged properties;
    - supply of and demand for rental units or properties;
  - ability to obtain and maintain adequate occupancy of the properties;
    - zoning laws;
  - governmental rules, regulations and fiscal policies; and
    - acts of God.

Certain expenditures associated with the ownership of real estate, principally real estate taxes, insurance and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the rental income earned from such property, and we may have to advance funds in order to protect our investment or we may be required to dispose of the real property at a loss.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, and other sources, could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could negatively impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated, adverse regulatory action against us, or our inability to attract and retain deposits. Our ability to borrow could be impaired by factors that are not specific to us, such a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry in light of recent turmoil faced by banking organizations and the unstable credit markets.

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We may need additional capital resources in the future and these capital resources may not be available when needed or at all. If we do raise additional capital, your ownership could be diluted.

We may need to incur additional debt or equity financing in the future to make strategic acquisitions or investments or for future growth. Such financing may not be available to us on acceptable terms or at all.

Further, our Articles of Incorporation do not provide shareowners with preemptive rights and such shares may be offered to investors other than shareowners at the discretion of the Board. If we do sell additional shares of common stock to raise capital, the sale could dilute your ownership interest and such dilution could be substantial.

Concerns of clients over deposit insurance may cause a decrease in our deposits.

With increased concerns about bank failures, clients are increasingly concerned about the extent to which their deposits are insured by the FDIC. Clients may withdraw deposits from CCB in an effort to ensure that the amount that they have on deposit at CCB is fully insured. Decreases in deposits may adversely affect our funding costs and net income. See Regulatory Considerations – Capital City Bank – Insurance Accounts and Other Assessments for further discussion.

We may not be able to successfully manage our growth or implement our growth strategies, which may adversely affect our results of operations and financial condition.

A key aspect of our business strategy is our continued growth and expansion. Our ability to manage our growth successfully will depend on whether we can maintain capital levels adequate to support our growth, maintain cost controls and asset quality and successfully integrate any businesses we acquire into our organization.

Our earnings growth relies, at least in part, on strategic acquisitions. Our ability to grow through selective acquisitions of financial institutions or offices will depend on successfully identifying, acquiring and integrating those institutions or offices. We may be unable to identify attractive acquisition candidates, make acquisitions on favorable terms or successfully integrate any acquired institutions or offices. In addition, we may fail to realize the growth opportunities and cost savings we anticipate to be derived from our acquisitions. Growth through acquisitions causes us to take on additional risks such as the risks of unknown or contingent liabilities, exposure to potential asset quality issues from acquired institutions, and the diversion of our management's time and attention from our existing business and operations. Finally, it is possible that during the integration process of our acquisitions, we could lose key associates or the ability to maintain relationships with clients.

As we continue to implement our growth strategy by opening new offices or through strategic acquisitions, we expect to incur increased personnel, occupancy and other operating expenses. In the case of new offices, we must absorb those higher expenses while we begin to generate new deposits, and there is a further time lag involved in redeploying new deposits into attractively priced loans and other higher yielding earning assets.

Potential acquisitions may dilute shareowner value.

We regularly evaluate opportunities to acquire other financial institutions. As a result, merger and acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt, or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future acquisitions.

Future economic growth in our Florida market area is likely to be slower compared to previous years.

The State of Florida's population growth has historically exceeded national averages. Consequently, the state has experienced substantial growth in population, new business formation and public works spending. Due to the moderation of economic growth and migration into our market area and the downturn in the real estate market, management believes that growth in our market area will be restrained in the near term. We have experienced an overall slow down in the origination of residential mortgage loans recently due to the slowing in residential real estate sales activity in our markets. A decrease in existing and new home sales decreases lending opportunities and negatively affects our income. Continued deterioration in the housing market and property values could lead to additional valuation adjustments in our loan portfolios.

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The market value of our investments could decline.

Our investment securities portfolio as of December 31, 2008 has been designated as available-for-sale pursuant to Statement of Financial Accounting Standards No. 115 ("SFAS 115") relating to accounting for investments. SFAS 115 requires that unrealized gains and losses in the estimated value of the available-for-sale portfolio be "marked to market" and reflected as a separate item in shareholders' equity (net of tax) as accumulated other comprehensive income. At December 31, 2008, we maintained all of our investment securities in the available-for-sale classification.

Shareowners' equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. The market value of our investment portfolio may decline, causing a corresponding decline in shareowners' equity.

Management believes that several factors will affect the market values of our investment portfolio. These include, but are not limited to, changes in interest rates or expectations of changes, the degree of volatility in the securities markets, inflation rates or expectations of inflation and the slope of the interest rate yield curve (the yield curve refers to the differences between shorter-term and longer-term interest rates; a positively sloped yield curve means shorter-term rates are lower than longer-term rates). These and other factors may impact specific categories of the portfolio differently, and we cannot predict the effect these factors may have on any specific category.

Confidential client information transmitted through our online banking service is vulnerable to security breaches and computer viruses, which could expose us to litigation and adversely affect our reputation and our ability to generate deposits.

We provide our clients the ability to bank online. The secure transmission of confidential information over the Internet is a critical element of banking online. Our network could be vulnerable to unauthorized access, computer viruses, phishing schemes and other security problems. We may be required to spend significant capital and other resources to protect against the threat of security breaches and computer viruses, or to alleviate problems caused by security breaches or viruses. To the extent that our activities or the activities of our clients involve the storage and transmission of confidential information, security breaches and viruses could expose us to claims, litigation and other possible liabilities. Any inability to prevent security breaches or computer viruses could also cause existing clients to lose confidence in our systems and could adversely affect our reputation and our ability to generate deposits.

We must comply with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

Since September 11, 2001, banking regulators have intensified their focus on anti-money laundering and Bank Secrecy Act compliance requirements, particularly the anti-money laundering provisions of the USA PATRIOT Act. There is also increased scrutiny of our compliance with the rules enforced by the Office of Foreign Assets Control. In order to comply with regulations, guidelines and examination procedures in this area, we have been required to adopt new policies and procedures and to install new systems. We cannot be certain that the policies, procedures and systems we have in place will permit us to fully comply with these laws. Furthermore, financial institutions that we have already acquired or may acquire in the future may or may not have had adequate policies, procedures and systems to fully comply with these laws. Whether our own policies, procedures and systems are deficient or the policies, procedures and systems of the financial institutions that we have already acquired or may acquire in the future are deficient, we would be subject to liability, including fines and regulatory actions such as restrictions on our ability to pay dividends and to obtain regulatory approvals necessary to proceed with certain aspects of our business plan, including our acquisition plans.

Our controls and procedures may fail or be circumvented.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

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We are exposed to operational risk because of providing certain services, which could adversely affect our results of operations.

We are exposed to operational risk because of providing various fee-based services including electronic banking, item processing, data processing, correspondent banking, merchant services, and asset management. Operational risk is the risk of loss resulting from errors related to transaction processing, breaches of the internal control system and compliance requirements, fraud by employees or persons outside the company or business interruption due to system failures or other events. We continually assess and monitor operational risk in our business lines and provide for disaster and business recovery planning including geographical diversification of our facilities; however, the occurrence of various events including unforeseeable and unpreventable events such as hurricanes or other natural disasters could still damage our physical facilities or our computer systems or software, cause delay or disruptions to operational functions, impair our clients, vendors and counterparties and negatively impact our results of operations. Operational risk also includes potential legal or regulatory actions that could arise because of noncompliance with applicable laws and regulatory requirements that could have an adverse affect on our reputation.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

We face vigorous competition from other banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions for deposits, loans and other financial services in our market area. A number of these banks and other financial institutions are significantly larger than we are and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable financing than we can. Many of our non-bank competitors are not subject to the same extensive regulations that govern us. As a result, these non-bank competitors have advantages over us in providing certain services. This competition may reduce or limit our margins and our market share and may adversely affect our results of operations and financial condition.

We are subject to extensive regulation that could restrict our activities and impose financial requirements or limitations on the conduct of our business and limit our ability to receive dividends from the Bank.

The Bank is subject to extensive regulation, supervision and examination by the Florida Office of Financial Regulation, the Federal Reserve, and the FDIC. As a member of the Federal Home Loan Bank, the Bank must also comply with applicable regulations of the Federal Housing Finance Board and the Federal Home Loan Bank. Regulation by these agencies is intended primarily for the protection of our depositors and the deposit insurance fund and not for the benefit of our shareowners. The Bank's activities are also regulated under consumer protection laws applicable to our lending, deposit and other activities. A sufficient claim against us under these laws could have a material adverse effect on our results. Please refer to the Section entitled "Business – Regulatory Considerations" of this Report.

### Risks Related to an Investment in Our Common Stock

Limited trading activity for shares of our common stock may contribute to price volatility.

While our common stock is listed and traded on The NASDAQ Global Select Market, there has been limited trading activity in our common stock. The average daily trading volume of our common stock over the twelve-month period ending December 31, 2008 was approximately 39,293 shares. Due to the limited trading activity of our common stock, relatively small trades may have a significant impact on the price of our common stock.

Our insiders have substantial control over matters requiring shareowner approval, including changes of control.

Our insiders who own more than 5% of our common stock, directors, and executive officers, beneficially owned approximately 45.67% of the outstanding shares of our stock as of February 27, 2009. Accordingly, these principal shareowners, directors, and executive officers, if acting together, may be able to influence or control matters requiring approval by our shareowners, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions.

They may also have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our shareowners of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

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Our Articles of Incorporation, Bylaws, and certain laws and regulations may prevent or delay transactions you might favor, including a sale or merger of CCBG.

CCBG is registered with the Federal Reserve as a financial holding company under the Gramm-Leach-Bliley Act and is a bank holding company under the Bank Holding Company Act. As a result, we are subject to supervisory regulation and examination by the Federal Reserve. The Gramm-Leach-Bliley Act, the Bank Holding Company Act, and other federal laws subject financial holding companies to particular restrictions on the types of activities in which they may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations.

Provisions of our Articles of Incorporation, Bylaws, certain laws and regulations and various other factors may make it more difficult and expensive for companies or persons to acquire control of us without the consent of our Board of Directors. It is possible, however, that you would want a takeover attempt to succeed because, for example, a potential buyer could offer a premium over the then prevailing price of our common stock.

For example, our Articles of Incorporation permit our Board of Directors to issue preferred stock without shareowner action. The ability to issue preferred stock could discourage a company from attempting to obtain control of us by means of a tender offer, merger, proxy contest or otherwise. Additionally, our Articles of Incorporation and Bylaws divide our Board of Directors into three classes, as nearly equal in size as possible, with staggered three-year terms. One class is elected each year. The classification of our Board of Directors could make it more difficult for a company to acquire control of us. We are also subject to certain provisions of the Florida Business Corporation Act and our Articles of Incorporation that relate to business combinations with interested shareowners. Other provisions in our Articles of Incorporation or Bylaws that may discourage takeover attempts or make them more difficult include:

- Supermajority voting requirements to remove a director from office;
- Provisions regarding the timing and content of shareowner proposals and nominations;
- Supermajority voting requirements to amend Articles of Incorporation unless approval is received by a majority of “disinterested directors”;
- Absence of cumulative voting; and
- Inability for shareowners to take action by written consent.

Our shares of common stock are not an insured deposit.

The shares of our common stock are not a bank deposit and will not be insured or guaranteed by the FDIC or any other government agency. Your investment will be subject to investment risk, and you must be capable of affording the loss of your entire investment.

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## Item 1B. Unresolved Staff Comments

None.

## Item 2. Properties

We are headquartered in Tallahassee, Florida. Our executive office is in the Capital City Bank building located on the corner of Tennessee and Monroe Streets in downtown Tallahassee. The building is owned by the Bank, but is located on land leased under a long-term agreement.

As of February 27, 2009, the Bank had 68 banking locations. Of the 68 locations, the Bank leases the land, buildings, or both at 12 locations and owns the land and buildings at the remaining 56.

## Item 3. Legal Proceedings

We are party to lawsuits and claims arising out of the normal course of business. In management's opinion, there are no known pending claims or litigation, the outcome of which would, individually or in the aggregate, have a material effect on our consolidated results of operations, financial position, or cash flows.

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

None.

## PART II

## Item 5. Market for the Registrant's Common Equity, Related Shareowner Matters, and Issuer Purchases of Equity Securities

## Common Stock Market Prices and Dividends

Our common stock trades on the NASDAQ Global Select Market under the symbol "CCBG."

The following table presents the range of high and low closing sales prices reported on the NASDAQ Global Select Market and cash dividends declared for each quarter during the past two years. We had a total of 1,756 shareowners of record as of February 27, 2009.

|                                   | 2008           |               |                |               | 2007           |               |                |               |
|-----------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
|                                   | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Common stock price:               |                |               |                |               |                |               |                |               |
| High                              | \$ 33.32       | \$ 34.50      | \$ 30.19       | \$ 29.99      | \$ 34.00       | \$ 36.40      | \$ 33.69       | \$ 35.91      |
| Low                               | 21.06          | 19.20         | 21.76          | 24.76         | 24.60          | 27.69         | 29.12          | 29.79         |
| Close                             | 27.24          | 31.35         | 21.76          | 29.00         | 28.22          | 31.20         | 31.34          | 33.30         |
| Cash dividends declared per share | .1900          | .1850         | .1850          | .1850         | .1850          | .1750         | .1750          | .1750         |

Future payment of dividends will be subject to determination and declaration by our Board of Directors. Florida law limits the amount of dividends that CCB can pay annually to the holding company. These restrictions may limit our

ability to pay dividends to our shareowners. During 2009, in accordance with these restrictions, CCB may declare and pay a dividend in an amount which approximates its current year-to-date earnings and it has further received authority from its state regulator to declare and pay a dividend up to \$60 million in 2009 to the holding company. See subsection entitled "Capital; Dividends; Sources of Strength" in the Business section on page 9, and the section entitled "Liquidity and Capital Resources – Dividends" -- in Management's Discussion and Analysis of Financial Condition and Operating Results on page 50 and Note 15 in the Notes to Consolidated Financial Statements.

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## Performance Graph

This performance graph compares the cumulative total shareholder return on our common stock with the cumulative total shareholder return of the NASDAQ Composite Index and the SNL Financial LC \$1B-\$5B Bank Index for the past five years. The graph assumes that \$100 was invested on December 31, 2003 in our common stock and each of the above indices, and that all dividends were reinvested. The shareholder return shown below represents past performance and should not be considered indicative of future performance.

| Index                         | Period Ending |          |          |           |          |          |
|-------------------------------|---------------|----------|----------|-----------|----------|----------|
|                               | 12/31/03      | 12/31/04 | 12/31/05 | 12/31/06  | 12/31/07 | 12/31/08 |
| Capital City Bank Group, Inc. | \$ 100.00     | \$ 92.50 | \$ 96.53 | \$ 101.36 | \$ 82.95 | \$ 82.41 |
| NASDAQ Composite              | 100.00        | 108.59   | 110.08   | 120.56    | 132.39   | 78.72    |
| SNL \$1B-\$5B Bank Index      | 100.00        | 123.42   | 121.31   | 140.38    | 102.26   | 84.81    |

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## Item 6. Selected Financial Data

For the Years Ended December 31,

(Dollars in Thousands, Except Per Share Data)(1) (3)

|                                     | 2008         | 2007         | 2006         | 2005         | 2004         |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Interest Income                     | \$ 142,866   | \$ 165,323   | \$ 165,893   | \$ 140,053   | \$ 101,525   |
| Net Interest Income                 | 108,866      | 112,241      | 119,136      | 109,990      | 86,084       |
| Provision for Loan Losses           | 32,496       | 6,163        | 1,959        | 2,507        | 2,141        |
| Net Income                          | 15,225       | 29,683       | 33,265       | 30,281       | 29,371       |
| Per Common Share:                   |              |              |              |              |              |
| Basic Net Income                    | \$ 0.89      | \$ 1.66      | \$ 1.79      | \$ 1.66      | \$ 1.74      |
| Diluted Net Income                  | 0.89         | 1.66         | 1.79         | 1.66         | 1.74         |
| Cash Dividends Declared             | .745         | .710         | .663         | .619         | .584         |
| Book Value                          | 16.27        | 17.03        | 17.01        | 16.39        | 14.51        |
| Key Performance Ratios:             |              |              |              |              |              |
| Return on Average Assets            | 0.59%        | 1.18%        | 1.29%        | 1.22%        | 1.46%        |
| Return on Average Equity            | 5.06         | 9.68         | 10.48        | 10.56        | 13.31        |
| Net Interest Margin (FTE)           | 4.96         | 5.25         | 5.35         | 5.09         | 4.88         |
| Dividend Pay-Out Ratio              | 83.71        | 42.77        | 37.01        | 37.35        | 33.62        |
| Equity to Assets Ratio              | 11.20        | 11.19        | 12.15        | 11.65        | 10.86        |
| Asset Quality:                      |              |              |              |              |              |
| Allowance for Loan Losses           | \$ 37,004    | \$ 18,066    | \$ 17,217    | \$ 17,410    | \$ 16,037    |
| Allowance for Loan Losses to Loans  | 1.89%        | 0.95%        | 0.86%        | 0.84%        | 0.88%        |
| Nonperforming Assets                | 107,842      | 28,163       | 8,731        | 5,550        | 5,271        |
| Nonperforming Assets to Loans + ORE | 5.48         | 1.47         | 0.44         | 0.27         | 0.29         |
| Allowance to Nonperforming Loans    | 37.52        | 71.92        | 214.09       | 331.11       | 345.18       |
| Net Charge-Offs to Average Loans    | 0.71         | 0.27         | 0.11         | 0.13         | 0.22         |
| Averages for the Year:              |              |              |              |              |              |
| Loans, Net                          | \$ 1,918,417 | \$ 1,934,850 | \$ 2,029,397 | \$ 1,968,289 | \$ 1,538,744 |
| Earning Assets                      | 2,240,649    | 2,183,528    | 2,258,277    | 2,187,672    | 1,789,843    |
| Total Assets                        | 2,567,905    | 2,507,217    | 2,581,078    | 2,486,733    | 2,006,745    |
| Deposits                            | 2,066,065    | 1,990,446    | 2,034,931    | 1,954,888    | 1,599,201    |
| Subordinated Notes                  | 62,887       | 62,887       | 62,887       | 50,717       | 5,155        |
| Long-Term Borrowings                | 39,735       | 37,936       | 57,260       | 70,216       | 59,462       |
| Shareowners' Equity                 | 300,890      | 306,617      | 317,336      | 286,712      | 220,731      |
| Year-End Balances:                  |              |              |              |              |              |
| Loans, Net                          | \$ 1,957,797 | \$ 1,915,850 | \$ 1,999,721 | \$ 2,067,494 | \$ 1,828,825 |
| Earning Assets                      | 2,156,172    | 2,272,829    | 2,270,410    | 2,299,677    | 2,113,571    |
| Total Assets                        | 2,488,699    | 2,616,327    | 2,597,910    | 2,625,462    | 2,364,013    |
| Deposits                            | 1,992,174    | 2,142,344    | 2,081,654    | 2,079,346    | 1,894,886    |
| Subordinated Notes                  | 62,887       | 62,887       | 62,887       | 62,887       | 30,928       |

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|                      |         |         |         |         |         |
|----------------------|---------|---------|---------|---------|---------|
| Long-Term Borrowings | 51,470  | 26,731  | 43,083  | 69,630  | 68,453  |
| Shareowners' Equity  | 278,830 | 292,675 | 315,770 | 305,776 | 256,800 |

Other Data:

|                                    |            |            |            |            |            |
|------------------------------------|------------|------------|------------|------------|------------|
| Basic Average Shares Outstanding   | 17,141,454 | 17,909,396 | 18,584,519 | 18,263,855 | 16,805,696 |
| Diluted Average Shares Outstanding | 17,146,914 | 17,911,587 | 18,609,839 | 18,281,243 | 16,810,926 |
| Shareowners of Record(2)           | 1,756      | 1,750      | 1,805      | 1,716      | 1,598      |
| Banking Locations(2)               | 68         | 70         | 69         | 69         | 60         |
| Full-Time Equivalent Associates(2) | 1,042      | 1,097      | 1,056      | 1,013      | 926        |

(1) All share and per share data have been adjusted to reflect the 5-for-4 stock split effective July 1, 2005.

(2) As of the record date. The record date is on or about March 1st of the following year.

(3) The consolidated financial statements reflect the acquisitions of Quincy State Bank on March 19, 2004, Farmers and Merchants Bank of Dublin on October 15, 2004, and First Alachua Banking Corporation on May 20, 2005.

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

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes included in the Annual Report on Form 10-K. The MD&A is divided into subsections entitled "Business Overview," "Financial Overview," "Results of Operations," "Financial Condition," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Accounting Policies." The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2008 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and its subsidiary, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

In this MD&A, we present an operating efficiency ratio and an operating net noninterest expense as a percent of average assets ratio, both of which are not calculated based on accounting principles generally accepted in the United States ("GAAP"), but that we believe provide important information regarding our results of operations. Our calculation of the operating efficiency ratio is computed by dividing noninterest expense less intangible amortization and merger expenses, by the sum of tax equivalent net interest income and noninterest income. We calculate our operating net noninterest expense as a percent of average assets by subtracting noninterest expense excluding intangible amortization and merger expenses from noninterest income. Management uses these non-GAAP measures as part of its assessment of its performance in managing noninterest expenses. We believe that excluding intangible amortization and merger expenses in our calculations better reflect our periodic expenses and is more reflective of normalized operations.

Although we believe the above-mentioned non-GAAP financial measures enhance investors' understanding of our business and performance these non-GAAP financial measures should not be considered an alternative to GAAP. In addition, there are material limitations associated with the use of these non-GAAP financial measures such as the risks that readers of our financial statements may disagree as to the appropriateness of items included or excluded in these measures and that our measures may not be directly comparable to other companies that calculate these measures differently. Our management compensates for these limitations by providing detailed reconciliations between GAAP information and the non-GAAP financial measure as detailed below.

## Reconciliation of operating efficiency ratio to efficiency ratio:

|   | For the Years Ended December 31, |         |         |
|---|----------------------------------|---------|---------|
|   | 2008                             | 2007    | 2006    |
| Efficiency ratio                                      | 68.09%                           | 70.13%  | 68.87%  |
| Effect of intangible amortization and merger expenses | (3.19)%                          | (3.36)% | (3.45)% |
| Operating efficiency ratio                            | 64.91%                           | 66.77%  | 65.42%  |

## Reconciliation of operating net noninterest expense ratio:

|  | For the Years Ended December 31, |         |         |
|--|----------------------------------|---------|---------|
|  | 2008                             | 2007    | 2006    |
| Net noninterest expense as a percent of average assets           | 2.12%                            | 2.50%   | 2.56%   |
| Effect of intangible amortization and merger expenses            | (0.22)%                          | (0.23)% | (0.24)% |
| Operating net noninterest expense as a percent of average assets | 1.90%                            | 2.27%   | 2.32%   |





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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including this MD&A section, contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," "target," "goal," and similar expressions are intended to identify forward-looking statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and Item 1A Risk Factors of this Annual Report for a discussion of factors that could cause our actual results to differ materially from those in the forward-looking statements.

However, other factors besides those listed in Item 1A Risk Factors or discussed in this Annual Report also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

BUSINESS OVERVIEW

We are a financial holding company headquartered in Tallahassee, Florida and we are the parent of our wholly-owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 68 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

Our profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on earning assets, such as loans and securities, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. Results of operations are also affected by the provision for loan losses, operating expenses such as salaries and employee benefits, occupancy and other operating expenses including income taxes, and noninterest income such as service charges on deposit accounts, asset management and trust fees, retail securities brokerage fees, mortgage banking revenues, bank card fees, and data processing revenues.

Our philosophy is to grow and prosper, building long-term relationships based on quality service, high ethical standards, and safe and sound banking practices. We maintain a locally oriented, community-based focus, which is augmented by experienced, centralized support in select specialized areas. Our local market orientation is reflected in our network of banking office locations, experienced community executives with a dedicated President for each market, and community boards which support our focus on responding to local banking needs. We strive to offer a broad array of sophisticated products and to provide quality service by empowering associates to make decisions in their local markets.

Our long-term vision is to continue our expansion, emphasizing a combination of growth in existing markets and acquisitions. Acquisitions will continue to be focused on a three state area including Florida, Georgia, and Alabama with a particular focus on financial institutions, which are \$100 million to \$400 million in asset size and generally located on the outskirts of major metropolitan areas. Five markets have been identified, four in Florida and one in Georgia, in which management will proactively pursue expansion opportunities. These markets include Alachua, Marion, and Hernando and Pasco counties in Florida and the western panhandle in Florida and Bibb and surrounding

counties in central Georgia. We continue to evaluate de novo expansion opportunities in attractive new markets in the event that acquisition opportunities are not feasible. Other expansion opportunities that will be evaluated include asset management and mortgage banking.

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Recent Market Developments

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system in the past year. In fact, the National Bureau of Economic Research announced that the U.S. had entered into a recession in December 2007. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, as well as other areas of the credit market, including investment grade and non-investment grade corporate debt, convertible securities, emerging market debt and equity, and leveraged loans, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

The magnitude of these declines led to a crisis of confidence in the financial sector as a result of concerns about the capital base and viability of certain financial institutions. During this period, interbank lending and commercial paper borrowing fell sharply, precipitating a credit freeze for both institutional and individual borrowers. This market turmoil and tightening of credit have led to an increased level of consumer and commercial delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. The resulting economic pressure on consumers and lack of confidence in the financial markets has, in some cases, adversely affected the financial services industry.

Over the course of the past year, the landscape of the U.S. financial services industry changed dramatically, especially during the fourth quarter of 2008. Lehman Brothers Holdings Inc. declared bankruptcy and many major U.S. financial institutions consolidated were forced to merge or were put into conservatorship by the U.S. Federal Government, including The Bear Stearns Companies, Inc., Wachovia Corporation, Washington Mutual, Inc., Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Federal National Mortgage Association (“Fannie Mae”). In addition, the U.S. Federal Government provided a sizable loan to American International Group Inc. (“AIG”) in exchange for an equity interest in AIG.

Much of our lending operations are in the State of Florida, which has been particularly hard hit in the current U.S. recession. Evidence of the economic downturn in Florida is reflected in current unemployment statistics. The Florida unemployment rate at the end of 2008 increased to 8.1% from 4.7% at the end of 2007, reaching the highest level since September 1992. A worsening of the economic condition in Florida would likely exacerbate the adverse effects of these difficult market conditions on our customers, which may have a negative impact on our financial results.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the “EESA”) was signed into law. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 14, 2008, the Secretary of the Department of the Treasury announced that the Department of the Treasury will purchase equity stakes in a wide variety of banks and thrifts. Under the program, known as the Troubled Asset Relief Program Capital Purchase Program (the “TARP Capital Purchase Program”), from the \$700 billion authorized by the EESA, the Treasury made \$250 billion of capital available to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the Treasury received, from participating financial institutions, warrants to purchase common stock with an aggregate market price equal to 15% of the preferred

investment. Participating financial institutions were required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program. On November 13, 2008, we announced that we would not apply for funds available through the TARP Capital Purchase Program.

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program ("TLG Program"). The TLG Program was announced by the FDIC on October 14, 2008 as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLG Program the FDIC will (i) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (ii) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdrawal ("NOW") accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts ("IOLTA") accounts held at participating FDIC insured institutions through December 31, 2009. Coverage under the TLG Program was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding \$250,000. On December 12, 2008, we announced that we would participate in both guarantee programs.

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FINANCIAL OVERVIEW

A summary overview of our financial performance for 2008 versus 2007 is provided below.

2008 Financial Performance Highlights –

- In 2008, we earned \$15.2 million, or \$0.89 per diluted share, compared to \$29.7 million, or \$1.66 per diluted share in 2007, decreases of 48.7% and 46.4%, respectively. For the year, turbulent economic and market conditions and an associated increase in the provision for loan losses and the level of nonperforming assets significantly impacted our earnings performance.
- Tax equivalent net interest income fell \$3.3 million, or 2.9%, over 2007 due primarily to a higher level of foregone interest associated with an increased level of nonperforming assets which drove compression in our net interest margin of 29 basis points.
- Noninterest income increased \$7.7 million, or 13.0%, from 2007 due primarily to a \$6.25 million gain from the sale of a portion of our merchant services portfolio (\$0.22 per share) and a \$2.4 million gain from the redemption of Visa shares (\$0.09) related to their initial public offering. Lower asset management revenues (trust fees and retail brokerage fees) and mortgage banking revenues, all related to weak economic conditions and turbulent market conditions during 2008 partially offset the aforementioned gains.
- Noninterest expense declined \$0.5 million, or 0.43%, reflecting the impact of the \$1.9 million Visa litigation charge in the fourth quarter of 2007 and the reversal of \$1.1 million in Visa litigation reserves in the first quarter of 2008. Higher operating expenses primarily for salaries, legal fees and other real estate owned, partially offset the aforementioned favorable variance related to our Visa litigation reserve. The higher level of legal fees and other real estate owned expense was driven by legal support needed for loan workout/resolution and holding costs related to foreclosed properties.
- Loan loss provision increased \$26.3 million (\$0.95 per share) in 2008 driven primarily by a higher level of required reserves for our consumer and our residential real estate loan portfolios, generally reflective of weak economic conditions and stress in our residential real estate markets. Net loan charge-offs for 2008 were 71 basis points of average loans compared to 27 basis points in 2007. At year-end 2008, the allowance for loan losses was 1.89% of outstanding loans (net of overdrafts) and provided coverage of 38% of nonperforming loans.
- Share repurchase activity continued in 2008 with 90,041 shares being purchased during the year compared to 1,404,364 shares being repurchased during 2007. We remain well-capitalized with a risk based capital ratio of 14.69% and a tangible capital ratio of 7.76%.

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## RESULTS OF OPERATIONS

Net income for 2008 totaled \$15.2 million (\$0.89 per diluted share) compared to \$29.7 million (\$1.66 per diluted share) in 2007 and \$33.3 million (\$1.79 per diluted share) in 2006. Earnings per share reflect the repurchase of 90,041 common shares during 2008, 1,404,364 common shares during 2007, and 164,596 common shares during 2006.

The reduction in earnings in 2008 of \$14.5 million, or \$0.77 per diluted share, is primarily due to lower net interest income of \$3.4 million, a higher loan loss provision of \$26.3 million, partially offset by a \$6.25 million gain from the sale of a portion of the bank's merchant services portfolio and a \$2.4 million gain from the redemption of Visa Inc. shares related to its initial public offering. Our 2007 earnings include a \$1.9 million charge to reserve for Visa litigation and our 2008 earnings include the reversal of \$1.1 million of our Visa litigation reserve.

The earnings decline in 2007 of \$3.6 million, or \$0.13 per diluted share, reflects lower operating revenues (defined as the total of net interest income and noninterest income) of \$3.2 million, an increase in the loan loss provision of \$4.2 million, and slightly higher noninterest expense of \$0.4 million, partially offset by lower income taxes of \$4.2 million.

A condensed earnings summary for the last three years is presented in Table 1 below:

Table 1  
CONDENSED SUMMARY OF EARNINGS

| (Dollars in Thousands, Except Per Share Data)       | For the Years Ended December 31, |            |            |
|---|----------------------------------|------------|------------|
|   | 2008                             | 2007       | 2006       |
| Interest Income                                     | \$ 142,866                       | \$ 165,323 | \$ 165,893 |
| Taxable Equivalent Adjustments                      | 2,482                            | 2,420      | 1,812      |
| Total Interest Income (FTE)                         | 145,348                          | 167,743    | 167,705    |
| Interest Expense                                    | 34,000                           | 53,082     | 46,757     |
| Net Interest Income (FTE)                           | 111,348                          | 114,661    | 120,948    |
| Provision for Loan Losses                           | 32,496                           | 6,163      | 1,959      |
| Taxable Equivalent Adjustments                      | 2,482                            | 2,420      | 1,812      |
| Net Interest Income After Provision for Loan Losses | 76,370                           | 106,078    | 117,177    |
| Noninterest Income                                  | 67,040                           | 59,300     | 55,577     |
| Noninterest Expense                                 | 121,472                          | 121,992    | 121,568    |
| Income Before Income Taxes                          | 21,938                           | 43,386     | 51,186     |
| Income Taxes  | 6,713                            | 13,703     | 17,921     |
| Net Income  | \$ 15,225                        | \$ 29,683  | \$ 33,265  |
| Basic Net Income Per Share                          | \$ 0.89                          | \$ 1.66    | \$ 1.79    |
| Diluted Net Income Per Share                        | \$ 0.89                          | \$ 1.66    | \$ 1.79    |

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Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets, less interest expense paid on interest bearing liabilities. We provide an analysis of our net interest income, including average yields and rates in Tables 2 and 3. We provide this information on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and investments, the majority of which are state and local government debt obligations.

In 2008, our taxable equivalent net interest income decreased \$3.4 million, or 2.9%. This follows a decrease of \$6.3 million, or 5.2%, in 2007, and an increase of \$9.7 million, or 8.8%, in 2006. The decrease in our taxable equivalent net interest income in 2008 resulted from a higher level of foregone interest associated with the increased level of nonperforming assets and a decline in loan fees, partially offset by the lower costs of funds for deposits.

For the year 2008, taxable equivalent interest income declined \$22.5 million, or 13.4% from 2007 and was constant for the periods in 2007 and 2006. Taxable equivalent interest income was unfavorably impacted by the lower rate environment in 2008 as compared to 2007, the higher level of foregone interest on non-performing loans and a decline in loan fees, all of which resulted in lower yields on our earning assets during 2008. These factors produced a 120 basis point decline in the yield on earning assets, which decreased from 7.68% in 2007 to 6.48% for 2008. This compares to a 26 basis point improvement in 2007 over 2006. Interest income is expected to decline further during 2009, reflecting the lower interest rate environment stemming from reductions in the Federal Reserve's target rate throughout the year and the continued impact of foregone interest income associated with the current level of nonperforming assets.

Interest expense decreased \$19.1 million, or 36.0%, from 2007, and \$6.3 million, or 13.5%, in 2007 over 2006. The decrease was experienced in interest on deposits and short-term borrowings, primarily as a result of lower average interest rates in 2008 and a favorable shift in the deposit mix. Management responded aggressively to the reductions in the Federal Reserve's target rate, which began in September 2007, and believe we have successfully neutralized the overall impact of the rate reductions by aggressively lowering our deposit rates.

The average rate paid on interest bearing liabilities in 2008 decreased 123 basis points compared to 2007, reflecting the factors mentioned above. Interest expense is expected to trend downward in 2009 driven by the lower rate environment, offset partially by a continued shift to higher yielding deposits.

Our interest rate spread (defined as the taxable equivalent yield on average earning assets less the average rate paid on interest bearing liabilities) increased 2 basis points in 2008 compared to 2007 and decreased 13 basis points in 2007 compared to 2006. The increase in 2008 was primarily attributable to the rapid repricing of our deposit base, which more than offset the adverse impact of lower rates and higher foregone interest.

Our net interest margin (defined as taxable equivalent interest income less interest expense divided by average earning assets) was 4.96% in 2008, compared to 5.25% in 2007 and 5.35% in 2006. In 2008, the decline was a result of a 120 basis point decrease in the yield on earning assets, partially offset by a 91 basis point decrease in the cost of funds. Year over year, the increase in foregone interest coupled with maintaining a higher level of municipal deposits, which produce relatively thin spreads, led to the compression in our net interest margin of 29 basis points.

During 2008, the Federal Reserve reduced the federal funds rate by 400 basis points. Capital City Bank benefited from the influx of NOW deposits, primarily during the first half of 2008, attributable to transfers from the Florida State Board of Administration's Local Government Investment Pool. These new deposits were in the form of negotiated public deposits and resulted in a significant increase in the bank's NOW accounts. These public funds

declined throughout the second half of 2008. Overall, by aggressively lowering deposit interest rates, management believes we have been fairly successful in neutralizing the impact of the Federal Reserve's interest rate reductions. While the higher cost public funds have been priced to produce a positive interest rate spread and will add to net interest income, the margin on these accounts are thin, and therefore, due to the volume of these new deposits, we have experienced an adverse impact on our net interest margin percentage.

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Table 2  
AVERAGE BALANCES AND INTEREST RATES

| (Taxable Equivalent<br>Basis - Dollars in<br>Thousands) | 2008                |            |       | 2007                |            |       | 2006                |            |       |
|---|---------------------|------------|-------|---------------------|------------|-------|---------------------|------------|-------|
|   | Balance             | Interest   | Rate  | Balance             | Interest   | Rate  | Balance             | Interest   | Rate  |
| <b>ASSETS</b>   |                     |            |       |                     |            |       |                     |            |       |
| Loans, Net of<br>Unearned<br>Interest(1)(2)             | \$ 1,918,417        | \$ 133,457 | 6.96% | \$ 1,934,850        | \$ 155,434 | 8.03% | \$ 2,029,397        | \$ 157,227 | 7.75% |
| Taxable Investment<br>Securities                        | 93,149              | 3,889      | 5.04  | 103,840             | 4,949      | 4.76  | 112,392             | 4,851      | 4.31  |
| Tax-Exempt<br>Investment<br>Securities(2)               | 97,010              | 4,893      | 4.16  | 84,849              | 4,447      | 5.24  | 74,634              | 3,588      | 4.81  |
| Funds Sold  | 132,073             | 3,109      | 2.32  | 59,989              | 2,913      | 4.79  | 41,854              | 2,039      | 4.81  |
| Total Earning<br>Assets                                 | 2,240,649           | 145,348    | 6.48% | 2,183,528           | 167,743    | 7.68% | 2,258,277           | 167,705    | 7.42% |
| Cash & Due From<br>Banks                                | 82,410              |            |       | 86,692              |            |       | 100,237             |            |       |
| Allowance for Loan<br>Losses                            | (23,015)            |            |       | (17,535)            |            |       | (17,486)            |            |       |
| Other Assets  | 267,861             |            |       | 254,532             |            |       | 240,050             |            |       |
| <b>TOTAL ASSETS</b>                                     | <b>\$ 2,567,905</b> |            |       | <b>\$ 2,507,217</b> |            |       | <b>\$ 2,581,078</b> |            |       |
| <b>LIABILITIES</b>                                      |                     |            |       |                     |            |       |                     |            |       |
| NOW Accounts  | \$ 743,327          | \$ 7,454   | 1.00% | \$ 557,060          | \$ 10,748  | 1.93% | \$ 518,671          | \$ 7,658   | 1.48% |
| Money Market<br>Accounts                                | 374,278             | 5,242      | 1.40  | 397,193             | 13,667     | 3.44  | 370,257             | 11,687     | 3.16  |
| Savings Accounts  | 116,413             | 121        | 0.10  | 119,700             | 279        | 0.23  | 134,033             | 278        | 0.21  |
| Other Time<br>Deposits                                  | 424,748             | 14,489     | 3.41  | 474,728             | 19,993     | 4.21  | 507,283             | 17,630     | 3.48  |
| Total Interest<br>Bearing Deposits                      | 1,658,766           | 27,306     | 1.65% | 1,548,681           | 44,687     | 2.89% | 1,530,244           | 37,253     | 2.43% |
| Short-Term<br>Borrowings                                | 61,181              | 1,157      | 1.88  | 66,397              | 2,871      | 4.31  | 78,700              | 3,074      | 3.89  |
| Subordinated Notes<br>Payable                           | 62,887              | 3,735      | 5.84  | 62,887              | 3,730      | 5.93  | 62,887              | 3,725      | 5.92  |
| Other Long-Term<br>Borrowings                           | 39,735              | 1,802      | 4.54  | 37,936              | 1,794      | 4.73  | 57,260              | 2,705      | 4.72  |
| Total Interest<br>Bearing Liabilities                   | 1,822,569           | 34,000     | 1.87% | 1,715,901           | 53,082     | 3.09% | 1,729,091           | 46,757     | 2.70% |
| Noninterest Bearing<br>Deposits                         | 407,299             |            |       | 441,765             |            |       | 504,687             |            |       |
| Other Liabilities                                       | 37,147              |            |       | 42,934              |            |       | 29,964              |            |       |
| <b>TOTAL<br/>LIABILITIES</b>                            | <b>2,267,015</b>    |            |       | <b>2,200,600</b>    |            |       | <b>2,263,742</b>    |            |       |

|                            |              |              |              |       |
|----------------------------|--------------|--------------|--------------|-------|
| SHAREOWNERS' EQUITY        |              |              |              |       |
| TOTAL SHAREOWNERS' EQUITY  |              |              |              |       |
|                            | 300,890      | 306,617      | 317,336      |       |
| TOTAL LIABILITIES & EQUITY |              |              |              |       |
|                            | \$ 2,567,905 | \$ 2,507,217 | \$ 2,581,078 |       |
| Interest Rate Spread       |              | 4.61%        | 4.59%        | 4.72% |
| Net Interest Income        | \$ 111,348   | \$ 114,661   | \$ 120,948   |       |
| Net Interest Margin(3)     |              | 4.96%        | 5.25%        | 5.35% |

(1) Average balances include nonaccrual loans. Interest income includes loan fees of \$2.3 million, \$3.0 million, and \$3.8 million in 2008, 2007, and 2006, respectively.

(2) Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate.

(3) Taxable equivalent net interest income divided by average earning assets.

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RATE/VOLUME ANALYSIS (1)

| (Taxable Equivalent Basis - Dollars<br>in Thousands) | 2008 Changes From 2007<br>Due to Average |               |                 |                   | 2007 Changes From 2006<br>Due to Average |                   |                 |
|--|--|---------------|-----------------|-------------------|--|-------------------|-----------------|
|  | Total                                    | Calendar(3)   | Volume          | Rate              | Total                                    | Volume            | Rate            |
| <b>Earnings Assets:</b>                              |  |               |                 |                   |  |                   |                 |
| Loans, Net of Unearned Interest (2)                  | \$21,978                                 | \$ 426        | \$ (2,012)      | \$20,392          | \$ (1,792)                               | \$ (7,465)        | \$ 5,673        |
| <b>Investment Securities:</b>                        |  |               |                 |                   |  |                   |                 |
| Taxable  | (1,061)                                  | 13            | (400)           | (674)             | 99                                       | (350)             | 449             |
| Tax-Exempt (2)                                       | 448                                      | 12            | 636             | (200)             | 858                                      | 491               | 367             |
| Funds Sold   | 196                                      | 8             | 3,393           | (3,205)           | 873                                      | 883               | (10)            |
| <b>Total</b>   | <b>(22,395)</b>                          | <b>459</b>    | <b>1,617</b>    | <b>(24,471)</b>   | <b>38</b>                                | <b>(6,441)</b>    | <b>6,479</b>    |
| <b>Interest Bearing Liabilities:</b>                 |  |               |                 |                   |  |                   |                 |
| NOW Accounts   | (3,293)                                  | 29            | 3,584           | (6,906)           | 3,090                                    | 567               | 2,523           |
| Money Market Accounts                                | (8,425)                                  | 37            | (786)           | (7,676)           | 1,979                                    | 850               | 1,129           |
| Savings Accounts                                     | (159)                                    | 1             | (8)             | (152)             | 2  | (29)              | 31              |
| Time Deposits  | (5,505)                                  | 55            | (2,099)         | (3,461)           | 2,364                                    | (1,131)           | 3,495           |
| Short-Term Borrowings                                | (1,713)                                  | 8             | (185)           | (1,536)           | (204)                                    | (424)             | 220             |
| Subordinated Notes Payable                           | 5  | 10            | 0               | (5)               | 5  | 0                 | 5               |
| Long-Term Borrowings                                 | 8  | 5             | 85              | (82)              | (911)                                    | (913)             | 2               |
| <b>Total</b>   | <b>19,082</b>                            | <b>145</b>    | <b>591</b>      | <b>(19,818)</b>   | <b>6,325</b>                             | <b>(1,080)</b>    | <b>7,405</b>    |
| <b>Changes in Net Interest Income</b>                | <b>\$ (3,313)</b>                        | <b>\$ 314</b> | <b>\$ 1,026</b> | <b>\$ (4,653)</b> | <b>\$ (6,287)</b>                        | <b>\$ (5,361)</b> | <b>\$ (926)</b> |

(1) This table shows the change in taxable equivalent net interest income for comparative periods based on either changes in average volume or changes in average rates for earning assets and interest bearing liabilities. Changes which are not solely due to volume changes or solely due to rate changes have been attributed to rate changes.

(2) Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate to adjust interest on tax-exempt loans and securities to a taxable equivalent basis.

(3) Reflects difference in 366 days year (2008) versus 365 day year (2007).

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## Provision for Loan Losses

The provision for loan losses was \$32.5 million in 2008, compared to \$6.2 million in 2007 and \$2.0 million in 2006. The increase in the provision for 2008 generally reflects turbulent economic conditions and the associated impact on consumers, housing, and real estate markets. Over the course of the year, a majority of the increase in our provision has been driven by higher reserves needed for our consumer loan portfolio and for loans where repayment is reliant on activity within residential real estate markets, primarily loans to builders and investors (both business and individual). Activity within our residential real estate markets significantly slowed during 2008 and has been hampered by property de-valuation. We continue to perform a detailed review and valuation assessment of our impaired loans on a quarterly basis and adjust specific reserves or charge off losses, as appropriate, based on collateral valuations.

The increase in the provision for loan losses in 2007 was primarily attributable to a higher level of required reserves held for our consumer loan portfolio and for loans where repayment is tied to residential real estate market activity which began to show signs of stress in late 2007.

Net charge-offs for 2008 totaled \$13.6 million, or .71% of average loans for the year compared to \$5.3 million, or .27% for 2007 and \$2.2 million, or .11% for 2006. A majority (58%) of our loan charge-offs realized during 2008 were for consumer loans and loans secured by residential real estate property. See Table 7 on page 40 for a detailed analysis of loan charge-offs and recoveries over the past five years.

## Noninterest Income

Noninterest income increased \$7.7 million, or 13.0% and \$3.7 million or 6.7%, in 2008 and 2007, respectively, compared to the immediately preceding year. The increase in 2008 was primarily due to a \$6.25 million gain from the sale of a portion of the bank's merchant services portfolio, a \$2.4 million gain from the redemption of Visa Inc. shares related to their initial public offering, and a strong improvement in deposit fees (\$1.6 million). We retained and continue to service approximately 40% of the merchant services portfolio. The aforementioned gains were partially offset by a reduction in merchant services fees (\$1.7 million) attributable to the portion of the merchant services portfolio sold in July 2008 and lower mortgage banking revenues (\$1.0 million).

In 2007, there were appreciable increases in all categories of noninterest income with the exception of mortgage banking, which was adversely impacted by the slowdown in residential housing market.

Noninterest income as a percent of average assets was 2.61% in 2008, compared to 2.37% in 2007, and 2.15% in 2006. Gains from the sale of the bank's merchant services portfolio and the redemption of Visa Inc. shares and higher deposit fees were the primary reasons for the improvement in 2008, while higher deposit fees and card fees drove the improvement in 2007. Noninterest income as a percent of taxable equivalent operating revenues was 37.6% in 2008, up from 34.1% in 2007 with the improvement being primarily attributable to the two aforementioned gains totaling \$8.65 million.

The table below reflects the major components of noninterest income.

| (Dollars in Thousands)              | For the Years Ended December 31, |           |           |
|-------------------------------------|----------------------------------|-----------|-----------|
|                                     | 2008                             | 2007      | 2006      |
| Noninterest Income:                 |                                  |           |           |
| Service Charges on Deposit Accounts | \$ 27,742                        | \$ 26,130 | \$ 24,620 |
| Data Processing                     | 3,435                            | 3,133     | 2,723     |

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| Asset Management Fees                                  | 4,235     | 4,700     | 4,600     |
| Retail Brokerage Fees                                  | 2,399     | 2,510     | 2,091     |
| Gain/(Loss) on Sale/Call of Investment Securities      | 125       | 14        | (4)       |
| Mortgage Banking Revenues                              | 1,623     | 2,596     | 3,235     |
| Merchant Fees(1)                                       | 5,548     | 7,257     | 6,978     |
| Interchange Fees(1)                                    | 4,165     | 3,757     | 3,105     |
| Gain on Sale of Portion of Merchant Services Portfolio | 6,250     | -         | -         |
| ATM/Debit Card Fees(1)                                 | 2,988     | 2,692     | 2,519     |
| Other  | 8,530     | 6,511     | 5,710     |
| Total Noninterest Income                               | \$ 67,040 | \$ 59,300 | \$ 55,577 |

(1) Together called "Bank Card Fees"

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Various significant components of noninterest income are discussed in more detail below.

**Service Charges on Deposit Accounts.** Deposit service charge fees increased \$1.6 million, or 6.2%, in 2008, compared to an increase of \$1.5 million, or 6.1%, in 2007. Deposit service charge revenues in any one year are dependent on the number of accounts, primarily transaction accounts, the level of activity subject to service charges, and the collection rate. The increase in deposit fees in both years was due to higher overdraft and nonsufficient funds ("NSF") fees reflecting higher activity levels and improved fee collection experience.

**Asset Management Fees.** In 2008, asset management fees declined \$465,000, or 9.9%, versus an increase of \$100,000, or 2.2%, in 2007. At year-end 2008, assets under management totaled \$664.7 million, reflecting a net decline of \$116.6 million, or 14.9% from 2007. At year-end 2007, assets under management totaled \$781.3 million, reflecting net growth of \$27.8 million, or 3.7% over 2006. The decline for 2008 is primarily due to a reduction in assets under management because of a decline in market values for discretionary managed accounts. Account attrition related to the resolution of trust and estate accounts also contributed to the decline in fees. The improvement in 2007 primarily reflects growth in new business.

**Mortgage Banking Revenues.** In 2008, mortgage banking revenues declined \$973,000, or 37.5%, compared to a \$639,000, or 19.8% decrease in 2007, with the decline in both years due to lower production reflective of weak economic conditions and a significant slowdown in our housing markets. We generally sell all fixed rate residential loan production into the secondary market. Market conditions, housing activity, the level of interest rates, and the percent of our fixed rate production have significant impacts on our mortgage banking revenues.

**Gain on the Sale of Merchant Services Portfolio.** On July 31, 2008, we sold a portion of the Bank's merchant services portfolio resulting in a pre-tax gain of \$6.25 million, but retained approximately 40% of the portfolio which will continue to be serviced by the Bank.

**Bank Card Fees.** Card fees (including merchant service fees, interchange fees, and ATM/debit card fees) decreased \$1.0 million, or 7.3%, in 2008. Interchange fees and ATM/debit card fees increased 10.9% and 11.0%, respectively, for the year due to higher transaction volumes, however, merchant service fees were significantly reduced due to the aforementioned sale of a portion of the bank's merchant services portfolio. In 2007, card fees increased \$1.1 million, or 8.7% due to increases in merchant services fees, interchange fees, and ATM/debit card fees of 4.0%, 21.0%, and 6.8%, respectively. The higher interchange and ATM/debit card fees in 2008 and 2007 reflect an increase in our card base primarily associated with growth in transaction deposit accounts.

**Other.** Other income increased \$2.0 million, or 31.0%, from 2007 due to a \$2.4 million gain from the redemption of Visa, Inc. shares related to its initial public offering. Higher fees received for accounts receivable financing and gains from the sale of other real estate also contributed to the increase. A lower level of gains from the sale of banking premises and a decline in miscellaneous loan related fees, and lower income from one equity investment partially offset the aforementioned favorable variances.

## Noninterest Expense

For the full year 2008, noninterest expense decreased \$520,000, or 0.43%, reflecting the impact of a \$1.9 million Visa litigation charge in the fourth quarter of 2007 and the reversal of \$1.1 million in Visa litigation reserves during the first quarter of 2008. Lower interchange expense (\$1.5 million) reflecting the sale of a portion of the bank's merchant services portfolio also contributed to the favorable variance for the year. Partially offsetting the aforementioned favorable variances was higher salary expense (\$1.1 million), legal fees (\$501,000), FDIC insurance premiums (\$555,000), and other real estate owned expenses (\$1.0 million). Management continues to work on expense

reduction opportunities, improvement in cost controls, and enhancement of operating efficiencies as core strategic objectives.

Noninterest expense grew by \$424,000, or 0.35%, in 2007, which included the aforementioned \$1.9 million pre-tax charge recorded in the fourth quarter of 2007 to establish a litigation reserve related to Visa U.S.A.'s "covered" litigation. This litigation reserve is discussed in more detail below. Compensation expense for 2007 reflects reduced expense levels for performance based incentive plans and lower pension expense. Lower expense for courier reflecting our transition to remote office capture also contributed positively to the favorable variance for the year.

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The table below reflects the major components of noninterest expense.

| (Dollars in Thousands)           | For the Years Ended December 31, |                   |                   |
|----------------------------------|----------------------------------|-------------------|-------------------|
|                                  | 2008                             | 2007              | 2006              |
| <b>Noninterest Expense:</b>      |                                  |                   |                   |
| Salaries                         | \$ 50,581                        | \$ 49,206         | \$ 46,604         |
| Associate Benefits               | 11,250                           | 11,073            | 14,251            |
| <b>Total Compensation</b>        | <b>61,831</b>                    | <b>60,279</b>     | <b>60,855</b>     |
| <br>                             |                                  |                   |                   |
| Premises                         | 9,729                            | 9,347             | 9,395             |
| Equipment                        | 9,902                            | 9,890             | 9,911             |
| <b>Total Occupancy</b>           | <b>19,631</b>                    | <b>19,237</b>     | <b>19,306</b>     |
| <br>                             |                                  |                   |                   |
| Legal Fees                       | 2,240                            | 1,739             | 1,734             |
| Professional Fees                | 4,083                            | 3,855             | 3,402             |
| Processing Services              | 1,758                            | 1,994             | 1,863             |
| Advertising                      | 3,609                            | 3,742             | 4,285             |
| Travel and Entertainment         | 1,390                            | 1,470             | 1,664             |
| Printing and Supplies            | 1,977                            | 2,124             | 2,472             |
| Telephone                        | 2,522                            | 2,373             | 2,323             |
| Postage                          | 1,743                            | 1,565             | 1,145             |
| Intangible Amortization          | 5,685                            | 5,834             | 6,085             |
| Interchange Fees                 | 4,577                            | 6,118             | 6,010             |
| Commission Fees                  | 2,163                            | 1,284             | 836               |
| Courier Service                  | 465                              | 641               | 1,307             |
| Miscellaneous                    | 7,798                            | 9,737             | 8,281             |
| <b>Total Other</b>               | <b>40,010</b>                    | <b>42,476</b>     | <b>41,407</b>     |
| <br>                             |                                  |                   |                   |
| <b>Total Noninterest Expense</b> | <b>\$ 121,472</b>                | <b>\$ 121,992</b> | <b>\$ 121,568</b> |

Various significant components of noninterest expense are discussed in more detail below.

**Compensation.** Total compensation expense increased \$1.6 million, or 2.6% in 2008 due primarily to higher associate salaries of \$2.1 million, or 5.1%, which generally reflects routine merit adjustments during the course of the year, and an increase in associate benefit expense of \$177,000, or 1.6%. Partially offsetting these unfavorable variances was lower cash based incentive compensation which experienced a favorable variance of approximately \$1.1 million, or 19.2% for the year generally reflective of lower earnings performance. In 2009, we expect our retirement plan expense will increase approximately \$4.0 million driven by a lower discount rate assumption, but more significantly due to a loss in market value on our pension plan assets during 2008.

In 2007, salaries and associate benefits expense decreased \$577,000, or 0.95% from 2006 primarily attributable to lower expense for pension (\$1.4 million) and stock based compensation (\$2.0 million). A \$2.6 million, or 6.0% increase in associate salaries partially offset these declines. Pension expense declined as a result of large contributions and strong investment returns on pension plan assets, and an increase in the weighted-average discount rate from 2006 to 2007. The lower expense for stock based compensation is reflective of performance goals not being met during 2007.



Occupancy. Occupancy expense (including furniture, fixtures and equipment) increased by \$394,000, or 2.0% in 2008 primarily due to an increase in depreciation expense for both buildings and furniture, fixtures, and equipment (FF&E). The increase primarily reflects the addition of one new banking office in late 2007, major remodeling of two banking offices in mid-2007, and the opening of two new banking offices during 2008.

For 2007, occupancy expense decreased by \$69,000, or 0.36% in 2007 due to a decrease in depreciation (furniture, fixtures, and equipment) expense of \$472,000 and maintenance and repairs (buildings) expense of \$254,000. Partially offsetting these declines were increases in maintenance and repairs (furniture, fixtures, and equipment) expense of \$273,000 and software license expense of \$230,000. The reduction in depreciation (furniture, fixtures, and equipment) was due to several large capital assets that became fully depreciated during 2007. The lower expense for maintenance and repairs (buildings) reflects management's efforts to better manage this expense. The increase in expense for maintenance and repairs (furniture, fixtures, and equipment) primarily reflects the cost of new/replacement telecommunications and network cabling associated with the implementation of voice over IP and remote office capture technology during 2007. The increase in software license expense primarily reflects the purchase of certain technology aimed at improving our sales monitoring, operational procedures, and budgeting/planning efforts.

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Other. In 2008, we realized a favorable variance of \$2.3 million, or 6.3%, in other noninterest expense due to the impact of a \$1.9 million Visa litigation charge in the fourth quarter of 2007 and the reversal of \$1.1 million in Visa reserves during the first quarter of 2008. At year-end 2008, we still maintained Visa litigation reserves of approximately \$800,000. Lower interchange expense (\$1.5 million) reflecting the sale of a portion of the bank's merchant services portfolio also contributed to the favorable variance for the year. Partially offsetting the aforementioned favorable variances were higher legal fees (\$501,000), FDIC insurance premiums (\$555,000), and other real estate owned expenses (\$1.0 million). Legal expense increased due to a higher level of legal support needed for problem loan collection/workout efforts. Our FDIC insurance premium increased during the second half of the year primarily reflecting the full use of our premium credits. We expect our premium to increase in 2009 by approximately \$1.9 million based on the FDIC's increase to rates. In addition, if the FDIC's one-time emergency special assessment is levied at the 20 basis point level, we expect it to further increase our FDIC insurance expense by approximately \$3.9 million in 2009. Expense related to our other real estate owned properties was higher due to an increase in general holding costs driven by a higher level of properties, but more significantly, the unfavorable variance was driven by subsequent valuation adjustments (write-downs) on properties.

For 2007, other noninterest expense increased \$1.3 million, or 3.7%, primarily attributable to a pre-tax charge of \$1.9 million, which was recorded in the fourth quarter of 2007 to establish a litigation reserve. The Bank is a member of Visa U.S.A. and this reserve was established in connection with lawsuits filed against Visa U.S.A., which is generally referred to as the "Covered" litigation. The nature and circumstances regarding this charge is more fully explained in Form 8-Ks filed with the SEC on January 10, 2008 and January 22, 2008.

The operating net noninterest expense ratio (defined as noninterest income minus noninterest expense, net of intangible amortization and merger expenses, as a percent of average assets) was 1.90% in 2008 compared to 2.27% in 2007, and 2.32% in 2006. Our operating efficiency ratio (expressed as noninterest expense, net of intangible amortization and merger expenses, as a percent of taxable equivalent net interest income plus noninterest income) was 64.91%, 66.87%, and 65.42% in 2008, 2007 and 2006, respectively.

The above mentioned ratios for 2008 reflect the impact of the \$6.25 million gain from the sale of the bank's merchant services portfolio, the \$2.4 million gain from the redemption of Visa Inc. shares, and the \$1.1 million reversal of Visa Inc. litigation reserve, all occurring during 2008. These transactions were the primary factors driving the change in these ratios.

During 2007, we took steps to strengthen our expense control procedures, including enhancement of current expense policies, creation of an expense control committee to focus on identifying cost savings strategies, and improve accountability for expense management across our various divisions – these efforts continue to be part of our strategic planning process. The increase in the operating efficiency ratio during 2007 is primarily attributable to a lower level of operating revenues (tax equivalent net interest income plus noninterest income).

### Income Taxes

The consolidated provision for federal and state income taxes was \$6.7 million in 2008, compared to \$13.7 million in 2007, and \$17.9 million in 2006. Lower taxable income primarily drove the decline in the tax provision for both 2007 and 2008.

The effective tax rate was 30.6% in 2008, 31.6% in 2007, and 35.0% in 2006. These rates differ from the combined federal and state statutory tax rates due primarily to tax-exempt income on loans and securities. The variance in our effective tax rate for 2008 and 2007 was driven by a lower level of taxable income, primarily reflective of our higher loan loss provisions, in relation to the size of our permanent book/tax differences. The 2007 effective tax rate was

also impacted by a true-up of our deferred tax liabilities which resulted in a net reduction in our income tax provision of \$937,000.

#### FINANCIAL CONDITION

Average assets totaled approximately \$2.6 billion, an increase of \$60.7 million, or 2.4%, in 2008 versus the comparable period in 2007. Average earning assets for 2008 were approximately \$2.2 billion, representing an increase of \$57.1 million, or 2.6%, over 2007. An increase in average short term investments of \$72.1 million partially offset by a decline in average loans of \$16.4 million drove the increase in earning assets. We discuss these variances in more detail below.

Table 2 provides information on average balances and rates, Table 3 provides an analysis of rate and volume variances, and Table 4 highlights the changing mix of our earning assets over the last three years.

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## Loans

Average loans decreased \$16.4 million, or 0.85%, from the comparable period in 2007. Loans as a percent of average earning assets declined to 85.6% in 2008, down from the 2007 level of 88.6%. Our loan portfolio remained relatively flat for the first half of 2008 as new loan production was offset by loan principal pay-downs and pay-offs. For the second half of the year, we realized net loan growth driven by both a pick-up in new loan production for commercial real estate, home equity, and indirect auto loans, and the impact of a slowdown in loan principal pay-downs and pay-offs.

We are encouraged by the growth in our loan balances during the second half of 2008, which reflects continued focus on the sales and service efforts of our bankers. This trend also reflects the diversity of our loan products and the variety of quality lending opportunities that we believe our banking relationships and markets continue to offer. While we strive to identify opportunities to increase loans outstanding and enhance the portfolio's overall contribution to earnings, we will only do so by adhering to sound lending principles applied in a prudent and consistent manner. Thus, we will not relax our underwriting standards in order to achieve designated growth goals and, where appropriate have adjusted our standards to reflect risks inherent in the current economic environment.

Table 4  
SOURCES OF EARNING ASSET GROWTH

| (Average Balances – Dollars In<br>Thousands) | 2007 to   | Percentage | Components of          |        |        |
|--|-----------|------------|------------------------|--------|--------|
|  | 2008      | Of Total   | Average Earning Assets |        |        |
|  | Change    | Change     | 2008                   | 2007   | 2006   |
| <b>Loans:</b>                                |           |            |                        |        |        |
| Commercial, Financial, and<br>Agricultural   | (10,473)  | 18.0%      | 8.8%                   | 9.5%   | 9.7%   |
| Real Estate – Construction                   | (11,616)  | 20.0%      | 6.6%                   | 7.3%   | 7.8%   |
| Real Estate – Commercial                     | (8,228)   | 14.0%      | 28.0%                  | 29.2%  | 29.5%  |
| Real Estate – Residential                    | 8,445     | (15.0)%    | 31.1%                  | 31.5%  | 32.2%  |
| Consumer                                     | 5,439     | (10.0)%    | 11.1%                  | 11.2%  | 10.7%  |
| Total Loans                                  | (16,433)  | 29.0%      | 85.6%                  | 88.7%  | 89.9%  |
| <b>Investment Securities:</b>                |           |            |                        |        |        |
| Taxable                                      | (10,691)  | 19.0%      | 4.2%                   | 4.8%   | 5.0%   |
| Tax-Exempt                                   | 12,161    | (21.0)%    | 4.3%                   | 3.8%   | 3.2%   |
| Total Securities                             | 1,470     | (3.0)%     | 8.5%                   | 8.6%   | 8.2%   |
| Funds Sold                                   | 72,084    | (126.0)%   | 5.9%                   | 2.7%   | 1.9%   |
| Total Earning Assets                         | \$ 57,121 | 100.0%     | 100.0%                 | 100.0% | 100.0% |

Our average loan-to-deposit ratio decreased to 92.9% in 2008 from 97.2% in 2007. The lower loan-to-deposit ratio reflects both declining average loan balances, which until the fourth quarter of 2007 declined for seven straight quarters, and a higher level of average deposits.

The composition of our loan portfolio at December 31st for each of the past five years is shown in Table 5. Table 6 arrays our total loan portfolio as of December 31, 2008, based upon maturities. As a percent of the total portfolio, loans with fixed interest rates represent 33.2% as of December 31, 2008, versus 36.4% at December 31, 2007.

Table 5  
LOANS BY CATEGORY

| (Dollars in Thousands)                 | As of December 31, |              |              |              |              |
|--|--------------------|--------------|--------------|--------------|--------------|
|  | 2008               | 2007         | 2006         | 2005         | 2004         |
| Commercial, Financial and Agricultural | \$ 206,230         | \$ 208,864   | \$ 229,327   | \$ 218,434   | \$ 206,474   |
| Real Estate - Construction             | 141,973            | 142,248      | 179,072      | 160,914      | 140,190      |
| Real Estate - Commercial               | 656,959            | 634,920      | 643,885      | 718,741      | 655,426      |
| Real Estate - Residential              | 484,238            | 488,372      | 536,138      | 558,000      | 450,314      |
| Real Estate - Home Equity              | 218,500            | 192,428      | 173,597      | 165,336      | 150,061      |
| Consumer                               | 249,897            | 249,018      | 237,702      | 246,069      | 226,360      |
| Total Loans, Net of Unearned Interest  | \$ 1,957,797       | \$ 1,915,850 | \$ 1,999,721 | \$ 2,067,494 | \$ 1,828,825 |

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LOAN MATURITIES

| (Dollars in Thousands)                         | Maturity Periods    |                                   |                       | Total               |
|--|---------------------|-----------------------------------|-----------------------|---------------------|
|  | One Year<br>or Less | Over One<br>Through<br>Five Years | Over<br>Five<br>Years |                     |
| Commercial, Financial and Agricultural         | \$ 91,184           | \$ 78,937                         | \$ 36,107             | \$ 206,228          |
| Real Estate - Construction                     | 132,677             | 8,041                             | 1,256                 | 141,974             |
| Real Estate – Commercial Mortgage              | 153,683             | 102,180                           | 401,096               | 656,959             |
| Real Estate - Residential                      | 105,062             | 65,179                            | 313,997               | 484,238             |
| Real Estate – Home Equity                      | 819                 | 6,737                             | 210,945               | 218,501             |
| Consumer(1)                                    | 26,507              | 159,536                           | 63,854                | 249,897             |
| <b>Total</b>                                   | <b>\$ 509,932</b>   | <b>\$ 420,610</b>                 | <b>\$ 1,027,255</b>   | <b>\$ 1,957,797</b> |
| <b>Loans with Fixed Rates</b>                  | <b>\$ 347,099</b>   | <b>\$ 268,030</b>                 | <b>\$ 35,218</b>      | <b>\$ 650,347</b>   |
| <b>Loans with Floating or Adjustable Rates</b> | <b>162,833</b>      | <b>152,580</b>                    | <b>992,037</b>        | <b>1,307,450</b>    |
| <b>Total</b>                                   | <b>\$ 509,932</b>   | <b>\$ 420,610</b>                 | <b>\$ 1,027,255</b>   | <b>\$ 1,957,797</b> |

(1) Demand loans and overdrafts are reported in the category of one year or less.

## Allowance for Loan Losses

Management believes it maintains the allowance for loan losses at a level sufficient to provide for the estimated credit losses inherent in the loan portfolio as of the balance sheet date. Credit losses arise from the borrowers' inability or unwillingness to repay, and from other risks inherent in the lending process including collateral risk, operations risk, concentration risk, and economic risk. As such, all related risks of lending are considered when assessing the adequacy of the allowance. The allowance for loan losses is established through a provision charged to expense. Loan losses are charged against the allowance when management believes collection of the principal is unlikely. The allowance for loan losses is based on management's judgment of overall credit quality. This is a significant estimate based on a detailed analysis of the loan portfolio. The balance can and will change based on changes in the assessment of the loan portfolio's overall credit quality and other risk factors both internal and external to us.

Management evaluates the adequacy of the allowance for loan losses on a quarterly basis. Loans that have been identified as impaired are reviewed for adequacy of collateral, with a specific reserve assigned to those loans when necessary. A loan is deemed impaired when, based on current information and events, it is probable that the company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. All classified loan relationships that exceed \$100,000 are reviewed for impairment. The evaluation is based on the repayment capacity of the borrower or current payment status of the loan.

The method used to assign a specific reserve depends on whether repayment of the loan is dependent on liquidation of collateral. If repayment is dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the fair value of the collateral after estimated sales expenses. If repayment is not dependent on the sale of collateral, the reserve is equivalent to the recorded investment in the loan less the estimated cash flows discounted using the loan's effective interest rate. The discounted value of the cash flows is based on the anticipated timing of the receipt of cash payments from the borrower. The reserve allocations for impaired loans are sensitive to the extent

market conditions or the actual timing of cash receipts change.

Once specific reserves have been assigned to impaired loans, general reserves are assigned to the remaining portfolio. General reserves are assigned to various homogenous loan pools, including commercial, commercial real estate, construction, residential 1-4 family, home equity, and consumer. General reserves are assigned based on historical loan loss ratios (by loan pool and internal risk rating) and are adjusted for various internal and external environmental factors unique to each loan pool.

The unallocated portion of the allowance is monitored on a regular basis and adjusted based on management's determination of estimation risk. Table 7 analyzes the activity in the allowance over the past five years.

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Table 8 provides an allocation of the allowance for loan losses to specific loan types for each of the past five years. The reserve allocations, as calculated using the above methodology, are assigned to specific loan categories corresponding to the type represented within the components discussed.

The allowance for loan losses was \$37.0 million at December 31, 2008 and \$18.1 million at December 31, 2007. The allowance for loan losses was 1.89% of outstanding loans (net of overdrafts) and provided coverage of 38% of nonperforming loans at year-end 2008 compared to 0.95% and 72% in 2007. The increase in the allowance for loan losses was driven primarily by a higher level of required reserves for our residential real estate, construction, and consumer loan portfolios as current economic conditions and stress within our real estate markets has had an adverse impact on our consumer borrowers and borrowers who derive their revenue or personal incomes from the real estate industry. The reduction in the nonperforming loan coverage ratio reflects a higher level of nonperforming loans, including \$37.7 million in impaired loans for which there is no specific reserve required because, notwithstanding de-valuation in our real estate markets, the collateral values exceeded the loan balance based on loan specific collateral analyses. Impaired loans are discussed in further detail below under the section "Risk Element Assets". It is management's opinion that the allowance at December 31, 2008 is adequate to absorb losses inherent in the loan portfolio at quarter-end.

Table 7  
ANALYSIS OF ALLOWANCE FOR LOAN LOSSES

| (Dollars in Thousands)                 | For the Years Ended December 31, |              |              |              |              |
|--|----------------------------------|--------------|--------------|--------------|--------------|
|  | 2008                             | 2007         | 2006         | 2005         | 2004         |
| Balance at Beginning of Year           | \$ 18,066                        | \$ 17,217    | \$ 17,410    | \$ 16,037    | \$ 12,429    |
| Acquired Reserves                      | -                                | -            | -            | 1,385        | 5,713        |
| Reserve Reversal(1)                    | -                                | -            | -            | -            | (800)        |
| <b>Charge-Offs:</b>                    |                                  |              |              |              |              |
| Commercial, Financial and Agricultural | 1,649                            | 1,462        | 841          | 1,287        | 873          |
| Real Estate - Construction             | 2,581                            | 166          | -            | -            | -            |
| Real Estate - Commercial               | 1,499                            | 709          | 346          | 255          | 48           |
| Real Estate - Residential              | 3,787                            | 407          | 260          | 311          | 154          |
| Real Estate - Home Equity              | 267                              | 1,022        | 20           | 10           | 37           |
| Consumer                               | 6,192                            | 3,451        | 2,516        | 2,380        | 3,946        |
| <b>Total Charge-Offs</b>               | <b>15,975</b>                    | <b>7,217</b> | <b>3,983</b> | <b>4,243</b> | <b>5,058</b> |
| <b>Recoveries:</b>                     |                                  |              |              |              |              |
| Commercial, Financial and Agricultural | 331                              | 174          | 246          | 180          | 81           |



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|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Real Estate - Construction                                     | 4         | -         | -         | -         | -         |
| Real Estate - Commercial                                       | 15        | 14        | 17        | 3         | 14        |
| Real Estate - Residential                                      | 161       | 34        | 11        | 37        | 188       |
| Real Estate – Home Equity                                      | 1         | 2         | -         | -         | -         |
| Consumer   | 1,905     | 1,679     | 1,557     | 1,504     | 1,329     |
| Total Recoveries   | 2,417     | 1,903     | 1,831     | 1,724     | 1,612     |
| Net Charge-Offs  | 13,558    | 5,314     | 2,152     | 2,519     | 3,446     |
| Provision for Loan Losses                                      | 32,496    | 6,163     | 1,959     | 2,507     | 2,141     |
| Balance at End of Year   | \$ 37,004 | \$ 18,066 | \$ 17,217 | \$ 17,410 | \$ 16,037 |
| Ratio of Net Charge-Offs to Average Loans Outstanding          | .71%      | .27%      | .11%      | .13%      | .22%      |
| Allowance for Loan Losses as a Percent of Loans at End of Year | 1.89%     | .94%      | .86%      | .84%      | .88%      |
| Allowance for Loan Losses as a Multiple of Net Charge-Offs     | 2.73x     | 3.40x     | 8.00x     | 6.91x     | 4.65x     |

(1) Reflects recapture of reserves allocated to the credit card portfolio sold in August 2004.

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Table 8  
ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

|  | 2008                |   | 2007                |   | 2006                |   | 2005                |   | 2004                |   |
|--|---------------------|---|---------------------|---|---------------------|---|---------------------|---|---------------------|---|
|  | Allowance<br>Amount | Percent<br>of<br>Loans<br>in Each<br>Category<br>To<br>Total<br>Loans | Allowance<br>Amount | Percent<br>of<br>Loans<br>in Each<br>Category<br>To<br>Total<br>Loans | Allowance<br>Amount | Percent<br>of<br>Loans<br>in Each<br>Category<br>To<br>Total<br>Loans | Allowance<br>Amount | Percent<br>of<br>Loans<br>in Each<br>Category<br>To<br>Total<br>Loans | Allowance<br>Amount | Percent<br>of Loans<br>in Each<br>Category<br>To Total<br>Loans |
| Commercial,<br>Financial and<br>Agricultural | \$ 2,401            | 10.5%   | \$ 3,106            | 10.9%   | \$ 3,900            | 11.5%   | \$ 3,663            | 10.6%   | \$ 4,341            | 11.3%   |
| Real Estate:                                 |                     |   |                     |   |                     |   |                     |   |                     |   |
| Construction                                 | 8,973               | 7.3   | 3,117               | 7.4   | 745                 | 9.0   | 762                 | 7.8   | 578                 | 7.7   |
| Commercial                                   | 6,022               | 33.6  | 4,372               | 33.1  | 5,996               | 32.2  | 6,352               | 34.7  | 6,296               | 35.8  |
| Residential                                  | 12,489              | 24.7  | 3,733               | 35.6  | 1,050               | 35.5  | 1,019               | 35.0  | 705                 | 32.8  |
| Home Equity                                  | 1,091               | 11.2  | -                   | -   | -                   | -   | -                   | -   | -                   | -   |
| Consumer                                     | 5,055               | 12.8  | 2,790               | 13.0  | 3,081               | 11.8  | 3,105               | 11.9  | 2,966               | 12.4  |
| Not Allocated                                | 973                 | -   | 948                 | -   | 2,445               | -   | 2,509               | -   | 1,151               | -   |
| <b>Total</b>                                 | <b>\$ 37,004</b>    | <b>100.0%</b>   | <b>\$ 18,066</b>    | <b>100.0%</b>   | <b>\$ 17,217</b>    | <b>100.0%</b>   | <b>\$ 17,410</b>    | <b>100.0%</b>   | <b>\$ 16,037</b>    | <b>100.0%</b>   |

## Risk Element Assets

Risk element assets consist of nonaccrual loans, restructured loans, loans past due 90 days or more, other real estate owned, potential problem loans and loan concentrations. Table 9 depicts certain categories of our risk element assets as of December 31st for each of the last five years. We also discuss potential problem loans and loan concentrations within the narrative portion of this section.

**Nonperforming Assets.** Nonperforming assets increased \$79.7 million, or 283% from year-end 2007 reflective of a \$71.8 million increase in nonaccrual loans, a \$1.7 million increase in restructured loans, and a \$6.2 million increase in other real estate owned. The increase in nonaccrual loans is primarily due to the addition of loans to builders, investors, and other borrowers whom operate within our residential real estate markets, which are experiencing continued stress due to general economic conditions, significant slow-down in purchase activity, and property de-valuation. Vacant residential land loans represented 49% of our nonaccrual balance at year-end. In aggregate, a reserve equal to approximately 31% has been allocated to these loans. Nonperforming assets represented 5.48% of loans and other real estate at year-end 2008 compared to 1.47% at year-end 2007.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectibility of the principal and/or interest to be doubtful. Once a loan is placed in nonaccrual status, all previously accrued and uncollected interest is reversed against interest income. Interest income on nonaccrual loans is recognized on a cash basis when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. If interest on our loans classified as nonaccrual at December 31,

2008 had been recognized on a fully accruing basis, we would have recorded an additional \$6.4 million of interest income for the year ended December 31, 2008.

Restructured loans are loans on which, due to the deterioration in the borrower's financial condition, the original terms have been modified in favor of the borrower or either principal or interest has been forgiven. Restructured loans totaled \$1.7 million at December 31, 2008 and primarily reflect vacant residential land loans. There were no restructured loans at December 31, 2007.

Other real estate owned totaled \$9.2 million at December 31, 2008, versus \$3.0 million at December 31, 2007. This category includes property owned by the Bank that was acquired either through foreclosure procedures or by receiving a deed in lieu of foreclosure. During 2008, we added properties totaling \$10.9 million, and partially or completely liquidated properties totaling \$4.7 million, resulting in a net increase in other real estate of approximately \$6.2 million.

Foreclosed assets represent property acquired as the result of borrower defaults on loans. Foreclosed assets are recorded at estimated fair value, less estimated selling costs, at the time of foreclosure. Write-downs occurring at foreclosure are charged against the allowance for possible loan losses. On an ongoing basis, properties are appraised as required by market indications and applicable regulations. Write-downs are provided for subsequent declines in value and are included in other noninterest expense along with other expenses related to maintaining the properties.

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RISK ELEMENT ASSETS

| (Dollars in Thousands)                             | As of December 31, |           |          |          |          |
|--|--------------------|-----------|----------|----------|----------|
|  | 2008               | 2007      | 2006     | 2005     | 2004     |
| Nonaccruing Loans                                  | \$ 96,876          | \$ 25,119 | \$ 8,042 | \$ 5,258 | \$ 4,646 |
| Restructured Loans                                 | 1,744              | -         | -        | -        | -        |
| Total Nonperforming Loans                          | 98,620             | 25,119    | 8,042    | 5,258    | 4,646    |
| Other Real Estate Owned                            | 9,222              | 3,043     | 689      | 292      | 625      |
| Total Nonperforming Assets                         | \$ 107,842         | \$ 28,162 | \$ 8,731 | \$ 5,550 | \$ 5,271 |
| Past Due 90 Days or More (still accruing interest) | \$ 88              | \$ 416    | \$ 135   | \$ 309   | \$ 605   |
| Nonperforming Loans/Loans                          | 5.04%              | 1.31%     | .40%     | .25%     | .25%     |
| Nonperforming Assets/Loans Plus Other Real Estate  | 5.48%              | 1.47%     | .44%     | .27%     | .29%     |
| Nonperforming Assets/Capital(1)                    | 34.15%             | 9.06%     | 2.62%    | 1.72%    | 1.93%    |
| Allowance/Nonperforming Loans                      | 37.52%             | 71.92%    | 214.09%  | 331.11%  | 345.18%  |

(1) For computation of this percentage, "Capital" refers to shareowners' equity plus the allowance for loan losses.

**Potential Problem Loans.** Potential problem loans are defined as those loans which are now current but where management has doubt as to the borrower's ability to comply with present loan repayment terms. At December 31, 2008, we had \$30.0 million in loans of this type which are not included in either of the nonaccrual or 90 day past due loan categories compared to \$10.2 million at year-end 2007. Approximately \$19.0 million of the potential problem loans at December 31, 2008 were secured by vacant residential land. Management monitors these loans closely and reviews their performance on a regular basis.

**Loan Concentrations.** Loan concentrations are considered to exist when there are amounts loaned to a multiple number of borrowers engaged in similar activities which cause them to be similarly impacted by economic or other conditions and such amount exceeds 10% of total loans. Due to the lack of diversified industry within the markets served by the Bank and the relatively close proximity of the markets, we have both geographic concentrations as well as concentrations in the types of loans funded. Specifically, due to the nature of our markets, a significant portion of the portfolio has historically been secured with real estate.

While we have a majority of our loans (75.9%) secured by real estate, the primary types of real estate collateral are commercial properties and 1-4 family residential properties. At December 31, 2008, commercial real estate mortgage loans and residential real estate mortgage loans accounted for 33.6% and 35.9%, respectively, of the loan portfolio. Furthermore, approximately 13.1% of our loan portfolio is secured by vacant residential land loans. These loans include both improved and unimproved land and are comprised of loans to individuals as well as developers.



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Investment Securities

In 2008, our average investment portfolio increased \$1.5 million, or 0.8%, from 2007 and increased \$1.7 million, or 0.9%, from 2006 to 2007. As a percentage of average earning assets, the investment portfolio represented 8.5% in 2008, compared to 8.6% in 2007. In both 2008 and 2007, the increase in the average balance of the investment portfolio was primarily due to the reinvestment of a portion of the interest earned on these investments. In 2009, we will closely monitor liquidity levels and pledging requirements to assess the need to purchase additional investments.

In 2008, average taxable investments decreased \$10.7 million, or 10.3%, while tax-exempt investments increased \$12.2 million, or 14.3%. The mix changed as tax-exempt securities offered a more attractive spread compared to taxable securities during the year. Management will continue to purchase municipal issues when it considers the yield to be attractive and we can do so without adversely impacting our tax position.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. As of December 31, 2008, all securities are classified as available-for-sale which offers management full flexibility in managing our liquidity and interest rate sensitivity without adversely impacting our regulatory capital levels. It is neither management's intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio. Securities in the available-for-sale portfolio are recorded at fair value with unrealized gains and losses associated with these securities recorded net of tax, in the accumulated other comprehensive income (loss) component of shareowners' equity. At December 31, 2008, the investment portfolio maintained a net pre-tax unrealized gain of \$2.3 million compared to a net pre-tax unrealized gain of \$0.4 million at December 31, 2007. \$16.8 million of our investment securities have an unrealized loss totaling \$0.1 million and have been in a loss position for less than 12 months. These securities are primarily mortgage-backed securities that are in a loss position because they were acquired when the general level of interest rates was lower than that on December 31, 2008. We believe that these securities are only temporarily impaired and that the full principal will be collected as anticipated therefore we do not consider these securities to be other-than-temporarily impaired at December 31, 2008.

The average maturity of the total portfolio at December 31, 2008 and 2007 was 2.00 and 1.63 years, respectively. See Table 10 for a breakdown of maturities by investment type.

The weighted average taxable equivalent yield of the investment portfolio at December 31, 2008 was 4.26%, versus 5.08% in 2007. This lower yield was a result of matured bonds being invested at lower market rates during 2008, as the Federal Reserve cut rates 400 basis points throughout the year. Our bond portfolio contained no investments in obligations, other than U.S. Governments, of any one state, municipality, political subdivision or any other issuer that exceeded 10% of our shareowners' equity at December 31, 2008. New investments are being made selectively into high quality bonds. Due diligence is continually performed on the investment portfolio, namely the municipal bonds.

Table 10 and Note 2 in the Notes to Consolidated Financial Statements present a detailed analysis of our investment securities as to type, maturity and yield.

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Table 10  
MATURITY DISTRIBUTION OF INVESTMENT SECURITIES

| (Dollars in Thousands)                     | As of December 31, |                |               |               |               |               |               |               |               |
|--|--------------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
|  | 2008               |                |               | 2007          |               |               | 2006          |               |               |
|  | Amortized          | Market         | Weighted(1)   | Amortized     | Market        | Weighted(1)   | Amortized     | Market        | Weighted(1)   |
|  | Cost               | Value          | Average Yield | Cost          | Value         | Average Yield | Cost          | Value         | Average Yield |
| <b>U.S. GOVERNMENTS</b>                    |                    |                |               |               |               |               |               |               |               |
| Due in 1 year or less                      | \$ 18,695          | \$ 19,033      | 3.54%         | \$ 36,441     | \$ 36,570     | 4.62%         | \$ 17,329     | \$ 17,150     | 3.45%         |
| Due over 1 year through 5 years            | 17,490             | 17,909         | 1.98          | 25,264        | 25,493        | 4.46          | 56,388        | 55,978        | 4.64          |
| Due over 5 years through 10 years          | -                  | -              | -             | -             | -             | -             | -             | -             | -             |
| Due over 10 years                          | -                  | -              | -             | -             | -             | -             | -             | -             | -             |
| <b>TOTAL</b>                               | <b>36,185</b>      | <b>36,942</b>  | <b>2.79</b>   | <b>61,705</b> | <b>62,063</b> | <b>4.56%</b>  | <b>73,717</b> | <b>73,128</b> | <b>4.36</b>   |
| <b>STATES &amp; POLITICAL SUBDIVISIONS</b> |                    |                |               |               |               |               |               |               |               |
| Due in 1 year or less                      | 39,277             | 39,581         | 5.02          | 25,675        | 25,697        | 5.19          | 31,438        | 31,300        | 4.21          |
| Due over 1 year through 5 years            | 61,093             | 61,981         | 4.55          | 64,339        | 64,304        | 5.38          | 52,183        | 51,922        | 5.25          |
| Due over 5 years through 10 years          | -                  | -              | -             | -             | -             | -             | -             | -             | -             |
| Due over 10 years                          | -                  | -              | -             | -             | -             | -             | -             | -             | -             |
| <b>TOTAL</b>                               | <b>100,370</b>     | <b>101,562</b> | <b>4.74</b>   | <b>90,014</b> | <b>90,001</b> | <b>5.32%</b>  | <b>83,621</b> | <b>83,222</b> | <b>4.86</b>   |
| <b>MORTGAGE-BACKED SECURITIES(2)</b>       |                    |                |               |               |               |               |               |               |               |
| Due in 1 year or less                      | 1,258              | 1,267          | 3.84          | 4,125         | 4,117         | 4.23          | 3,568         | 3,571         | 5.37          |
| Due over 1 year through 5 years            | 30,803             | 30,907         | 4.44          | 15,043        | 15,070        | 4.89          | 14,942        | 14,732        | 4.58          |
| Due over 5 years through 10 years          | 1,420              | 1,426          | 5.29          | 7,166         | 7,100         | 5.21          | 4,734         | 4,593         | 5.02          |
| Due over 10 years                          | 6,379              | 6,476          | 5.38          | -             | -             | -             | -             | -             | -             |
| <b>TOTAL</b>                               | <b>39,860</b>      | <b>40,076</b>  | <b>3.74</b>   | <b>26,334</b> | <b>26,287</b> | <b>4.87%</b>  | <b>23,244</b> | <b>22,896</b> | <b>4.79</b>   |
| <b>OTHER SECURITIES</b>                    |                    |                |               |               |               |               |               |               |               |
| Due in 1 year or less                      | -                  | -              | -             | -             | -             | -             | -             | -             | -             |
| Due over 1 year through 5 years            | -                  | -              | -             | -             | -             | -             | -             | -             | -             |
| Due over 5 years through 10 years          | 1,000              | 1,107          | 5.00          | 1,000         | 1,061         | 5.00          | -             | -             | -             |
| Due over 10 years(3)                       | 11,882             | 11,882         | 5.94          | 11,307        | 11,307        | 5.90          | 12,648        | 12,648        | 5.78          |
| <b>TOTAL</b>                               | <b>12,882</b>      | <b>12,989</b>  | <b>5.87</b>   | <b>12,307</b> | <b>12,368</b> | <b>5.90</b>   | <b>12,648</b> | <b>12,648</b> | <b>5.78</b>   |

TOTAL INVESTMENT

SECURITIES \$ 189,297 \$ 191,569 4.26% \$ 190,360 \$ 190,719 5.08% \$ 193,230 \$ 191,894 4.72%

(1) Weighted average yields are calculated on the basis of the amortized cost of the security. The weighted average yields on tax-exempt obligations are computed on a taxable equivalent basis using a 35% tax rate.

(2) Based on weighted average life.

(3) Federal Home Loan Bank Stock and Federal Reserve Bank Stock are included in this category for weighted average yield, but do not have stated maturities.

AVERAGE MATURITY

| (In Years)                        | As of December 31, |             |             |
|-----------------------------------|--------------------|-------------|-------------|
|                                   | 2008               | 2007        | 2006        |
| U.S. Governments                  | 1.15               | 1.09        | 1.76        |
| States and Political Subdivisions | 1.56               | 1.48        | 1.39        |
| Mortgage-Backed Securities        | 4.98               | 3.47        | 3.05        |
| Other Securities                  | -                  | -           | -           |
| <b>TOTAL</b>                      | <b>2.24</b>        | <b>1.63</b> | <b>1.75</b> |



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## Deposits and Funds Purchased

In 2008, average total deposits of \$2.1 billion increased \$75.6 million, or 3.8%, over 2007 due to an increase in NOW account balances reflecting growth in our negotiated rate deposit products. Partially offsetting the NOW increase were declines in all other deposit categories. Our noninterest bearing deposits, money markets accounts and certificates of deposit declined \$34.5 million, \$22.9 million and \$50.0 million, respectively, while savings balances also declined by \$3.3 million from the prior year. Average noninterest bearing deposits as a percent of average total deposits declined from 22.2% in 2008 to 19.7% in 2007. The decrease in the money market and demand accounts are due to lower account balances for both businesses and individuals, which we believe is attributable to lower rates and distressed economic conditions. The decline in the certificate of deposit category reflects a combination of proceeds migrating to other deposit categories, as well as transferring to higher rate paying competitors. Despite the disruption in the market, we continue to pursue prudent pricing discipline and have chosen not to compete with higher rate paying competitors for these deposits.

Table 2 provides an analysis of our average deposits, by category, and average rates paid thereon for each of the last three years. Table 11 reflects the shift in our deposit mix over the last three years and Table 12 provides a maturity distribution of time deposits in denominations of \$100,000 and over.

Average short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase, Federal Home Loan Bank ("FHLB") advances (maturing in less than one year), and other borrowings, decreased \$5.2 million, or 7.9% in 2008. The decrease is attributable to a \$6.2 million decrease in repurchase agreements and a \$3.0 million decrease in other borrowings primarily attributable to maturities of FHLB advances, partially offset by a \$4.0 million increase in funds purchased. See Note 8 in the Notes to Consolidated Financial Statements for further information on short-term borrowings.

Table 11  
SOURCES OF DEPOSIT GROWTH

| (Average Balances - Dollars in Thousands) | 2007 to<br>2008<br>Change | Percentage<br>of Total<br>Change | Components of<br>Total Deposits |        |        |
|---|---------------------------|----------------------------------|---------------------------------|--------|--------|
|   |                           |                                  | 2008                            | 2007   | 2006   |
| Noninterest Bearing Deposits              | \$ (34,466)               | (45.6) %                         | 19.7%                           | 22.2%  | 24.8%  |
| NOW Accounts                              | 186,267                   | 246.3                            | 36.0                            | 28.0   | 25.5   |
| Money Market Accounts                     | (22,915)                  | (30.3)                           | 18.1                            | 20.0   | 18.2   |
| Savings                                   | (3,287)                   | (4.3)                            | 5.6                             | 6.0    | 6.6    |
| Time Deposits                             | (49,980)                  | (66.1)                           | 20.6                            | 23.9   | 24.9   |
| Total Deposits                            | \$ 75,619                 | 100.0%                           | 100.0%                          | 100.0% | 100.0% |

Table 12  
MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSIT \$100,000 OR OVER

| (Dollars in Thousands)         | December 31, 2008                  |         |
|--------------------------------|------------------------------------|---------|
|                                | Time<br>Certificates of<br>Deposit | Percent |
| Three months or less           | \$ 37,420                          | 39.33%  |
| Over three through six months  | 21,300                             | 22.38   |
| Over six through twelve months | 30,993                             | 32.57   |

|                    |    |        |         |
|--------------------|----|--------|---------|
| Over twelve months |    | 5,440  | 5.72    |
| Total              | \$ | 95,153 | 100.00% |

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### Market Risk and Interest Rate Sensitivity

Overview. Market risk management arises from changes in interest rates, exchange rates, commodity prices, and equity prices. We have risk management policies to monitor and limit exposure to market risk and do not participate in activities that give rise to significant market risk involving exchange rates, commodity prices, or equity prices. In asset and liability management activities, policies are in place that are designed to minimize structural interest rate risk.

Interest Rate Risk Management. Our net income is largely dependent on net interest income. Net interest income is susceptible to interest rate risk to the degree that interest-bearing liabilities mature or reprice on a different basis than interest-earning assets. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets in a given period, a significant increase in market rates of interest could adversely affect net interest income. Similarly, when interest-earning assets mature or reprice more quickly than interest-bearing liabilities, falling interest rates could result in a decrease in net interest income. Net interest income is also affected by changes in the portion of interest-earning assets that are funded by interest-bearing liabilities rather than by other sources of funds, such as noninterest-bearing deposits and shareowners' equity.

We have established a comprehensive interest rate risk management policy, which is administered by management's Asset Liability Management Committee (ALCO). The policy establishes limits of risk, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity capital (a measure of economic value of equity ("EVE") at risk) resulting from a hypothetical change in interest rates for maturities from one day to 30 years. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model captures optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of gauging interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology used by us. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from assumptions used in the model. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients' ability to service their debts, or the impact of rate changes on demand for loan, and deposit products.

We prepare a current base case and three alternative simulations, at least once a quarter, and report the analysis to the Board of Directors. In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

Our interest rate risk management goal is to avoid unacceptable variations in net interest income and capital levels due to fluctuations in market rates. Management attempts to achieve this goal by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched, by maintaining a pool of administered core deposits, and by adjusting pricing rates to market conditions on a continuing basis.

The balance sheet is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by plus or minus 100, 200, and 300 basis points ("bp"), although we may elect not to use particular scenarios that we determined are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a 12-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

We augment our quarterly interest rate shock analysis with alternative external interest rate scenarios on a monthly basis. These alternative interest rate scenarios may include non-parallel rate ramps.

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Analysis. Measures of net interest income at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

## ESTIMATED CHANGES IN NET INTEREST INCOME(1)

| Changes in Interest Rates | +300 bp | +200 bp | +100 bp | -100 bp |
|---------------------------|---------|---------|---------|---------|
| Policy Limit              | -10.0%  | -7.5%   | -5.0%   | -5.0%   |
| December 31, 2008         | 1.4%    | 1.6%    | 1.2%    | -1.4%   |
| December 31, 2007         | 1.4%    | 4.1%    | 3.5%    | -4.1%   |

The Net Interest Income at Risk position declined for the month of December 2008, when compared to the same period in 2007, for both the "down rate" and "up rate" scenarios with the exception of the +300 bp and -100 bp scenarios. Our largest exposure is at the -100 bp level, with a measure of -1.4%, which is still within our policy limit of -5.0%. The year-over-year variance is attributable to the current low interest rate environment which limits the magnitude by which rates on interest bearing liabilities may be further reduced in a declining rate scenario. All measures of net interest income at risk are within our prescribed policy limits.

The measures of equity value at risk indicate our ongoing economic value by considering the effects of changes in interest rates on all of our cash flows, and discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which, in theory, approximates the fair value of our net assets.

## ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY(1)

| Changes in Interest Rates | +300 bp | +200 bp | +100 bp | -100 bp |
|---------------------------|---------|---------|---------|---------|
| Policy Limit              | -12.5%  | -10.0%  | -7.5%   | -7.5%   |
| December 31, 2008         | 0.8%    | 2.3%    | 1.9%    | -4.1%   |
| December 31, 2007         | 1.8%    | 3.4%    | 2.7%    | -3.5%   |

Our risk profile, as measured by EVE, declined for the month of December 2008, when compared to the same period in 2007, for both the "down rate" and "up rate" scenarios, but remains well within our prescribed policy limits. The unfavorable variance between periods is attributable to the current low interest rate environment, which limits the magnitude by which rates on interest bearing liabilities may be further reduced in a declining rate scenario.

(1) Down 200 and 300 rate scenarios have been excluded due to the current historically low interest rate environment.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies, which are formulated and monitored by our Asset Liability Committee (ALCO) and senior management, and which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2008 and 2007, our principal source of funding has been our client deposits, supplemented by our short-term and long-term borrowings, primarily from securities sold under repurchase agreements and federal funds purchased and FHLB borrowings. We believe that the cash generated from operations, our borrowing capacity and our access to capital resources are sufficient to meet our future operating capital needs and debt.

Overall, we have the ability to generate \$690 million in additional liquidity through all of our available resources. In addition to primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. The Bank has the ability to declare and pay up to \$60 million in dividends to us in 2009, more than meeting our ongoing financial obligations. Management recognizes the importance of maintaining liquidity and has developed a Contingent Liquidity Plan which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. The liquidity available to us is considered sufficient to meet the ongoing needs.

We view our investment portfolio as a liquidity source and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental agencies, and municipal governments. The weighted average life of the portfolio is two years and as of year-end had a net unrealized pre-tax gain of \$2.3 million.

Our average liquidity (defined as funds sold plus interest bearing deposits with other banks less funds purchased) for the fourth quarter of 2008 reflects a net funds purchased position of \$26.8 million compared to a net funds sold position of \$96.7 million in the fourth quarter of 2007. The variance in the liquidity position primarily reflects a decline in deposits. Despite the disruption in the market, we continue to pursue prudent pricing discipline and have chosen not to compete with higher rate paying competitors for these deposits.

Capital expenditures are expected to approximate \$24.5 million over the next twelve months, which consist primarily of new banking office construction, office equipment and furniture, and technology purchases. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

Borrowings

At December 31, 2008, we had \$51.3 million in borrowings outstanding to the FHLB consisting of 42 notes. One note totaling \$134,000 is classified as short-term borrowings with the remaining notes classified as long-term borrowings with maturities ranging from 2010 to 2025. The interest rates are fixed and the weighted average rate at December 31, 2008 was 4.39%. Required cash payments (including principal reductions and maturities) for the

FHLB advances are detailed in Table 13. Approximately \$41.3 million of the aforementioned FHLB debt is related to match-term funding for loans originated by the Bank. During 2008, we obtained 15 advances from the FHLB for \$19.3 million with a fixed rate of 4.14%, maturing between 2013 and 2025 for the purpose of match-term funding. The FHLB notes are collateralized by a blanket floating lien on all 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans. See Note 9 in the Notes to Consolidated Financial Statements for additional information on these borrowings.

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Table 13  
CONTRACTUAL CASH OBLIGATIONS

Table 13 sets forth certain information about contractual cash obligations at December 31, 2008.

| (Dollars in Thousands)                  | Payments Due By Period |           |           |           | Total      |
|---|------------------------|-----------|-----------|-----------|------------|
|   | < 1 Yr                 | 1 – 3 Yrs | 3 – 5 Yrs | > 5 Years |            |
| Federal Home Loan Bank Advances         | \$ 2,969               | \$ 16,628 | \$ 12,957 | \$ 18,768 | \$ 51,322  |
| Subordinated Notes Payable              | -                      | -         | -         | 62,887    | 62,887     |
| Operating Lease Obligations             | 1,429                  | 1,744     | 994       | 5,095     | 9,262      |
| Time Deposit Maturities                 | 330,407                | 41,649    | 1,539     | -         | 373,595    |
| Liability for Unrecognized Tax Benefits | -                      | 645       | 2,015     | 2,090     | 4,750      |
| Total Contractual Cash Obligations      | \$ 334,805             | \$ 60,666 | \$ 17,505 | \$ 88,840 | \$ 501,816 |

We have issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I in November 2004. The second note for \$32.0 million was issued to CCBG Capital Trust II in May 2005. See Note 9 in the Notes to Consolidated Financial Statements for additional information on these borrowings. The interest payments for the CCBG Capital Trust I borrowing are due quarterly at a fixed rate of 5.71% for five years, then adjustable annually to LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The proceeds of this borrowing were used to partially fund the Farmers and Merchants Bank of Dublin acquisition in 2004. The interest payments for the CCBG Capital Trust II borrowing are due quarterly at a fixed rate of 6.07% for five years, then adjustable quarterly to LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds of this borrowing were used to partially fund the First National Bank of Alachua acquisition in 2005.

### Capital

We continue to maintain a strong capital position. The ratio of shareowners' equity to total assets at year-end was 11.20%, 11.19%, and 12.15%, in 2008, 2007, and 2006, respectively. Management believes its strong capital base not only offers protection against adverse developments that may arise during the course of an economic downturn, but it also places the company in a position to take advantage of opportunities that arise, including investments, acquisitions, and/or stock purchases.

We are subject to risk-based capital guidelines that measure capital relative to risk weighted assets and off-balance sheet financial instruments. Capital guidelines issued by the Federal Reserve Board require bank holding companies to have a minimum total risk-based capital ratio of 8.00%, with at least half of the total capital in the form of Tier I Capital. As of December 31, 2008, we exceeded these capital guidelines with a total risk-based capital ratio of 14.69% and a Tier 1 ratio of 13.34%, compared to 14.05% and 13.05%, respectively, in 2007. As allowed by Federal Reserve Board capital guidelines the trust preferred securities issued by CCBG Capital Trust I and CCBG Capital Trust II are included as Tier I Capital in our capital calculations previously noted. See Note 9 in the Notes to Consolidated Financial Statements for additional information on our two trust preferred security offerings. See Note 14 in the Notes to Consolidated Financial Statements for additional information as to our capital adequacy.

A tangible leverage ratio is also used in connection with the risk-based capital standards and is defined as Tier I Capital divided by average assets. The minimum leverage ratio under this standard is 3% for the highest-rated bank holding companies which are not undertaking significant expansion programs. An additional 1% to 2% may be required for other companies, depending upon their regulatory ratings and expansion plans. On December 31, 2008, we had a leverage ratio of 11.51% compared to 10.41% in 2007.



Shareowners' equity as of December 31, for each of the last three years is presented below:

| (Dollars in Thousands)                             | 2008       | 2007       | 2006       |
|--|------------|------------|------------|
| Common Stock                                       | 171        | 172        | 185        |
| Additional Paid-in Capital                         | 36,783     | 38,243     | 80,654     |
| Retained Earnings                                  | 262,890    | 260,325    | 243,242    |
| Subtotal   | 299,844    | 298,740    | 324,081    |
| Accumulated Other Comprehensive (Loss), Net of Tax | (21,014)   | (6,065)    | (8,311)    |
| Total Shareowners' Equity                          | \$ 278,830 | \$ 292,675 | \$ 315,770 |

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At December 31, 2008, our common stock had a book value of \$16.27 per diluted share compared to \$17.03 in 2007. Book value is impacted by the net unrealized gains and losses on investment securities available-for-sale. At December 31, 2008, the net unrealized gain was \$1.5 million compared to \$.2 million in 2007. Beginning in 2006, book value has been impacted by the recording of our unfunded pension liability through other comprehensive income in accordance with Statement of Financial Accounting Standard No. 158. At December 31, 2008, the net pension liability reflected in other comprehensive income was \$22.5 million compared to \$6.3 million at December 31, 2007. The change in our net pension liability in 2008 was primarily attributable to a decline in pension plan assets driven by market disruption and significant asset de-valuation occurring during the second half of the year.

Our Board of Directors has authorized the repurchase of up to 2,671,875 shares of our outstanding common stock. The purchases are made in the open market or in privately negotiated transactions. Through December 31, 2008, we have repurchased a total of 2,374,242 shares at an average purchase price of \$26.08 per share. During 2008, we repurchased 90,041 shares at an average purchase price of \$26.77.

We offer an Associate Stock Incentive Plan under which certain associates are eligible to earn shares of our common stock based upon achieving established performance goals. In 2008, we issued no shares under this plan as the 2007 financial performance goal was not achieved.

We also offer stock purchase plans, which permit our associates and directors to purchase shares at a 10% discount. In 2008, 34,424 shares, valued at approximately \$889,000 (before 10% discount), were issued under these plans.

## Dividends

Adequate capital and financial strength is paramount to our stability and the stability of our subsidiary bank. Cash dividends declared and paid should not place unnecessary strain on our capital levels. When determining the level of dividends the following factors are considered:

- Compliance with state and federal laws and regulations;
- Our capital position and our ability to meet our financial obligations;
  - Projected earnings and asset levels; and
  - The ability of the Bank and us to fund dividends.

Although we believe a consistent dividend payment is favorably viewed by the financial markets and our shareowners, our Board of Directors will declare dividends only if we are considered to have adequate capital. Future capital requirements and corporate plans are considered when the Board considers a dividend payment.

Dividends declared and paid totaled \$.7450 per share in 2008. For the first through the third quarters of 2008 we declared and paid a dividend of \$.1850 per share. The dividend was raised 2.7% in the fourth quarter of 2008 from \$.1850 per share to \$.1900 per share. We paid dividends of \$.7100 per share in 2007 and \$.6625 per share in 2006. The dividend payout ratio was 83.71%, 42.77%, and 37.01% for 2008, 2007 and 2006, respectively. Total cash dividends declared per share in 2008 represented a 4.9% increase over 2007.

As permitted by Florida law, during 2009, the Bank may declare and pay dividends to us in an amount which approximates the Bank's current year earnings and, in addition, the Bank has received authorization from the Office of Financial Regulation to declare and pay dividends totaling up to \$60 million on or before December 31, 2009.

## Inflation

The impact of inflation on the banking industry differs significantly from that of other industries in which a large portion of total resources are invested in fixed assets such as property, plant and equipment.

Assets and liabilities of financial institutions are virtually all monetary in nature, and therefore are primarily impacted by interest rates rather than changing prices. While the general level of inflation underlies most interest rates, interest rates react more to changes in the expected rate of inflation and to changes in monetary and fiscal policy. Net interest income and the interest rate spread are good measures of our ability to react to changing interest rates and are discussed in further detail in the section entitled "Results of Operations."

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OFF-BALANCE SHEET ARRANGEMENTS

We do not currently engage in the use of derivative instruments to hedge interest rate risks. However, we are a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of our clients.

At December 31, 2008, we had \$384.3 million in commitments to extend credit and \$18.9 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

If commitments arising from these financial instruments continue to require funding at historical levels, management does not anticipate that such funding will adversely impact our ability to meet on-going obligations. In the event these commitments require funding in excess of historical levels, management believes current liquidity, available advances from the FHLB and Federal Reserve Bank, and investment security maturities provide a sufficient source of funds to meet these commitments.

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Fourth Quarter, 2008 Financial Results

For the fourth quarter, we realized a net loss of \$1.7 million, or \$.10 per diluted share compared to net income of \$4.8 million, or \$.29 per diluted share, in the previous quarter. Earnings for the fourth and third quarters included loan loss provisions of \$.45 per share and \$.37 per share, respectively, reflective of stressed economic conditions and the related impact on our loan portfolio. Earnings for the prior quarter also included a \$6.25 million pre-tax gain from the sale of our merchant services portfolio (\$.22 per share).

For the fourth quarter, tax equivalent net interest income increased \$587,000, or 2.1%, compared to the prior quarter. Favorable volume and rate variances of \$262,000 and \$498,000, respectively, were partially offset by an unfavorable loan fee variance of \$174,000. The volume variance was driven by a 1.3% increase in average loans for the quarter, while the rate variance is primarily attributable to the recapture of \$784,000 in accrued interest and impaired loan discount related to a nonaccrual loan that was resolved during the quarter.

The net interest margin expanded by 25 basis points to 5.26% from the prior quarter reflective of a 9 basis point decline in the earning asset yield that was more than offset by a 34 basis point decline in the cost of funds. The aforementioned recapture of accrued interest and loan discount improved the earning asset yield by 15 basis points. Excluding this one-time transaction, the core net interest margin still improved by 10 basis points to 5.11% driven by the continued close management of core deposit funding costs and a favorable shift in deposit mix as higher cost certificates of deposit balances declined 7.5% during the quarter.

The provision for loan losses for the current quarter was \$12.5 million compared to \$10.4 million in the prior quarter. The increase in the provision for the current quarter reflects a higher level of loan charge-offs which were \$6.0 million, or 1.24% of average loans, and an increase in both general and impaired loan reserves required for loans where repayment is tied to residential real estate market activity, which has significantly slowed and has been hampered by property de-valuation.

Noninterest income for the fourth quarter decreased \$6.9 million, or 34.1%, from the third quarter of 2008 primarily attributable to a pre-tax gain of \$6.25 million from the sale of a portion of the bank's merchant services portfolio and a one-time gain from the sale of a banking office (\$241,000), both of which were recognized in the third quarter. Lower deposit fees of \$303,000 driven partially by a three day processing variance also contributed to the decline for the quarter.

Noninterest expense for the fourth quarter increased \$1.1 million, or 3.6%, over the third quarter of 2008 primarily attributable to higher expenses for advertising (\$459,000), legal (\$201,000), and professional fees (\$284,000). Other real estate owned write-downs also increased \$186,000 during the quarter. The increase in advertising was driven by our branding campaign which kicked off in late November. Legal expense increased due to a higher level of legal support needed for problem loan collection/workout efforts. The increase in professional fees primarily reflects an increase to both our internal and external audit expense accruals.

For the quarter, the Bank's earning assets averaged \$2.151 billion, down \$56.8 million from \$2.208 billion in the third quarter. The decrease is attributable to an \$83.3 million reduction in short term investments partially offset by a \$25.1 million increase in the loan portfolio and a \$1.4 million increase in investment securities. The increase in average loans reflects solid new loan production and a lower level of loan run-off (pay-offs/pay-downs). The following loan categories account for a majority of the net loan growth for the quarter (commercial mortgage - \$15.4 million, home equity - \$7.2 million). The pipeline of new loan requests grew during the third/fourth quarters due to less competitive pressures on terms as larger banking companies were either focused internally on problem loan resolution or were exiting certain types of lending activity.

The Bank maintained an average net overnight funds (deposits with banks plus fed funds sold less fed funds purchased) purchased position of \$18.0 million during the fourth quarter as compared to an average net overnight funds sold position of \$86.5 million in the third quarter. The decline in the funds position primarily reflects a decline in client deposit balances.

At the end of the fourth quarter, nonperforming assets (including nonaccrual loans, restructured loans, and other real estate) totaled \$107.8 million, an increase of \$40.1 million from the third quarter. The level of nonaccrual loans increased \$35.4 million to \$96.9 million during the quarter due primarily to the addition of loans to builders, investors, and other borrowers whom operate within our residential real estate markets which are experiencing continued stress due to general economic conditions, significant slow-down in purchase activity, and property de-valuation. Restructured loans totaled \$1.7 million at the end of the quarter. Other real estate owned totaled \$9.2 million at the end of the fourth quarter. Nonperforming assets represented 5.48% of loans and other real estate at the end of the fourth quarter compared to 3.51% at the end of the prior quarter.

Average deposits for the fourth quarter decreased \$84.8 million from the third quarter to \$1.946 billion. The decrease is primarily due to a decline in the following categories: NOW (\$43.5 million or 6.0%), MMA (\$8.6 million or 2.3%), and CD's (\$30.8 million or 7.5%). The decline in NOW accounts was primarily driven by a reduction in public funds balances, lower legal settlement deposit balances, and lower balances maintained by a few select corporate clients. The decline in the CD category reflects a combination of CD proceeds migrating to other deposit categories within CCB, as well as transferring to higher rate paying competitors.

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ACCOUNTING POLICIES

Critical Accounting Policies

The consolidated financial statements and accompanying Notes to Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make various estimates and assumptions (see Note 1 in the Notes to Consolidated Financial Statements). We believe that, of our significant accounting policies, the following may involve a higher degree of judgment and complexity.

**Allowance for Loan Losses.** The allowance for loan losses is established through a charge to the provision for loan losses. Provisions are made to reserve for estimated losses in loan balances. The allowance for loan losses is a significant estimate and we evaluate the allowance quarterly for adequacy. The use of different estimates or assumptions could produce a different required allowance, and thereby a larger or smaller provision recognized as expense in any given reporting period. A further discussion of the allowance for loan losses can be found in the section entitled "Allowance for Loan Losses" and Note 1 in the Notes to Consolidated Financial Statements.

**Intangible Assets.** Intangible assets consist primarily of goodwill, core deposit assets, and other identifiable intangibles that were recognized in connection with various acquisitions. Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We perform an impairment review on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. We have determined that no impairment existed at December 31, 2008. Impairment testing requires management to make significant judgments and estimates relating to the fair value of its reporting unit. If our market capitalization were to decline below book value which was \$278.8 million at December 31, 2008, further analysis would be performed to determine whether goodwill impairment exists. Significant changes to our estimates, when and if they occur, could result in a non-cash impairment charge and thus have a material impact on our operating results for any particular reporting period. A goodwill impairment charge does not adversely affect the calculation of our risk based and tangible capital ratios.

**Core deposit assets** represent the premium we paid for core deposits. Core deposit intangibles are amortized on the straight-line method over various periods ranging from 5-10 years. Generally, core deposits refer to nonpublic, non-maturing deposits including noninterest-bearing deposits, NOW, money market and savings. We make certain estimates relating to the useful life of these assets, and rate of run-off based on the nature of the specific assets and the client bases acquired. If there is a reason to believe there has been a permanent loss in value, management will assess these assets for impairment. Any changes in the original estimates may materially affect our operating results.

**Pension Assumptions.** We have a defined benefit pension plan for the benefit of substantially all of our associates. Our funding policy with respect to the pension plan is to contribute amounts to the plan sufficient to meet minimum funding requirements as set by law. Pension expense, reflected in the Consolidated Statements of Income in noninterest expense as "Salaries and Associate Benefits," is determined by an external actuarial valuation based on assumptions that are evaluated annually as of December 31, the measurement date for the pension obligation. The Consolidated Statements of Financial Condition reflect an accrued pension benefit cost due to funding levels and unrecognized actuarial amounts. The most significant assumptions used in calculating the pension obligation are the weighted-average discount rate used to determine the present value of the pension obligation, the weighted-average expected long-term rate of return on plan assets, and the assumed rate of annual compensation increases. These assumptions are re-evaluated annually with the external actuaries, taking into consideration both current market conditions and anticipated long-term market conditions.

The weighted-average discount rate is determined by matching the anticipated Retirement Plan cash flows to a long-term corporate Aa-rated bond index and solving for the underlying rate of return, which investing in such securities would generate. This methodology is applied consistently from year-to-year. The discount rate utilized in 2008 was 6.25%. The estimated impact to 2008 pension expense of a 25 basis point increase or decrease in the discount rate would have been a decrease and increase of approximately \$314,000 and \$329,000, respectively. We anticipate using a 6.00% discount rate in 2009.

The weighted-average expected long-term rate of return on plan assets is determined based on the current and anticipated future mix of assets in the plan. The assets currently consist of equity securities, U.S. Government and Government agency debt securities, and other securities (typically temporary liquid funds awaiting investment). The weighted-average expected long-term rate of return on plan assets utilized for 2008 was 8.0%. The estimated impact to 2008 pension expense of a 25 basis point increase or decrease in the rate of return would have been an approximate \$185,000 decrease or increase, respectively. We anticipate using a rate of return on plan assets for 2009 of 8.0%.

The assumed rate of annual compensation increases of 5.50% in 2008 is based on expected trends in salaries and the employee base. This assumption is not expected to change materially in 2009.

Detailed information on the pension plan, the actuarially determined disclosures, and the assumptions used are provided in Note 12 of the Notes to Consolidated Financial Statements.



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Recent Accounting Pronouncements

The Financial Accounting Standards Board, the SEC, and other regulatory bodies have enacted new accounting pronouncements and standards that either has impacted our results in prior years presented, or will likely impact our results in 2009. Please refer to the footnote No. 1 in the Notes to our Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

See “Financial Condition - Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference.

In years prior to 2008, we presented quantitative information about market risk under a tabular format which disclosed our company’s interest rate sensitive assets and liabilities and their respective contractual maturity or re-pricing intervals and the respective fair value of those financial assets and liabilities. For 2008, we have revised our disclosure format as allowed under this section to present the results of our internal interest rate sensitivity modeling which assesses the impact to our net interest income and capital resulting from a hypothetical change in interest rates. We believe this disclosure method provides a reader improved insight into the impact of interest rate changes on our performance and financial condition.

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## Item 8. Financial Statements and Supplementary Data

Table 14  
QUARTERLY FINANCIAL DATA (Unaudited)

| (Dollars in<br>Thousands,<br>Except Per<br>Share Data)             | 2008       |           |           |           | 2007      |           |           |           |
|--|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|  | Fourth     | Third(1)  | Second    | First     | Fourth    | Third     | Second    | First     |
| Summary of<br>Operations:  |            |           |           |           |           |           |           |           |
| Interest<br>Income   | \$ 33,229  | \$ 34,654 | \$ 36,260 | \$ 38,723 | \$ 40,786 | \$ 41,299 | \$ 41,724 | \$ 41,514 |
| Interest<br>Expense  | 5,482      | 7,469     | 8,785     | 12,264    | 13,241    | 13,389    | 13,263    | 13,189    |
| Net Interest<br>Income   | 27,747     | 27,185    | 27,475    | 26,459    | 27,545    | 27,910    | 28,461    | 28,325    |
| Provision<br>for Loan<br>Losses                                    | 12,497     | 10,425    | 5,432     | 4,142     | 1,699     | 1,552     | 1,675     | 1,237     |
| Net Interest<br>Income<br>After<br>Provision<br>for Loan<br>Losses | 15,250     | 16,760    | 22,043    | 22,317    | 25,846    | 26,358    | 26,786    | 27,088    |
| Noninterest<br>Income  | 13,311     | 20,212    | 15,718    | 17,799    | 15,823    | 14,431    | 15,084    | 13,962    |
| Noninterest<br>Expense<br>(Loss)                                   | 31,002     | 29,916    | 30,756    | 29,798    | 31,614    | 29,919    | 29,897    | 30,562    |
| Income<br>Before<br>Provision<br>for Income<br>Taxes               | (2,441)    | 7,056     | 7,005     | 10,318    | 10,055    | 10,870    | 11,973    | 10,488    |
| Provision<br>for Income<br>Taxes                                   | (738)      | 2,218     | 2,195     | 3,038     | 2,391     | 3,699     | 4,082     | 3,531     |
| Net (Loss)<br>Income   | \$ (1,703) | \$ 4,838  | \$ 4,810  | \$ 7,280  | \$ 7,664  | \$ 7,171  | \$ 7,891  | \$ 6,957  |
| Net Interest<br>Income<br>(FTE)                                    | \$ 28,387  | \$ 27,802 | \$ 28,081 | \$ 27,078 | \$ 28,196 | \$ 28,517 | \$ 29,050 | \$ 28,898 |
| Per<br>Common  |            |           |           |           |           |           |           |           |

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|              |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
|--------------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|----|-----------|
| Share:       |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Net (Loss)   |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Income       |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Basic        | \$ | (0.10)    | \$ | 0.29      | \$ | 0.28      | \$ | 0.42      | \$ | 0.44      | \$ | 0.41      | \$ | 0.43      | \$ | 0.38      |
| Net (Loss)   |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Income       |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Diluted      |    | (0.10)    |    | 0.29      |    | 0.28      |    | 0.42      |    | 0.44      |    | 0.41      |    | 0.43      |    | 0.38      |
| Dividends    |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Declared     |    | 0.190     |    | 0.185     |    | 0.185     |    | 0.185     |    | 0.185     |    | 0.175     |    | 0.175     |    | 0.175     |
| Diluted      |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Book Value   |    | 16.27     |    | 17.45     |    | 17.33     |    | 17.33     |    | 17.03     |    | 16.95     |    | 16.87     |    | 16.97     |
| Market       |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Price:       |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| High         |    | 33.32     |    | 34.50     |    | 30.19     |    | 29.99     |    | 34.00     |    | 36.40     |    | 33.69     |    | 35.91     |
| Low          |    | 21.06     |    | 19.20     |    | 21.76     |    | 24.76     |    | 24.60     |    | 27.69     |    | 29.12     |    | 29.79     |
| Close        |    | 27.24     |    | 31.35     |    | 21.76     |    | 29.00     |    | 28.22     |    | 31.20     |    | 31.34     |    | 33.30     |
| Selected     |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Average      |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Balances:    |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Loans        | \$ | 1,940,083 | \$ | 1,915,008 | \$ | 1,908,802 | \$ | 1,909,574 | \$ | 1,908,069 | \$ | 1,907,235 | \$ | 1,944,969 | \$ | 1,980,224 |
| Earning      |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Assets       |    | 2,150,841 |    | 2,207,670 |    | 2,303,971 |    | 2,301,463 |    | 2,191,230 |    | 2,144,737 |    | 2,187,236 |    | 2,211,560 |
| Assets       |    | 2,463,318 |    | 2,528,638 |    | 2,634,771 |    | 2,646,474 |    | 2,519,682 |    | 2,467,703 |    | 2,511,252 |    | 2,530,790 |
| Deposits     |    | 1,945,866 |    | 2,030,684 |    | 2,140,545 |    | 2,148,874 |    | 2,016,736 |    | 1,954,160 |    | 1,987,418 |    | 2,003,726 |
| Shareowners' |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Equity       |    | 302,227   |    | 303,595   |    | 300,890   |    | 296,804   |    | 299,342   |    | 301,536   |    | 309,352   |    | 316,484   |
| Common       |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Equivalent   |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Average      |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Shares:      |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Basic        |    | 17,125    |    | 17,124    |    | 17,146    |    | 17,170    |    | 17,444    |    | 17,709    |    | 18,089    |    | 18,409    |
| Diluted      |    | 17,135    |    | 17,128    |    | 17,147    |    | 17,178    |    | 17,445    |    | 17,719    |    | 18,089    |    | 18,420    |
| Ratios:      |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Return on    |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Assets       |    | -0.28%    |    | 0.76%     |    | .73%      |    | 1.11%     |    | 1.21%     |    | 1.15%     |    | 1.26%     |    | 1.11%     |
| Return on    |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Equity       |    | -2.24%    |    | 6.34%     |    | 6.43%     |    | 9.87%     |    | 10.16%    |    | 9.44%     |    | 10.23%    |    | 8.91%     |
| Net Interest |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Margin       |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| (FTE)        |    | 5.26%     |    | 5.01%     |    | 4.90%     |    | 4.73%     |    | 5.10%     |    | 5.27%     |    | 5.33%     |    | 5.29%     |
| Efficiency   |    |           |    |           |    |           |    |           |    |           |    |           |    |           |    |           |
| Ratio        |    | 71.21%    |    | 59.27%    |    | 66.89%    |    | 63.15%    |    | 68.51%    |    | 66.27%    |    | 64.44%    |    | 67.90%    |

(1) Includes \$6.25 million (\$3.8 million after-tax) one-time gain on sale of portion of merchant services portfolio.

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CAPITAL CITY BANK GROUP, INC.  
CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders of  
Capital City Bank Group, Inc.

We have audited the accompanying consolidated statements of condition of Capital City Bank Group, Inc. and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareowners' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital City Bank Group, Inc. and subsidiary at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital City Bank Group, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Birmingham, Alabama  
March 12, 2009

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Report of Independent Registered Public Accounting Firm

The Board of Directors  
Capital City Bank Group, Inc.:

We have audited the accompanying consolidated statements of income, changes in shareowners' equity and cash flows of Capital City Bank Group, Inc. and subsidiary for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Capital City Bank Group, Inc. and subsidiary for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R, as of December 31, 2006.

/s/ KPMG LLP

March 14, 2007  
Orlando, Florida  
Certified Public Accountants

Table of ContentsCAPITAL CITY BANK GROUP, INC.  
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| (Dollars in Thousands)  | As of December 31, |              |
|---|--------------------|--------------|
|   | 2008               | 2007         |
| <b>ASSETS</b>   |                    |              |
| Cash and Due From Banks   | \$ 88,143          | \$ 93,437    |
| Federal Funds Sold and Interest Bearing Deposits  | 6,806              | 166,260      |
| Total Cash and Cash Equivalents   | 94,949             | 259,697      |
| Investment Securities, Available-for-Sale   | 191,569            | 190,719      |
| Loans, Net of Unearned Interest   | 1,957,797          | 1,915,850    |
| Allowance for Loan Losses   | (37,004)           | (18,066)     |
| Loans, Net  | 1,920,793          | 1,897,784    |
| Premises and Equipment, Net   | 106,433            | 98,612       |
| Goodwill  | 84,811             | 84,811       |
| Other Intangible Assets   | 8,072              | 13,757       |
| Other Assets  | 82,072             | 70,947       |
| Total Assets  | \$ 2,488,699       | \$ 2,616,327 |
| <b>LIABILITIES</b>  |                    |              |
| Deposits:   |                    |              |
| Noninterest Bearing Deposits  | \$ 419,696         | \$ 432,659   |
| Interest Bearing Deposits   | 1,572,478          | 1,709,685    |
| Total Deposits  | 1,992,174          | 2,142,344    |
| Short-Term Borrowings   | 62,044             | 53,131       |
| Subordinated Notes Payable  | 62,887             | 62,887       |
| Other Long-Term Borrowings  | 51,470             | 26,731       |
| Other Liabilities   | 41,294             | 38,559       |
| Total Liabilities   | 2,209,869          | 2,323,652    |
| <b>SHAREOWNERS' EQUITY</b>  |                    |              |
| Preferred Stock, \$.01 par value; 3,000,000 shares authorized; no shares issued and outstanding   | -                  | -            |
| Common Stock, \$.01 par value; 90,000,000 shares authorized; 17,126,997 and 17,182,553 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively | 171                | 172          |
| Additional Paid-In Capital  | 36,783             | 38,243       |
| Retained Earnings   | 262,890            | 260,325      |
| Accumulated Other Comprehensive Loss, Net of Tax  | (21,014)           | (6,065)      |
| Total Shareowners' Equity   | 278,830            | 292,675      |
| Total Liabilities and Shareowners' Equity   | \$ 2,488,699       | \$ 2,616,327 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.





Table of ContentsCAPITAL CITY BANK GROUP, INC.  
CONSOLIDATED STATEMENTS OF INCOME

| (Dollars in Thousands, Except Per Share Data)          | For the Years Ended December 31, |            |            |
|--|----------------------------------|------------|------------|
|  | 2008                             | 2007       | 2006       |
| <b>INTEREST INCOME</b>                                 |                                  |            |            |
| Interest and Fees on Loans                             | \$ 132,682                       | \$ 154,567 | \$ 156,666 |
| Investment Securities:                                 |                                  |            |            |
| U.S. Treasury  | 747                              | 574        | 453        |
| U.S. Government Agencies and Corporations              | 2,562                            | 3,628      | 3,605      |
| States and Political Subdivisions                      | 3,185                            | 2,894      | 2,337      |
| Other Securities                                       | 581                              | 747        | 793        |
| Funds Sold   | 3,109                            | 2,913      | 2,039      |
| Total Interest Income                                  | 142,866                          | 165,323    | 165,893    |
| <b>INTEREST EXPENSE</b>                                |                                  |            |            |
| Deposits   | 27,306                           | 44,687     | 37,253     |
| Short-Term Borrowings                                  | 1,157                            | 2,871      | 3,075      |
| Subordinated Notes Payable                             | 3,735                            | 3,730      | 3,725      |
| Other Long-Term Borrowings                             | 1,802                            | 1,794      | 2,704      |
| Total Interest Expense                                 | 34,000                           | 53,082     | 46,757     |
| <b>NET INTEREST INCOME</b>                             |                                  |            |            |
|  | 108,866                          | 112,241    | 119,136    |
| Provision for Loan Losses                              | 32,496                           | 6,163      | 1,959      |
| Net Interest Income After Provision for Loan Losses    | 76,370                           | 106,078    | 117,177    |
| <b>NONINTEREST INCOME</b>                              |                                  |            |            |
| Service Charges on Deposit Accounts                    | 27,742                           | 26,130     | 24,620     |
| Data Processing  | 3,435                            | 3,133      | 2,723      |
| Asset Management Fees                                  | 4,235                            | 4,700      | 4,600      |
| Securities Transactions                                | 125                              | 14         | (4)        |
| Mortgage Banking Revenues                              | 1,623                            | 2,596      | 3,235      |
| Bank Card Fees   | 12,701                           | 13,706     | 12,602     |
| Gain on Sale of Portion of Merchant Services Portfolio | 6,250                            | -          | -          |
| Other  | 10,929                           | 9,021      | 7,801      |
| Total Noninterest Income                               | 67,040                           | 59,300     | 55,577     |
| <b>NONINTEREST EXPENSE</b>                             |                                  |            |            |
| Salaries and Associate Benefits                        | 61,831                           | 60,279     | 60,855     |
| Occupancy, Net   | 9,729                            | 9,347      | 9,395      |
| Furniture and Equipment                                | 9,902                            | 9,890      | 9,911      |
| Intangible Amortization                                | 5,685                            | 5,834      | 6,085      |
| Other  | 34,325                           | 36,642     | 35,322     |
| Total Noninterest Expense                              | 121,472                          | 121,992    | 121,568    |
| <b>INCOME BEFORE INCOME TAXES</b>                      |                                  |            |            |
|  | 21,938                           | 43,386     | 51,186     |
| Income Taxes   | 6,713                            | 13,703     | 17,921     |
| <b>NET INCOME</b>                                      | \$ 15,225                        | \$ 29,683  | \$ 33,265  |

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|   |    |        |    |        |    |        |
|---|----|--------|----|--------|----|--------|
| BASIC NET INCOME PER SHARE                | \$ | 0.89   | \$ | 1.66   | \$ | 1.79   |
| DILUTED NET INCOME PER SHARE              | \$ | 0.89   | \$ | 1.66   | \$ | 1.79   |
| Average Basic Common Shares Outstanding   |    | 17,141 |    | 17,909 |    | 18,585 |
| Average Diluted Common Shares Outstanding |    | 17,147 |    | 17,912 |    | 18,610 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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## CAPITAL CITY BANK GROUP, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREOWNERS' EQUITY

| (Dollars in Thousands, Except<br>Per Share Data)                                     | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Income,<br>Net of Taxes | Total      |
|--|-----------------------|-----------------|----------------------------------|----------------------|--|------------|
| Balance, December 31, 2005   | 18,631,706            | \$ 186          | \$ 83,304                        | \$ 222,299           | \$ (1,246)   | \$ 304,543 |
| Comprehensive Income:  |                       |                 |                                  |                      |  |            |
| Net Income   |                       | -               | -                                | 33,265               | -  | 33,265     |
| Net Change in Unrealized Loss<br>On Available-for-Sale Securities<br>(net of tax)    |                       | -               | -                                | -                    | 412  | 412        |
| Total Comprehensive Income   |                       | -               | -                                | -                    | -  | 33,677     |
| Establish Pension Liability upon<br>adoption of SFAS No. 158 (net<br>of tax)         |                       | -               | -                                | -                    | (7,477)  | (7,477)    |
| Cash Dividends (\$.663 per share)  |                       | -               | -                                | (12,322)             | -  | (12,322)   |
| Stock Performance Plan   |                       |                 |                                  |                      |  |            |
| Compensation   |                       | -               | 1,673                            | -                    | -  | 1,673      |
| Issuance of Common Stock   | 51,288                | 1               | 1,035                            | -                    | -  | 1,036      |
| Repurchase of Common Stock   | (164,596)             | (2)             | (5,358)                          | -                    | -  | (5,360)    |
| Balance, December 31, 2006   | 18,518,398            | 185             | 80,654                           | 243,242              | (8,311)  | 315,770    |
| Comprehensive Income:  |                       |                 |                                  |                      |  |            |
| Net Income   |                       | -               | -                                | 29,683               | -  | 29,683     |
| Net Change in Unrealized Loss<br>On Available-for-Sale Securities<br>(net of tax)    |                       | -               | -                                | -                    | 1,080  | 1,080      |
| Net Change in Funded Status of<br>Defined Pension Plan and SERP<br>Plan (net of tax) |                       | -               | -                                | -                    | 1,166  | 1,166      |
| Total Comprehensive Income   |                       | -               | -                                | -                    | -  | 31,929     |
| Miscellaneous – Other  |                       | -               | -                                | 223                  | -  | 223        |
| Cash Dividends (\$.710 per share)  |                       | -               | -                                | (12,823)             | -  | (12,823)   |
| Stock Performance Plan   |                       |                 |                                  |                      |  |            |
| Compensation   |                       | -               | 265                              | -                    | -  | 265        |
| Issuance of Common Stock   | 68,519                | 1               | 571                              | -                    | -  | 572        |
| Repurchase of Common Stock   | (1,404,364)           | (14)            | (43,247)                         | -                    | -  | (43,261)   |
| Balance, December 31, 2007   | 17,182,553            | 172             | 38,243                           | 260,325              | (6,065)  | 292,675    |
| Cumulative Effect of Adoption<br>of EITF 06-4  |                       |                 |                                  | (30)                 |  | (30)       |
| Comprehensive Income:  |                       |                 |                                  |                      |  |            |
| Net Income   |                       | -               | -                                | 15,225               | -  | 15,225     |
|  |                       | -               | -                                | -                    | 1,230  | 1,230      |

Net Change in Unrealized Gain  
On Available-for-Sale Securities  
(net of tax)

|  |            |        |           |            |                        |
|--|------------|--------|-----------|------------|------------------------|
| Net Change in Funded Status of<br>Defined Pension Plan and SERP<br>Plan (net of tax) | -          | -      | -         | (16,179)   | (16,179)               |
| Total Comprehensive Income   | -          | -      | -         | -          | 276                    |
| Cash Dividends (\$.7450 per<br>share)  | -          | -      | (12,630)  | -          | (12,630)               |
| Stock Performance Plan<br>Compensation   | -          | 62     | -         | -          | 62                     |
| Issuance of Common Stock   | 34,485     | 891    | -         | -          | 891                    |
| Repurchase of Common Stock   | (90,041)   | (1)    | (2,413)   | -          | (2,414)                |
| Balance, December 31, 2008   | 17,126,997 | \$ 171 | \$ 36,783 | \$ 262,890 | \$ (21,014) \$ 278,830 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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Table of ContentsCAPITAL CITY BANK GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (Dollars in Thousands)  | For the Years Ended December 31, |               |               |
|---|----------------------------------|---------------|---------------|
|   | 2008                             | 2007          | 2006          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                                  |               |               |
| Net Income  | \$ 15,225                        | \$ 29,683     | \$ 33,265     |
| Adjustments to Reconcile Net Income to Cash Provided by Operating Activities: |                                  |               |               |
| Provision for Loan Losses   | 32,496                           | 6,163         | 1,959         |
| Depreciation  | 6,798                            | 6,338         | 6,795         |
| Net Securities Amortization   | 990                              | 279           | 582           |
| Amortization of Intangible Assets   | 5,685                            | 5,834         | 6,085         |
| (Gain) Loss on Securities Transactions  | (125)                            | (14)          | 4             |
| Origination of Loans Held-for-Sale  | (106,340)                        | (158,390)     | (190,945)     |
| Proceeds From Sales of Loans Held-for-Sale                                    | 108,218                          | 162,835       | 194,569       |
| Net Gain From Sales of Loans Held-for Sale                                    | (1,623)                          | (2,596)       | (3,235)       |
| Gain on Sale of Portion of Merchant Services Portfolio                        | (6,250)                          | -             | -             |
| Proceeds From Sale of Portion of Merchant Services Portfolio                  | 6,250                            | -             | -             |
| Non-Cash Compensation   | 62                               | 265           | 1,673         |
| Increase (Decrease) in Deferred Income Taxes                                  | (15,235)                         | 1,328         | 1,614         |
| Net (Increase) Decrease in Other Assets                                       | (1,371)                          | (12,894)      | (11,327)      |
| Net Increase (Decrease) in Other Liabilities                                  | 2,200                            | 8,115         | 5,148         |
| Net Cash Provided by Operating Activities                                     | 46,980                           | 46,946        | 46,187        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                                  |               |               |
| <b>Securities Available-for-Sale:</b>   |                                  |               |               |
| Purchases   | (89,059)                         | (56,289)      | (102,628)     |
| Sales   | 10,490                           | -             | 283           |
| Payments, Maturities, and Calls   | 78,767                           | 58,894        | 81,500        |
| Net (Increase) Decrease in Loans  | (66,635)                         | 74,058        | 64,213        |
| Purchase of Premises & Equipment  | (14,626)                         | (18,613)      | (20,145)      |
| Proceeds From Sales of Premises & Equipment                                   | 6                                | 203           | 630           |
| Net Cash (Used In) Provided By Investing Activities                           | (81,057)                         | 58,253        | 23,853        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                  |                                  |               |               |
| Net (Decrease) Increase in Deposits   | (150,171)                        | 60,690        | 2,308         |
| Net Increase (Decrease) in Short-Term Borrowings                              | 8,925                            | (12,263)      | (31,412)      |
| Increase (Decrease) in Other Long-Term Borrowings                             | 30,600                           | (10,618)      | 3,250         |
| Repayment of Other Long-Term Borrowings                                       | (5,872)                          | (5,363)       | (16,335)      |
| Dividends Paid  | (12,630)                         | (12,823)      | (12,322)      |
| Repurchase of Common Stock  | (2,414)                          | (43,261)      | (5,360)       |
| Issuance of Common Stock  | 891                              | 572           | 1,036         |
| Net Cash Used In Financing Activities   | (130,671)                        | (23,066)      | (58,835)      |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                | <b>(164,748)</b>                 | <b>82,133</b> | <b>11,205</b> |
| Cash and Cash Equivalents at Beginning of Year                                | 259,697                          | 177,564       | 166,359       |
| Cash and Cash Equivalents at End of Year                                      | \$ 94,949                        | \$ 259,697    | \$ 177,564    |

## SUPPLEMENTAL DISCLOSURES:

|   |           |           |           |
|---|-----------|-----------|-----------|
| Interest Paid on Deposits   | \$ 29,729 | \$ 44,510 | \$ 36,509 |
| Interest Paid on Debt   | \$ 6,658  | \$ 8,463  | \$ 9,688  |
| Taxes Paid  | \$ 16,998 | \$ 12,431 | \$ 16,797 |
| Loans Transferred to Other Real Estate  | \$ 10,874 | \$ 3,494  | \$ 1,018  |
| Cumulative Effect Adjustment to Beginning Retained Earnings – SAB 108                                     | \$ -      | \$ -      | \$ 1,233  |
| Cumulative Effect Adjustment to Other Comprehensive Income to Record Minimum Pension Liability – SFAS 158 | \$ -      | \$ -      | \$ 7,477  |
| Issuance of Common Stock as Non-Cash Compensation   | \$ -      | \$ 1,160  | \$ 711    |
| Transfer of Current Portion of Long-Term Borrowings to Short-Term Borrowings                              | \$ 176    | \$ 12,318 | \$ 13,061 |

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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### Notes to Consolidated Financial Statements

#### Note 1

#### SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation

The consolidated financial statements include the accounts of Capital City Bank Group, Inc. ("CCBG"), and its wholly-owned subsidiary, Capital City Bank ("CCB" or the "Bank" and together with CCBG, the "Company"). All material inter-company transactions and accounts have been eliminated.

The Company, which operates a single reportable business segment comprised of commercial banking within the states of Florida, Georgia, and Alabama, follows accounting principles generally accepted in the United States of America and reporting practices applicable to the banking industry. The principles which materially affect the financial position, results of operations and cash flows are summarized below.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States of America. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provide the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. CCBG's wholly-owned subsidiaries, CCBG Capital Trust I (established November 1, 2004) and CCBG Capital Trust II (established May 24, 2005) are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company's consolidated financial statements.

Certain items in prior financial statements have been reclassified to conform to the current presentation.

##### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates. Material estimates that are particularly susceptible to significant changes in the near-term relate to the determination of the allowance for loan losses, income taxes, loss contingencies, and valuation of goodwill and other intangibles and their respective analysis of impairment.

##### Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods and all other cash equivalents have a maturity of 90 days or less. The Company is required to maintain average reserve balances with the Federal Reserve

Bank based upon a percentage of deposits. The average amounts of these reserve balances for the years ended December 31, 2008 and 2007 were \$11.9 million and \$5.2 million, respectively.

#### Investment Securities

Investment securities available-for-sale are carried at fair value and represent securities that are available to meet liquidity and/or other needs of the Company. Gains and losses are recognized and reported separately in the Consolidated Statements of Income upon realization or when impairment of values is deemed to be other than temporary. In estimating other-than-temporary impairment losses, management considers, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for anticipated recovery in fair value. Gains or losses are recognized using the specific identification method. Unrealized holding gains and losses for securities available-for-sale are excluded from the Consolidated Statements of Income and reported net of taxes in the accumulated other comprehensive income component of shareowners' equity until realized. Accretion and amortization are recognized on the effective yield method over the life of the securities.



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### Loans

Loans are stated at the principal amount outstanding, net of unearned income. Interest income is accrued on the effective yield method based on outstanding balances. Fees charged to originate loans and direct loan origination costs are deferred and amortized over the life of the loan as a yield adjustment. The Company defines loans as past due when one full payment is past due or a contractual maturity is over 30 days late. The accrual of interest is generally suspended on loans more than 90 days past due with respect to principal or interest. When a loan is placed on nonaccrual status, all previously accrued and uncollected interest is reversed against current income. Interest income on nonaccrual loans is recognized on a cash basis when the ultimate collectability is no longer considered doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Loans are charged-off (if unsecured) or written-down (if secured) when losses are probable and reasonably quantifiable.

### Loans Held For Sale

Certain residential mortgage loans are originated for sale in the secondary mortgage loan market. Additionally, certain other loans are periodically identified to be sold. The Company has the ability and intent to sell these loans and they are classified as loans held for sale and carried at the lower of cost or estimated fair value. At December 31, 2008 and December 31, 2007, the Company had \$3.2 million and \$2.8 million, respectively, in loans classified as held for sale which were committed to be purchased by third party investors. Fair value is determined on the basis of rates quoted in the respective secondary market for the type of loan held for sale. Loans are generally sold with servicing released at a premium or discount from the carrying amount of the loans. Such premium or discount is recognized as mortgage banking revenue at the date of sale. Fixed commitments may be used at the time loans are originated or identified for sale to mitigate interest rate risk. The fair value of fixed commitments to originate and sell loans held for sale is not material.

### Allowance for Loan Losses

The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance is that amount considered adequate to absorb losses inherent in the loan portfolio based on management's evaluation of credit risk as of the balance sheet date.

The allowance for loan losses includes allowance allocations calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS 118, and allowance allocations calculated in accordance with SFAS 5, "Accounting for Contingencies." The level of the allowance reflects management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio quality, present economic conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company's allowance for loan losses consists of three components: (i) specific valuation allowances established for probable losses on specific loans deemed impaired; (ii) valuation allowances calculated for specific homogenous loan pools based on, but not limited to, historical loan loss experience, current economic conditions, levels of past due loans, and levels of problem loans; (iii) an unallocated allowance that reflects management's determination of estimation risk.

### Long-Lived Assets

Premises and equipment is stated at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives for each type of asset with premises being depreciated over a range of 10 to 40 years, and equipment being depreciated over a range of 3 to 10 years. Additions, renovations and leasehold improvements to premises are capitalized and depreciated over the lesser of the useful life or the remaining lease term. Repairs and maintenance are charged to noninterest expense as incurred.

Intangible assets, other than goodwill, consist of core deposit intangible assets and client relationship and non-compete assets that were recognized in connection with various acquisitions. Core deposit intangible assets are amortized on the straight-line method over various periods, with the majority being amortized over an average of 5 to 10 years. Other identifiable intangibles are amortized on the straight-line method over their estimated useful lives.

Long-lived assets are evaluated for impairment if circumstances suggest that their carrying value may not be recoverable, by comparing the carrying value to estimated undiscounted cash flows. If the asset is deemed impaired, an impairment charge is recorded equal to the carrying value less the fair value.

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### Goodwill

Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142") prohibits the Company from amortizing goodwill and requires the Company to identify reporting units to which the goodwill relates for purposes of assessing potential impairment of goodwill on an annual basis, or more frequently, if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In accordance with the guidelines in SFAS 142, the Company determined it has one goodwill reporting unit. As of December 31, 2008, the Company had performed its annual impairment review and concluded that no impairment adjustment was necessary.

### Foreclosed Assets

Assets acquired through or instead of loan foreclosure are held for sale and are initially recorded at the lower of cost or fair value less estimated selling costs when acquired. Costs after acquisition are generally expensed. If the fair value of the asset declines, a write-down is recorded through expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in economic conditions. Foreclosed assets are included in other assets in the accompanying consolidated balance sheets and totaled \$9.2 million and \$3.0 million at December 31, 2008 and 2007.

### Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

### Income Taxes

The Company files a consolidated federal income tax return and each subsidiary files a separate state income tax return.

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

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

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

### Earnings Per Common Share

Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period excluding non-vested stock. Diluted earnings per common share include the dilutive effect of stock options and non-vested stock awards granted using the treasury stock method. A reconciliation of the

weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in Note 13 — Earnings Per Share.

#### Comprehensive Income

Comprehensive income includes all changes in shareowners' equity during a period, except those resulting from transactions with shareowners. Besides net income, other components of the Company's comprehensive income include the after tax effect of changes in the net unrealized gain/loss on securities available for sale and changes in the funded status of defined benefit and supplemental executive retirement plans. Comprehensive income is reported in the accompanying consolidated statements of changes in shareowners' equity.

#### Stock Based Compensation

The Company follows the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment (Revised 2004)" when recording stock based compensation. See Note 11 – Stock-Based Compensation for additional information.

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Recent Accounting Pronouncements

Statement of Financial Accounting Standards (“SFAS”)

SFAS No. 141, “Business Combinations (Revised 2007).” SFAS 141R replaces SFAS 141, “Business Combinations,” and applies to all transactions and other events in which one entity obtains control over one or more other businesses.

SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities,” would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, “Accounting for Contingencies.” SFAS 141R is effective for business combinations closing on or after January 1, 2009. The Company is in the process of reviewing the impact of SFAS 141R.

SFAS No. 157, "Fair Value Measurements." SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements (see Note 19 – Fair Value Measurements).

SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of Financial Accounting Standards Board (“FASB”) Statements No. 87, 88 106, and 132(R)." SFAS 158 requires an employer to recognize the over-funded or under-funded status of defined benefit postretirement plans as an asset or a liability in its statement of financial position. The funded status is measured as the difference between plan assets at fair value and the benefit obligation (the projected benefit obligation for pension plans or the accumulated benefit obligation for other postretirement benefit plans). An employer is also required to measure the funded status of a plan as of the date of its year-end statement of financial position with changes in the funded status recognized through comprehensive income. SFAS 158 also requires certain disclosures regarding the effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of gains or losses, prior service costs or credits, and the transition asset or obligation. The Company recognized the funded status of their defined benefit pension plan in the financial statements for the year ended December 31, 2006.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115." SFAS 159 permits entities to choose to measure eligible items at fair value at specified election dates (see Note 19 – Fair Value Measurements).

SFAS No. 160, “Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB Statement No. 51.” SFAS 160 amends Accounting Research Bulletin (ARB) No. 51, “Consolidated Financial Statements,” to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the

non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the non-controlling interest. SFAS 160 is effective on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133." SFAS 161 amends SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for on January 1, 2009 and is not expected to have a significant impact on the Company's financial statements.

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SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 became effective in July of 2008 and did not have a material impact on the Company's financial statements.

### Financial Accounting Standards Board Interpretations

In July 2006, the FASB issued FIN 48 which defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. FIN 48 became effective in the first quarter of 2007 and did not have a material impact on the Company's financial statements.

On October 10, 2008, the FASB issued FSP FAS 157-3, which clarifies the application of FAS 157, Fair Value Measurements, in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. The FSP states that an entity should not automatically conclude that a particular transaction price is determinative of fair value. In a dislocated market, judgment is required to evaluate whether individual transactions are forced liquidations or distressed sales. When relevant observable market information is not available, a valuation approach that incorporates management's judgments about the assumptions that market participants would use in pricing the asset in a current sale transaction is acceptable. The FSP also indicates that quotes from brokers or pricing services may be relevant inputs when measuring fair value, but are not necessarily determinative in the absence of an active market for the asset. In weighing a broker quote as an input to a fair value measurement, an entity should place less reliance on quotes that do not reflect the result of market transactions. Further, the nature of the quote (for example, whether the quote is an indicative price or a binding offer) should be considered when weighing the available evidence. The FSP was effective immediately and applied to prior periods for which financial statements have not been issued, including interim or annual periods ending on or before September 30, 2008. The adoption of the FSP did not have a material impact on the Company's financial statements or fair value determinations.

FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 will be effective on January 1, 2009. FSP EITF 03-6-1 is not expected to have an impact on the Company's financial statements.

### Emerging Issues Task Force

In March 2007, the FASB ratified the consensus the Emerging Issues Task Force ("EITF") reached regarding EITF Issue No. 06-10, "Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements" ("Issue 06-10"), which provides accounting guidance for postretirement benefits related to collateral assignment split-dollar life insurance arrangements, whereby the employee owns and controls the insurance policies. The consensus concludes that an employer should recognize a liability for the postretirement benefit in accordance with SFAS No. 106,

“Employers’ Accounting for Postretirement Benefits Other Than Pensions” (“Statement 106”) or Accounting Principles Board Opinion No. 12 (“APB 12”), as well as recognize an asset based on the substance of the arrangement with the employee. Issue 06-10 was effective for fiscal years beginning after December 15 and it did not have a material impact on the Company’s financial statements.

In September 2006, the FASB ratified the consensus the EITF reached regarding EITF Issue No. 06-4, “Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements” (“Issue 06-4”), which provides accounting guidance for postretirement benefits related to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policies. The consensus concludes that an employer should recognize a liability for the postretirement benefit in accordance with Statement 106 or APB 12. In addition, the consensus states that an employer should also recognize an asset based on the substance of the arrangement with the employee. Issue 06-4 was effective for fiscal years beginning after December 15, 2007 and it did not have a material impact on the Company’s financial statements.



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In September 2006, the FASB ratified the consensus the EITF reached regarding EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance." FASB Technical Bulletin No. 85-4 requires that the amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. Since the issuance of FASB Technical Bulletin No. 85-4, there has been diversity in practice in the calculation of the amount that could be realized under insurance contracts. Issue No. 06-5 concludes that we should consider any additional amounts (e.g., cash stabilization reserves and deferred acquisition cost taxes) included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized in accordance with FASB Technical Bulletin No. 85-4. The Company adopted this standard in the first quarter of 2007 and it did not have a significant impact on their financial statements.

SEC Staff Accounting Bulletin

SAB No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings." SAB No. 109 supersedes SAB No. 105, "Application of Accounting Principles to Loan Commitments," and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB No. 109 became effective on January 1, 2008 and did not have a material impact on the Company's financial statements.

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## Note 2

## INVESTMENT SECURITIES

Investment Portfolio Composition. The amortized cost and related market value of investment securities available-for-sale at December 31, were as follows:

| (Dollars in Thousands)                    | 2008           |                  |                   |              |
|---|----------------|------------------|-------------------|--------------|
|   | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
| U.S. Treasury                             | \$ 29,094      | \$ 577           | \$ -              | \$ 29,671    |
| U.S. Government Agencies and Corporations | 7,091          | 180              | -                 | 7,271        |
| States and Political Subdivisions         | 100,370        | 1,224            | 32                | 101,562      |
| Mortgage-Backed Securities                | 39,860         | 332              | 116               | 40,076       |
| Other Securities(1)                       | 12,882         | 107              | -                 | 12,989       |
| Total Investment Securities               | \$ 189,297     | \$ 2,420         | \$ 148            | \$ 191,569   |

| (Dollars in Thousands)                    | 2007           |                  |                   |              |
|---|----------------|------------------|-------------------|--------------|
|   | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
| U.S. Treasury                             | \$ 16,216      | \$ 97            | \$ -              | \$ 16,313    |
| U.S. Government Agencies and Corporations | 45,489         | 295              | 34                | 45,750       |
| States and Political Subdivisions         | 90,014         | 164              | 177               | 90,001       |
| Mortgage-Backed Securities                | 26,334         | 85               | 132               | 26,287       |
| Other Securities(1)                       | 12,307         | 61               | 0                 | 12,368       |
| Total Investment Securities               | \$ 190,360     | \$ 702           | \$ 343            | \$ 190,719   |

- (1) Includes FHLB and Federal Reserve Bank stock recorded at cost of \$7.0 million and \$4.8 million, respectively, at December 31, 2008 and \$6.5 million and \$4.8 million, respectively, at December 31, 2007.

Securities with an amortized cost of \$83.5 million and \$77.2 million at December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes.

The Company's subsidiary, Capital City Bank, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta, is required to own capital stock in the FHLB of Atlanta based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock of \$7.0 million which is included in other securities is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted market value. However, redemption of this stock has historically been at par value.

Investment Sales. The total proceeds from the sale or call of investment securities and the gross realized gains and losses from the sale or call of such securities for each of the last three years are as follows:

| (Dollars in Thousands) | Year | Total Proceeds | Gross Realized Gains | Gross Realized Losses |
|------------------------|------|----------------|----------------------|-----------------------|
|                        | 2008 | \$ 57,762      | \$ 126               | \$ (1)                |
|                        | 2007 | \$ 53,011      | \$ 14                | \$ -                  |
|                        | 2006 | \$ 283         | \$ -                 | \$ 4                  |

Maturity Distribution. As of December 31, 2008, the Company's investment securities had the following maturity distribution based on contractual maturities:

| (Dollars in Thousands)           | Amortized  |              |
|----------------------------------|------------|--------------|
|                                  | Cost       | Market Value |
| Due in one year or less          | \$ 59,231  | \$ 59,881    |
| Due after one through five years | 109,386    | 110,797      |
| Due after five through ten years | 2,420      | 2,533        |
| Due over ten years               | 6,378      | 6,476        |
| No Maturity                      | 11,882     | 11,882       |
| Total Investment Securities      | \$ 189,297 | \$ 191,569   |

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

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Other Than Temporarily Impaired Securities. Securities with unrealized losses at year-end not recognized in income by period of time unrealized losses have existed are as follows:

| (Dollars in Thousands)                       | Less Than<br>12 Months |                      | December 31, 2008<br>Greater Than<br>12 Months |                      | Total           |                      |
|--|------------------------|----------------------|--|----------------------|-----------------|----------------------|
|  | Market<br>Value        | Unrealized<br>Losses | Market<br>Value                                | Unrealized<br>Losses | Market<br>Value | Unrealized<br>Losses |
| U.S. Treasury                                | \$ -                   | \$ -                 | \$ -   | \$ -                 | \$ -            | \$ -                 |
| U.S. Government Agencies<br>and Corporations | -                      | -                    | -  | -                    | -               | -                    |
| States and Political<br>Subdivisions         | 2,652                  | 32                   | -  | -                    | 2,652           | 32                   |
| Mortgage-Backed Securities                   | 14,149                 | 116                  | -  | -                    | 14,149          | 116                  |
| Total Investment Securities                  | \$ 16,801              | \$ 148               | \$ -   | \$ -                 | \$ 16,801       | \$ 148               |

| (Dollars in Thousands)                       | Less Than<br>12 Months |                      | December 31, 2007<br>Greater Than<br>12 Months |                      | Total           |                      |
|--|------------------------|----------------------|--|----------------------|-----------------|----------------------|
|  | Market<br>Value        | Unrealized<br>Losses | Market<br>Value                                | Unrealized<br>Losses | Market<br>Value | Unrealized<br>Losses |
| U.S. Treasury                                | \$ 12,258              | \$ -                 | \$ -   | \$ -                 | \$ 12,258       | \$ -                 |
| U.S. Government Agencies<br>and Corporations | 39,278                 | 16                   | 6,471  | 18                   | 45,749          | 34                   |
| States and Political<br>Subdivisions         | 70,701                 | 147                  | 13,924   | 30                   | 84,625          | 177                  |
| Mortgage-Backed Securities                   | 14,058                 | 4                    | 10,376   | 128                  | 24,434          | 132                  |
| Total Investment Securities                  | \$ 136,295             | \$ 167               | \$ 30,771                                      | \$ 176               | \$ 167,066      | \$ 343               |

At December 31, 2008, the Company had securities of \$191.6 million with net unrealized gains of \$2.3 million on these securities. \$16.8 million have unrealized losses totaling \$0.1 million and have been in a loss position for less than 12 months. These securities are primarily mortgage-backed securities that are in a loss position because they were acquired when the general level of interest rates was lower than that on December 31, 2008. The Company believes that these securities are only temporarily impaired and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

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LOANS

Loan Portfolio Composition. At December 31, the composition of the Company's loan portfolio was as follows:

| (Dollars in Thousands)                 | 2008         | 2007         |
|--|--------------|--------------|
| Commercial, Financial and Agricultural | \$ 206,230   | \$ 208,864   |
| Real Estate - Construction             | 141,973      | 142,248      |
| Real Estate - Commercial Mortgage      | 656,959      | 634,920      |
| Real Estate - Residential(1)           | 481,034      | 485,608      |
| Real Estate - Home Equity              | 218,500      | 192,428      |
| Real Estate - Loans Held-for-Sale      | 3,204        | 2,764        |
| Consumer                               | 249,897      | 249,018      |
| Total Loans, Net of Unearned Interest  | \$ 1,957,797 | \$ 1,915,850 |

(1) Includes loans in process with outstanding balances of \$13.9 million and \$7.5 million for 2008 and 2007, respectively.

Net deferred fees included in loans at December 31, 2008 and December 31, 2007 were \$1.9 million and \$1.6 million, respectively.

Concentrations of Credit. Substantially all of the Company's lending activity occurs within the states of Florida, Georgia, and Alabama. A large majority of the Company's loan portfolio (76.7.9%) consists of loans secured by real estate, the primary types of collateral being commercial properties and residential properties. At December 31, 2008, commercial real estate mortgage loans and residential real estate mortgage loans accounted for 33.6% and 35.9% of the loan portfolio, respectively. As of December 31, 2008, there were no concentrations of loans related to any single borrower or industry in excess of 10% of total loans.

Nonperforming/Past Due Loans. Nonaccruing loans amounted to \$96.9 million and \$25.1 million, at December 31, 2008 and 2007, respectively. Restructured loans totaled \$1.7 million at December 31, 2008. There were no restructured loans at December 31, 2007. Interest income on nonaccrual loans is recognized on a cash basis when the ultimate collectability is no longer considered doubtful. Cash collected on nonaccrual loans is applied against the principal balance or recognized as interest income based upon management's expectations as to the ultimate collectability of principal and interest in full. If interest on non-accruing loans had been recognized on a fully accruing basis, interest income recorded would have been \$6.5 million, \$0.9 million, and \$0.4 million higher for the years ended December 31, 2008, 2007, and 2006, respectively. Accruing loans past due more than 90 days totaled \$0.1 million at December 31, 2008 and \$0.4 million at December 31, 2007.

Note 4  
ALLOWANCE FOR LOAN LOSSES

An analysis of the changes in the allowance for loan losses for the years ended December 31, is as follows:

| (Dollars in Thousands)                     | 2008      | 2007      | 2006      |
|--|-----------|-----------|-----------|
| Balance, Beginning of Year                 | \$ 18,066 | \$ 17,217 | \$ 17,410 |
| Provision for Loan Losses                  | 32,496    | 6,163     | 1,959     |
| Recoveries on Loans Previously Charged-Off | 2,417     | 1,903     | 1,830     |
| Loans Charged-Off                          | (15,975)  | (7,217)   | (3,982)   |

|                      |    |        |    |        |    |        |
|----------------------|----|--------|----|--------|----|--------|
| Balance, End of Year | \$ | 37,004 | \$ | 18,066 | \$ | 17,217 |
|----------------------|----|--------|----|--------|----|--------|

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Impaired Loans. Selected information pertaining to impaired loans, at December 31, is as follows:

| (Dollars in Thousands)           | 2008                 |                        | 2007                 |                        |
|----------------------------------|----------------------|------------------------|----------------------|------------------------|
|                                  | Valuation<br>Balance | Valuation<br>Allowance | Valuation<br>Balance | Valuation<br>Allowance |
| <b>Impaired Loans:</b>           |                      |                        |                      |                        |
| With Related Credit Allowance    | \$ 68,705            | \$ 15,901              | \$ 21,615            | \$ 4,702               |
| Without Related Credit Allowance | 37,723               | -                      | 15,019               | -                      |

| (Dollars in Thousands)                        | 2008      | 2007      | 2006      |
|---|-----------|-----------|-----------|
| Average Recorded Investment in Impaired Loans | \$ 80,827 | \$ 23,922 | \$ 12,782 |
| <b>Interest Income on Impaired Loans</b>      |           |           |           |
| Recognized                                    | \$ 1,708  | \$ 761    | \$ 398    |
| Collected in Cash                             | 1,708     | 761       | 398       |

Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is doubtful, at which time payments received are recorded as reduction of principal.

## Note 5

## INTANGIBLE ASSETS

The Company had intangible assets of \$92.9 million and \$98.6 million at December 31, 2008 and December 31, 2007, respectively. Intangible assets at December 31, were as follows:

| (Dollars in Thousands)           | 2008            |                             | 2007            |                             |
|----------------------------------|-----------------|-----------------------------|-----------------|-----------------------------|
|                                  | Gross<br>Amount | Accumulated<br>Amortization | Gross<br>Amount | Accumulated<br>Amortization |
| Core Deposits Intangibles        | \$ 47,176       | \$ 40,092                   | \$ 47,176       | \$ 34,598                   |
| Goodwill                         | 84,811          | -                           | 84,811          | -                           |
| Customer Relationship Intangible | 1,867           | 879                         | 1,867           | 688                         |
| Non-Compete Agreement            | -               | -                           | 537             | 537                         |
| Total Intangible Assets          | \$ 133,854      | \$ 40,971                   | \$ 134,391      | \$ 35,823                   |

Net Core Deposit Intangibles. As of December 31, 2008 and December 31, 2007, the Company had net core deposit intangibles of \$7.1 million and \$12.6 million, respectively. Amortization expense for the twelve months of 2008, 2007 and 2006 was \$5.5 million, \$5.6 million, and \$5.6 million, respectively. The estimated annual amortization expense (in millions) for the next five years is expected to be approximately \$3.9, \$3.9, \$2.4, \$0.6, and \$0.6 per year.

Goodwill. As of December 31, 2008 and December 31, 2007, the Company had goodwill of \$84.8 million. Goodwill is the Company's only intangible asset that is no longer subject to amortization under the provisions of SFAS 142. On December 31, 2008, the Company performed its annual impairment review and concluded that no impairment adjustment was necessary. The Company cannot predict the occurrence of certain future events that might adversely affect the reported value of goodwill at December 31, 2008. Such events include, but are not limited to, economic conditions, financial market conditions, and the Company's market capitalization.

Other. As of December 31, 2008, the Company had a client relationship intangible, net of accumulated amortization, of \$0.9 million. This intangible asset was booked as a result of the March 2004 acquisition of trust client relationships

from Synovus Trust Company. Amortization expense for 2008 was \$191,000. Estimated annual amortization expense is \$191,000 based on use of a 10-year useful life.



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## Note 6

## PREMISES AND EQUIPMENT

The composition of the Company's premises and equipment at December 31, was as follows:

| (Dollars in Thousands)      | 2008       | 2007      |
|-----------------------------|------------|-----------|
| Land                        | \$ 24,289  | \$ 22,722 |
| Buildings                   | 100,179    | 90,335    |
| Fixtures and Equipment      | 56,493     | 55,783    |
| Total                       | 180,961    | 168,840   |
| Accumulated Depreciation    | (74,528)   | (70,228)  |
| Premises and Equipment, Net | \$ 106,433 | \$ 98,612 |

## Note 7

## DEPOSITS

Interest bearing deposits, by category, as of December 31, were as follows:

| (Dollars in Thousands) | 2008         | 2007         |
|------------------------|--------------|--------------|
| NOW Accounts           | \$ 758,976   | \$ 744,093   |
| Money Market Accounts  | 324,646      | 386,619      |
| Savings Accounts       | 115,261      | 111,600      |
| Time Deposits          | 373,595      | 467,373      |
| Total                  | \$ 1,572,478 | \$ 1,709,685 |

At December 31, 2008 and 2007, \$2.9 million and \$5.6 million, respectively, in overdrawn deposit accounts were reclassified as loans.

Deposits from certain directors, executive officers, and their related interests totaled \$35.1 million and \$45.7 million at December 31, 2008 and 2007 respectively.

Time deposits in denominations of \$100,000 or more totaled \$95.2 million and \$129.7 million at December 31, 2008 and December 31, 2007, respectively.

At December 31, 2008, the scheduled maturities of time deposits were as follows:

| (Dollars in Thousands) |            |
|------------------------|------------|
| 2009                   | \$ 330,407 |
| 2010                   | 30,122     |
| 2011                   | 9,140      |
| 2012                   | 2,387      |
| 2013 and thereafter    | 1,539      |
| Total                  | \$ 373,595 |

Interest expense on deposits for the three years ended December 31, was as follows:

| (Dollars in Thousands) | 2008     | 2007      | 2006     |
|------------------------|----------|-----------|----------|
| NOW Accounts           | \$ 7,454 | \$ 10,748 | \$ 7,658 |

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|                           |           |           |           |
|---------------------------|-----------|-----------|-----------|
| Money Market Accounts     | 5,242     | 13,666    | 11,687    |
| Savings Accounts          | 121       | 280       | 278       |
| Time Deposits < \$100,000 | 10,199    | 13,990    | 12,087    |
| Time Deposits > \$100,000 | 4,290     | 6,003     | 5,543     |
| Total                     | \$ 27,306 | \$ 44,687 | \$ 37,253 |

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## Note 8

## SHORT-TERM BORROWINGS

Short-term borrowings included the following:

| (Dollars in Thousands)                     | Federal<br>Funds<br>Purchased | Securities<br>Sold Under<br>Repurchase<br>Agreements(1) | Other<br>Short-Term<br>Borrowings |
|--|-------------------------------|---|-----------------------------------|
| <b>2008</b>                                |                               |   |                                   |
| Balance at December 31,                    | \$ 19,875                     | \$ 40,868   | \$ 1,302 (2)                      |
| Maximum indebtedness at any month end      | 36,700                        | 40,868  | 14,087                            |
| Daily average indebtedness outstanding     | 19,777                        | 32,433  | 8,971                             |
| Average rate paid for the year             | 1.58%                         | 1.50%   | 3.93 %                            |
| Average rate paid on period-end borrowings | 0.56%                         | 0.11%   | 0.41 %                            |
| <b>2007</b>                                |                               |   |                                   |
| Balance at December 31,                    | \$ 7,550                      | \$ 32,806   | \$ 12,775 (2)                     |
| Maximum indebtedness at any month end      | 26,400                        | 47,047  | 13,664                            |
| Daily average indebtedness outstanding     | 15,812                        | 38,683  | 11,902                            |
| Average rate paid for the year             | 4.89%                         | 4.11%   | 4.17 %                            |
| Average rate paid on period-end borrowings | 2.47%                         | 3.32%   | 4.29 %                            |
| <b>2006</b>                                |                               |   |                                   |
| Balance at December 31,                    | \$ 11,950                     | \$ 38,022   | \$ 15,051 (2)                     |
| Maximum indebtedness at any month end      | 39,225                        | 55,321  | 34,738                            |
| Daily average indebtedness outstanding     | 16,645                        | 34,335  | 27,720                            |
| Average rate paid for the year             | 4.82%                         | 3.79%   | 3.47 %                            |
| Average rate paid on period-end borrowings | 4.61%                         | 3.79%   | 3.90 %                            |

(1) Balances are fully collateralized by government treasury or agency securities held in the company's investment portfolio.

(2) Includes FHLB debt and client tax deposit balances of \$134,000 and \$1.2 million, respectively at December 31, 2008, \$12.2 million and \$0.6 million, respectively at December 31, 2007, and \$13.0 million and \$2.0 million, respectively at December 31, 2006.

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Note 9

## LONG-TERM BORROWINGS

Federal Home Loan Bank Notes. At December 31, Federal Home Loan Bank advances included:

| (Dollars in Thousands)                       | 2008   | 2007      |
|--|--------|-----------|
| Due on May 30, 2008, fixed rate 2.50%        | -      | 21(1)     |
| Due on June 13, 2008, fixed rate 5.40%       | -      | 72(1)     |
| Due on September 8, 2008, fixed rate 4.32%   | -      | 10,000(1) |
| Due on November 10, 2008, fixed rate 4.12%   | -      | 2,105(1)  |
| Due on October 19, 2009, fixed rate 3.69%(1) | 134(1) | 302       |
| Due on November 10, 2010, fixed rate 4.72%   | 665    | 695       |
| Due on December 31, 2010, fixed rate 3.85%   | 349    | 524       |
| Due on September 08, 2011, fixed rate 3.66%  | 10,000 | -         |
| Due on December 18, 2012, fixed rate 4.84%   | 517    | 542       |
| Due on March 18, 2013, fixed rate 3.55%      | 1,188  | -         |
| Due on March 18, 2013, fixed rate 3.31%      | 399    | -         |
| Due on March 18, 2013, fixed rate 6.37%      | 420    | 499       |
| Due on April 17, 2013, fixed rate 3.42%      | 1,155  | -         |
| Due on April 17, 2013, fixed rate 3.50%      | 1,694  | -         |
| Due on May 15, 2013, fixed rate 3.81%        | 970    | -         |
| Due on May 15, 2013, fixed rate 3.81%        | 1,120  | -         |
| Due on June 17, 2013, fixed rate 3.53%       | 82     | 692       |
| Due on June 17, 2013, fixed rate 3.85%       | 583    | 85        |
| Due on June 17, 2013, fixed rate of 4.11%    | 1,597  | 1,660     |
| Due on September 23, 2013, fixed rate 5.64%  | 622    | 727       |
| Due on January 26, 2014, fixed rate 5.79%    | 1,067  | 1,131     |
| Due on January 27, 2014, fixed rate 5.79%    | -      | 1,641     |
| Due on January 27, 2014, fixed rate 5.31%    | 1,571  | -         |
| Due on March 10, 2014, fixed rate 4.21%      | 435    | 505       |
| Due on May 27, 2014, fixed rate 5.92%        | 334    | 386       |
| Due on May 31, 2014, fixed rate 4.88%        | 2,357  | -         |
| Due on June 2, 2014, fixed rate 4.52%        | -      | 2,726     |
| Due on February 23, 2015, fixed rate 4.07%   | 725    | -         |
| Due on August 17, 2015, fixed rate 4.31%     | 586    | -         |
| Due on October 15, 2015, fixed rate 4.11%    | 745    | -         |
| Due on July 20, 2016, fixed rate 6.27%       | 897    | 1,016     |
| Due on October 3, 2016, fixed rate 5.41%     | 235    | 265       |
| Due on October 31, 2016, fixed rate 5.16%    | 522    | 589       |
| Due on June 27, 2017, fixed rate 5.53%       | 595    | 665       |
| Due on October 31, 2017, fixed rate 4.79%    | 736    | 819       |
| Due on December 11, 2017, fixed rate 4.78%   | 656    | 728       |
| Due on February 22, 2018, fixed rate 4.61%   | 1,425  | -         |
| Due on February 26, 2018, fixed rate 4.36%   | -      | 1,735     |
| Due on April 10, 2018, fixed rate 4.20%      | 1,217  | -         |
| Due on April 10, 2018, fixed rate 4.20%      | 1,010  | -         |
| Due on September 17, 2018, fixed rate 4.23%  | 2,925  | -         |
| Due on September 18, 2018, fixed rate 5.15%  | 468    | 516       |

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|  |           |           |
|--|-----------|-----------|
| Due on November 5, 2018, fixed rate 5.10%  | 3,222     | 3,364     |
| Due on December 3, 2018, fixed rate 4.87%  | 492       | 541       |
| Due on December 17, 2018, fixed rate 6.33% | 1,310     | 1,401     |
| Due on December 24, 2018, fixed rate 6.29% | -         | -         |
| Due on February 16, 2021, fixed rate 3.00% | 736       | 776       |
| Due on January 18, 2022, fixed rate 5.25%  | 926       | 1,033     |
| Due on May 30, 2023, fixed rate 2.50%      | 858       | 896       |
| Due on June 15, 2023, fixed rate 4.77%     | 483       | -         |
| Due on July 1, 2025, fixed rate 4.80%      | 3,294     | -         |
| Total Outstanding                          | \$ 51,322 | \$ 38,657 |

(1) \$134,000 is classified as short-term borrowings as of December 31, 2008 and \$12.2 million classified as short-term borrowings as of December 31, 2007.

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The contractual maturities of FHLB debt for the five years subsequent to December 31, 2008, are as follows:

(Dollars in Thousands)

|                     |              |
|---------------------|--------------|
| 2009                | \$ 2,969 (1) |
| 2010                | 3,650        |
| 2011                | 12,978       |
| 2012                | 3,528        |
| 2013                | 9,429        |
| 2014 and thereafter | 18,768       |
| Total               | \$ 51,322    |

(1) \$134,000 is classified as short-term borrowings.

The FHLB advances are collateralized by a blanket floating lien on all 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans. Interest on the FHLB advances is paid on a monthly basis.

Repurchase Agreements - Term. At December 31, 2008 the Company maintained one long-term repurchase agreement for \$0.3 million collateralized by bank-owned securities. Interest is payable upon maturity.

Junior Subordinated Deferrable Interest Notes. The Company has issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I. The second note for \$32.0 million was issued to CCBG Capital Trust II. The two trusts are considered variable interest entities for which the Company is not the primary beneficiary. Accordingly, the accounts of the trusts are not included in the Company's consolidated financial statements. See Note 1 - Summary of Significant Accounting Policies for additional information about the Company's consolidation policy. Details of the Company's transaction with the two trusts are provided below.

In November 2004, CCBG Capital Trust I issued \$30.0 million of trust preferred securities which represent beneficial interest in the assets of the trust. The interest rate is fixed at 5.71% for a period of five years, then adjustable annually to LIBOR plus a margin of 1.90%. The trust preferred securities will mature on December 31, 2034, and are redeemable upon approval of the Federal Reserve in whole or in part at the option of the Company at any time after December 31, 2009 and in whole at any time upon occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly on March 31, June 30, September 30, and December 31 of each year. CCBG Capital Trust I also issued \$928,000 of common equity securities to CCBG. The proceeds of the offering of trust preferred securities and common equity securities were used to purchase a \$30.9 million junior subordinated deferrable interest note issued by the Company, which has terms substantially similar to the trust preferred securities.

In May 2005, CCBG Capital Trust II issued \$31.0 million of trust preferred securities which represent beneficial interest in the assets of the trust. The interest rate is fixed at 6.07% for a period of five years, then adjustable quarterly to LIBOR plus a margin of 1.80%. The trust preferred securities will mature on June 15, 2035, and are redeemable upon approval of the Federal Reserve in whole or in part at the option of the Company at any time after May 20, 2010 and in whole at any time upon occurrence of certain events affecting their tax or regulatory capital treatment. Distributions on the trust preferred securities are payable quarterly on March 15, June 15, September 15, and December 15 of each year. CCBG Capital Trust II also issued \$959,000 of common equity securities to CCBG. The proceeds of the offering of trust preferred securities and common equity securities were used to purchase a \$32.0 million junior subordinated deferrable interest note issued by the Company, which has terms substantially similar to

the trust preferred securities.

The Company has the right to defer payments of interest on the two notes at any time or from time to time for a period of up to twenty consecutive quarterly interest payment periods. Under the terms of each note, in the event that under certain circumstances there is an event of default under the note or the Company has elected to defer interest on the note, the Company may not, with certain exceptions, declare or pay any dividends or distributions on its capital stock or purchase or acquire any of its capital stock. The Company is current on the interest payment obligations and has not executed the right to defer interest payments on the notes.

The Company has entered into agreements to guarantee the payments of distributions on the trust preferred securities and payments of redemption of the trust preferred securities. Under these agreements, the Company also agrees, on a subordinated basis, to pay expenses and liabilities of the two trusts other than those arising under the trust preferred securities. The obligations of the Company under the two junior subordinated notes, the trust agreements establishing the two trusts, the guarantee and agreement as to expenses and liabilities, in aggregate, constitute a full and unconditional guarantee by the Company of the two trusts' obligations under the two trust preferred security issuances.

Despite the fact that the accounts of CCBG Capital Trust I and CCBG Capital Trust II are not included in the Company's consolidated financial statements, the \$30.0 million and \$31.0 million, respectively, in trust preferred securities issued by these subsidiary trusts are included in the Tier I Capital of Capital City Bank Group, Inc. as allowed by Federal Reserve guidelines.

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INCOME TAXES

The provision for income taxes reflected in the statements of income is comprised of the following components:

| (Dollars in Thousands) | 2008      | 2007      | 2006      |
|------------------------|-----------|-----------|-----------|
| Current:               |           |           |           |
| Federal                | \$ 11,730 | \$ 13,603 | \$ 14,780 |
| State                  | 510       | 280       | 1,527     |
| Deferred:              |           |           |           |
| Federal                | (4,882)   | (32)      | 1,384     |
| State                  | (1,289)   | (148)     | 230       |
| Valuation Allowance    | 644       | -         | -         |
| Total                  | \$ 6,713  | \$ 13,703 | \$ 17,921 |

Income taxes provided were different than the tax expense computed by applying the statutory federal income tax rate of 35% to pre-tax income as a result of the following:

| (Dollars in Thousands)                | 2008     | 2007      | 2006      |
|---------------------------------------|----------|-----------|-----------|
| Tax Expense at Federal Statutory Rate | \$ 7,678 | \$ 15,185 | \$ 17,915 |
| Increases (Decreases) Resulting From: |          |           |           |
| Tax-Exempt Interest Income            | (1,663)  | (1,630)   | (1,334)   |
| State Taxes, Net of Federal Benefit   | (506)    | 86        | 1,142     |
| Other                                 | 560      | 62        | 198       |
| Change in Valuation Allowance         | 644      | -         | -         |
| Actual Tax Expense                    | \$ 6,713 | \$ 13,703 | \$ 17,921 |

Deferred income tax liabilities and assets result from differences between assets and liabilities measured for financial reporting purposes and for income tax return purposes. These assets and liabilities are measured using the enacted tax rates and laws that are currently in effect. The net deferred tax asset and the temporary differences comprising that balance at December 31, 2008 and 2007 are as follows:

| (Dollars in Thousands)                  | 2008      | 2007      |
|---|-----------|-----------|
| Deferred Tax Assets attributable to:    |           |           |
| Allowance for Loan Losses               | \$ 14,276 | \$ 7,110  |
| Associate Benefits                      | 385       | 510       |
| Accrued Pension/SERP                    | 14,127    | 3,964     |
| Interest on Nonperforming Loans         | 2,247     | 603       |
| State Net Operating Loss Carry Forwards | 776       | 511       |
| Intangible Assets                       | 121       | 95        |
| Core Deposit Intangible                 | 2,569     | 1,360     |
| Contingency Reserve                     | 323       | 746       |
| Accrued Expense                         | 450       | 611       |
| Leases                                  | 456       | 464       |
| Other Real Estate Owned                 | 482       | 38        |
| Other                                   | 586       | 479       |
| Total Deferred Tax Assets               | \$ 36,798 | \$ 16,491 |



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|   |    |        |          |
|---|----|--------|----------|
| Deferred Tax Liabilities attributable to:     |    |        |          |
| Depreciation on Premises and Equipment        | \$ | 4,677  | \$ 3,290 |
| Deferred Loan Fees and Costs                  |    | 3,897  | 3,887    |
| Net Unrealized Gains on Investment Securities |    | 796    | 113      |
| Intangible Assets                             |    | 1,919  | 1,619    |
| Accrued Pension/SERP                          |    | 7,080  | 4,669    |
| Securities Accretion                          |    | 15     | 25       |
| Market Value on Loans Held for Sale           |    | 2      | 59       |
| Other   |    | -      | 68       |
| Total Deferred Tax Liabilities                |    | 18,386 | 13,730   |
| Valuation Allowance                           |    | 644    | -        |
| Net Deferred Tax Assets                       | \$ | 17,768 | \$ 2,761 |

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In the opinion of management, it is more likely than not that all of the deferred tax assets, with the exception of the separate state net operating loss carry-forward of the holding company, will be realized. Accordingly, a valuation allowance for the holding company's separate state net operating loss carry-forward was recorded in 2008. At year-end 2008, the Company had state net operating loss carry-forwards of approximately \$18.0 million which expire at various dates from 2022 through 2028. The Company also had state tax credit carry-forwards of approximately \$200,000 which expire at various dates from 2012 through 2013.

Changes in net deferred income tax assets were:

| (Dollars in Thousands)   | 2008      | 2007     |
|--|-----------|----------|
| Balance at Beginning of Year   | \$ 2,761  | \$ 4,027 |
| Income Tax Benefit (Expense) From Change in Pension Liability                        | 10,163    | (830)    |
| Income Tax Expense From Change in Unrealized Losses on Available-for-Sale Securities | (683)     | (616)    |
| Deferred Income Tax Expense on Continuing Operations                                 | 5,527     | 180      |
| Balance at End of Year   | \$ 17,768 | \$ 2,761 |

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Income Tax Uncertainties" ("FIN 48"), on January 1, 2007. There was no material effect on its financial condition or results of operations as a result of implementing FIN 48. The Company had unrecognized tax benefits at December 31, 2008 and December 31, 2007 of \$3.9 million and \$3.3 million, respectively, of which \$2.5 million would increase income from continuing operations, and thus impact the Company's effective tax rate, if ultimately recognized into income.

A reconciliation of the beginning and ending unrecognized tax benefit is as follows:

| (Dollars in Thousands)                                   | 2008     | 2007     |
|--|----------|----------|
| Balance at January 1,                                    | \$ 3,254 | \$ 2,021 |
| Additions Based on Tax Positions Related to Prior Years  |          | 252      |
| Decreases Based on Tax Positions Related to Prior Years  | (252)    |          |
| Addition Based on Tax Positions Related to Current Years | 914      | 918      |
| Balance at December 31, 2008                             | \$ 3,916 | \$ 3,254 |

It is the Company's policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income taxes accounts. The total amount of interest and penalties recorded in the income statement for the years ended December 31, 2008 and December 31, 2007 were \$281,000 and \$409,000, respectively. The amount accrued for interest and penalties at December 31, 2008 and December 31, 2007 were \$834,000 and \$553,000, respectively.

No significant increases or decreases in the amounts of unrecognized tax benefits are expected in the next 12 months.

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as file various returns in states where its banking offices are located. The Company is no longer subject to U.S. federal or state tax examinations for years before 2005.

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Note 11

STOCK-BASED COMPENSATION

The Company recognizes the cost of stock-based associate stock compensation in accordance with SFAS No. 123R, "Share-Based Payment" (Revised) under the fair value method.

As of December 31, 2008, the Company had three stock-based compensation plans, consisting of the 2005 Associate Incentive Plan ("AIP"), the 2005 Associate Stock Purchase Plan ("ASPP"), and the 2005 Director Stock Purchase Plan ("DSPP"). Total compensation expense associated with these plans for the years 2006 through 2008 was approximately \$1.2 million, \$0.2 million, and \$0.3 million, respectively. The Company, under the terms and conditions of the AIP, maintained a 2011 Incentive Plan ("2011 Plan") which was terminated in March 2008, and approximately \$577,000 in related expense accrued for this plan was reversed during the first quarter of 2008.

AIP. The Company's AIP allows the Company's Board of Directors to award key associates various forms of equity-based incentive compensation. Under the AIP, the Company adopted the Stock-Based Incentive Plan (the "2006 Incentive Plan"), effective January 1, 2006, which was a performance-based equity bonus plan for selected members of management, including all executive officers. Under the 2006 Incentive Plan, all participants were eligible to earn an equity award, in the form of performance shares, on an annual basis over a term of five years. Annual awards were tied to an internally established annual earnings target linked to the Company's 2011 strategic initiative.

The Company terminated the 2006 Incentive Plan in March 2008 in conjunction with the termination of the Company's 2011 strategic initiative. Due to the performance targets not being met, no expense was recognized in 2008 or 2007 for the 2006 Incentive Plan.

During the first quarter of 2008, under the terms and conditions of the AIP, the Company adopted a new Stock-Based Incentive Plan (the "2008 Incentive Plan"), substantially similar to the 2006 Incentive Plan. All participants in this plan are eligible to earn an equity award, in the form of restricted stock. The award for 2008 is tied to internally established performance goals. The grant-date fair value of the compensation award for 2008 is approximately \$561,000. In addition, each plan participant is eligible to receive from the Company a tax supplement bonus equal to 31% of the stock award value at the time of issuance. A total of 21,146 shares are eligible for issuance. Approximately \$0.2 million in expense was recognized in 2008 related to this plan.

A total of 875,000 shares of common stock have been reserved for issuance under the AIP. To date, the Company has issued a total of 60,892 shares of common stock under the AIP.

Executive Stock Option Agreement. For 2003 through 2006, under the provisions of the AIP (and its predecessor), the Company's Board of Directors approved stock option agreements for a key executive officer (William G. Smith, Jr. - Chairman, President and CEO, CCBG). These agreements granted a non-qualified stock option award upon achieving certain annual earnings per share conditions set by the Board, subject to certain vesting requirements. The options granted under the agreements have a term of 10 years and vested at a rate of one-third on each of the first, second, and third anniversaries of the date of grant. Under the 2004 and 2003 agreements, 37,246 and 23,138 options, respectively, were issued, none of which have been exercised. The fair value of a 2004 option was \$13.42, and the fair value of a 2003 option was \$11.64. The exercise prices for the 2004 and 2003 options are \$32.69 and \$32.96, respectively. Under the 2006 and 2005 agreements, the earnings per share conditions were not met; therefore, no options were granted and no expense was recognized related to these agreements. In accordance with the provisions of SFAS 123R and SFAS 123, the Company recognized expenses in 2005 through 2007 of approximately \$193,000, \$205,000, and \$125,000, respectively, related to the 2004 and 2003 agreements. In 2007, the Company replaced its

practice of entering into a stock option arrangement by establishing a Performance Share Unit Plan under the provisions of the AIP that allows the executive to earn shares based on the compound annual growth rate in diluted earnings per share over a three-year period. The details of this program for the executive are outlined in a Form 8-K filing dated January 31, 2007. No expense related to this plan was recognized for the year 2008 as results fell short of the earnings performance goal.

A summary of the status of the Company's option shares as of December 31, 2008 is presented below:

| Options                          | Shares | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|--------|------------------------------------|--|---------------------------------|
| Outstanding at January 1, 2008   | 60,384 | \$ 32.79                           | \$ 6.9   | \$ -                            |
| Granted                          | -      | -                                  | -  | -                               |
| Exercised                        | -      | -                                  | -  | -                               |
| Forfeited or expired             | -      | -                                  | -  | -                               |
| Outstanding at December 31, 2008 | 60,384 | \$ 32.79                           | \$ 5.9   | \$ -                            |
| Exercisable at December 31, 2008 | 60,384 | \$ 32.79                           | \$ 5.9   | \$ -                            |

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DSPP. The Company's DSPP allows the directors to purchase the Company's common stock at a price equal to 90% of the closing price on the date of purchase. Stock purchases under the DSPP are limited to the amount of the directors' annual retainer and meeting fees. The DSPP has 93,750 shares reserved for issuance. A total of 43,320 shares have been issued since the inception of the DSPP. For 2008, the Company issued 12,454 shares under the DSPP and recognized approximately \$30,000 in expense related to this plan. For 2007, the Company issued 12,128 shares and recognized approximately \$33,000 in expense related to the DSPP. For 2006, the Company issued 12,149 shares and recognized approximately \$37,000 in expense under the DSPP.

ASPP. Under the Company's ASPP, substantially all associates may purchase the Company's common stock through payroll deductions at a price equal to 90% of the lower of the fair market value at the beginning or end of each six-month offering period. Stock purchases under the ASPP are limited to 10% of an associate's eligible compensation, up to a maximum of \$25,000 (fair market value on each enrollment date) in any plan year. Shares are issued at the beginning of the quarter following each six-month offering period. The ASPP has 593,750 shares of common stock reserved for issuance. A total of 81,782 shares have been issued since inception of the ASPP. For 2008, the Company issued 21,970 shares under the ASPP and recognized approximately \$125,000 in expense related to this plan. For 2007, the Company issued 23,531 shares and recognized approximately \$102,000 in expense related to the ASPP. For 2006, the Company issued 19,435 shares and recognized approximately \$90,000 in expense under the ASPP.

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of each of the purchase rights granted under the ASPP was \$4.97 for 2008. For 2007 and 2006, the weighted average fair value purchase right granted was \$5.82 and \$5.65, respectively. In calculating compensation, the fair value of each stock purchase right was estimated on the date of grant using the following weighted average assumptions:

|                          | 2008  | 2007  | 2006  |
|--------------------------|-------|-------|-------|
| Dividend yield           | 3.0%  | 2.1%  | 1.9%  |
| Expected volatility      | 37.0% | 25.5% | 23.5% |
| Risk-free interest rate  | 2.6%  | 4.8%  | 4.5%  |
| Expected life (in years) | 0.5   | 0.5   | 0.5   |

## Note 12

## EMPLOYEE BENEFIT PLANS

## Pension Plan

The Company sponsors a noncontributory pension plan covering substantially all of its associates. Benefits under this plan generally are based on the associate's years of service and compensation during the year's immediately preceding retirement. The Company's general funding policy is to contribute amounts deductible for federal income tax purposes.

The following table details on a consolidated basis the components of pension expense, the funded status of the plan, amounts recognized in the Company's consolidated statements of financial condition, and major assumptions used to determine these amounts.

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| (Dollars in Thousands)  | 2008      | 2007      | 2006      |
|---|-----------|-----------|-----------|
| Change in Projected Benefit Obligation:                                   |           |           |           |
| Benefit Obligation at Beginning of Year                                   | \$ 70,118 | \$ 68,671 | \$ 64,131 |
| Service Cost  | 5,351     | 4,903     | 4,930     |
| Interest Cost   | 4,482     | 3,967     | 3,622     |
| Actuarial Loss/(Gain)   | 4,038     | (1,420)   | (1,421)   |
| Benefits Paid   | (6,483)   | (5,759)   | (3,267)   |
| Expenses Paid   | (165)     | (244)     | (149)     |
| Plan Change(1)  | 2,266     | -         | 825       |
| Projected Benefit Obligation at End of Year                               | \$ 79,607 | \$ 70,118 | \$ 68,671 |
| Accumulated Benefit Obligation at End of Year                             |           |           |           |
|   | \$ 56,368 | \$ 51,256 | \$ 49,335 |
| Change in Plan Assets:  |           |           |           |
| Fair Value of Plan Assets at Beginning of Year                            | \$ 75,653 | \$ 66,554 | \$ 52,277 |
| Actual (Loss)Return on Plan Assets  | (14,642)  | 3,602     | 6,342     |
| Employer Contributions  | 12,000    | 11,500    | 11,350    |
| Benefits Paid   | (6,483)   | (5,759)   | (3,267)   |
| Expenses Paid   | (165)     | (244)     | (149)     |
| Fair Value of Plan Assets at End of Year                                  | \$ 66,363 | \$ 75,653 | \$ 66,553 |
| Amounts Recognized in the Consolidated Statements of Financial Condition: |           |           |           |
| Other Assets  | \$ -      | \$ 5,535  | \$ -      |
| Other Liabilities   | 13,245    | -         | 2,117     |
| Amounts (Pre-Tax) Recognized in Accumulated Other Comprehensive Income:   |           |           |           |
| Net Actuarial Losses  | \$ 32,341 | \$ 8,622  | \$ 9,601  |
| Prior Service Cost  | 3,369     | 1,611     | 1,912     |
| Components of Net Periodic Benefit Costs:                                 |           |           |           |
| Service Cost  | \$ 5,351  | \$ 4,903  | \$ 4,930  |
| Interest Cost   | 4,482     | 3,967     | 3,622     |
| Expected Return on Plan Assets  | (5,921)   | (5,083)   | (4,046)   |
| Amortization of Prior Service Costs                                       | 509       | 301       | 215       |
| Recognized Net Actuarial Loss   | 882       | 1,039     | 1,598     |
| Net Periodic Benefit Cost   | \$ 5,303  | \$ 5,127  | \$ 6,319  |
| Assumptions:  |           |           |           |
| Weighted-average used to determine benefit obligations:                   |           |           |           |
| Discount Rate   | 6.00%     | 6.25%     | 6.00%     |
| Expected Return on Plan Assets  | 8.00%     | 8.00%     | 8.00%     |
| Rate of Compensation Increase   | 5.50%     | 5.50%     | 5.50%     |
| Measurement Date  | 12/31/08  | 12/31/07  | 12/31/06  |
| Weighted-average used to determine net cost:                              |           |           |           |
| Discount Rate   | 6.25%     | 6.00%     | 5.75%     |
| Expected Return on Plan Assets  | 8.00%     | 8.00%     | 8.00%     |

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|                               |       |       |       |
|-------------------------------|-------|-------|-------|
| Rate of Compensation Increase | 5.50% | 5.50% | 5.50% |
|-------------------------------|-------|-------|-------|

Assumptions:

Weighted-average used to determine benefit obligations:

|                                |          |   |          |   |          |   |
|--------------------------------|----------|---|----------|---|----------|---|
| Discount Rate                  | 6.00     | % | 6.25     | % | 6.00     | % |
| Expected Return on Plan Assets | 8.00     | % | 8.00     | % | 8.00     | % |
| Rate of Compensation Increase  | 5.50     | % | 5.50     | % | 5.50     | % |
| Measurement Date               | 12/31/08 |   | 12/31/07 |   | 12/31/06 |   |

Weighted-average used to determine net cost:

|                                |      |   |      |   |      |   |
|--------------------------------|------|---|------|---|------|---|
| Discount Rate                  | 6.25 | % | 6.00 | % | 5.75 | % |
| Expected Return on Plan Assets | 8.00 | % | 8.00 | % | 8.00 | % |
| Rate of Compensation Increase  | 5.50 | % | 5.50 | % | 5.50 | % |

(1) In 2008, plan was amended to include stock as plan compensation.

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Other Comprehensive Income. The estimated amounts (dollars in thousands) that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2008 are as follows:

|                    |          |
|--------------------|----------|
| Actuarial Loss     | \$ 2,971 |
| Prior Service Cost | 509      |
|                    | \$ 3,480 |

Return on Plan Assets. The overall expected long-term rate of return on assets is a weighted-average expectation for the return on plan assets. The Company considers historical performance and current benchmarks to arrive at expected long-term rates of return in each asset category. The Company assumed that 65% of its portfolio would be invested in equity securities, with the remainder invested in debt securities.

Plan Assets. The Company's pension plan asset allocation at year-end 2008 and 2007, and the target asset allocation for 2009 are as follows:

|                   | Target     | Percentage of Plan    |      |
|-------------------|------------|-----------------------|------|
|                   | Allocation | Assets at Year-End(1) |      |
|                   | 2009       | 2008                  | 2007 |
| Equity Securities | 65%        | 39%                   | 58%  |
| Debt Securities   | 30%        | 26%                   | 27%  |
| Cash Equivalent   | 5%         | 35%                   | 15%  |
| Total             | 100%       | 100%                  | 100% |

(1) Represents asset allocation at year-end which may differ from the average target allocation for the year due to the year-end cash contribution to the plan.

The Company's pension plan assets are overseen by the CCBG Retirement Committee. Capital City Trust Company acts as the investment manager for the plan. The investment strategy is to maximize return on investments while minimizing risk. The Company believes the best way to accomplish this goal is to take a conservative approach to its investment strategy by investing in high-grade equity and debt securities.

Expected Benefit Payments. As of December 31, 2008, expected benefit payments related to the Company's defined benefit pension plan were as follows:

|                   |               |
|-------------------|---------------|
| 2009              | \$ 3,684,807  |
| 2010              | 3,658,868     |
| 2011              | 4,555,218     |
| 2012              | 5,270,913     |
| 2013              | 5,767,479     |
| 2014 through 2018 | 42,243,894    |
| Total             | \$ 65,181,179 |

Contributions. The following table details the amounts contributed to the pension plan in 2008 and 2007, and the expected amount to be contributed in 2009.

| (Dollars in Thousands) | 2008 | 2007 | Expected Range of<br>Contribution<br>2009(1) |
|------------------------|------|------|--|
|------------------------|------|------|--|



|                      |           |           |                     |
|----------------------|-----------|-----------|---------------------|
| Actual Contributions | \$ 12,000 | \$ 11,500 | \$ 8,000 - \$15,000 |
|----------------------|-----------|-----------|---------------------|

(1) Estimate reflects the Company's best estimate given historical funding practice and the 2009 minimum (\$5.5 million) and maximum (\$45.0 million) allowable contribution.

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## Supplemental Executive Retirement Plan

The Company has a Supplemental Executive Retirement Plan ("SERP") covering selected executive officers. Benefits under this plan generally are based on the executive officer's years of service and compensation during the year's immediately preceding retirement.

The following table details the components of the SERP's periodic benefit cost, the funded status of the plan, amounts recognized in the Company's consolidated statements of financial condition, and major assumptions used to determine these amounts.

| (Dollars in Thousands)   | 2008     | 2007     | 2006     |
|--|----------|----------|----------|
| <b>Change in Projected Benefit Obligation:</b>                                   |          |          |          |
| Benefit Obligation at Beginning of Year  | \$ 3,706 | \$ 4,018 | \$ 3,878 |
| Service Cost   | 31       | 83       | 123      |
| Interest Cost  | 287      | 208      | 230      |
| Actuarial (Gain) Loss  | (180)    | (603)    | 62       |
| Plan Change(1)   | 1,190    | -        | (274)    |
| Projected Benefit Obligation at End of Year                                      | \$ 5,034 | \$ 3,706 | \$ 4,019 |
| Accumulated Benefit Obligation at End of Year                                    | \$ 2,899 | \$ 2,603 | \$ 2,252 |
| <b>Amounts Recognized in the Consolidated Statements of Financial Condition:</b> |          |          |          |
| Other Liabilities  | \$ 5,034 | \$ 3,706 | \$ 4,019 |
| <b>Amounts (Pre-Tax) Recognized in Accumulated Other Comprehensive Income:</b>   |          |          |          |
| Net Actuarial (Gain) Loss  | \$ (148) | \$ (3)   | \$ 608   |
| Prior Service Cost   | 1,055    | 44       | 52       |
| <b>Components of Net Periodic Benefit Costs:</b>                                 |          |          |          |
| Service Cost   | \$ 31    | \$ 83    | \$ 123   |
| Interest Cost  | 287      | 208      | 230      |
| Amortization of Prior Service Cost   | 180      | 7        | 61       |
| Recognized Net Actuarial (Gain) Loss   | (36)     | 8        | 100      |
| Net Periodic Benefit Cost  | \$ 462   | \$ 306   | \$ 514   |
| <b>Assumptions:</b>  |          |          |          |
| <b>Weighted-average used to determine the benefit obligations:</b>               |          |          |          |
| Discount Rate  | 6.00%    | 6.25%    | 6.00%    |
| Rate of Compensation Increase  | 5.50%    | 5.50%    | 5.50%    |
| Measurement Date   | 12/31/08 | 12/31/07 | 12/31/06 |
| <b>Weighted-average used to determine the net cost:</b>                          |          |          |          |
| Discount Rate  | 6.25%    | 6.00%    | 5.75%    |
| Rate of Compensation Increase  | 5.50%    | 5.50%    | 5.50%    |

(1) In 2008, plan was amended to include stock as plan compensation.



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Expected Benefit Payments. As of December 31, 2008, expected benefit payments related to the Company's SERP were as follows:

|                   |                     |
|-------------------|---------------------|
| 2009              | \$ 198,184          |
| 2010              | 265,194             |
| 2011              | 360,150             |
| 2012              | 457,858             |
| 2013              | 524,547             |
| 2014 through 2018 | 3,963,163           |
| <b>Total</b>      | <b>\$ 5,769,096</b> |

## 401(k) Plan

The Company has a 401(k) Plan which enables associates to defer a portion of their salary on a pre-tax basis. The plan covers substantially all associates of the Company who meet minimum age requirements. The plan is designed to enable participants to elect to have an amount from 1% to 15% of their compensation withheld in any plan year placed in the 401(k) Plan trust account. Matching contributions of 50% from the Company are made up to 6% of the participant's compensation for eligible associates. During 2008, 2007, and 2006, the Company made matching contributions of \$349,000, \$299,000 and \$273,000, respectively. The participant may choose to invest their contributions into sixteen investment funds available to 401(k) participants, including the Company's common stock. A total of 50,000 shares of CCBG common stock have been reserved for issuance. These shares have historically been purchased in the open market.

## Other Plans

The Company has a Dividend Reinvestment and Optional Stock Purchase Plan. A total of 250,000 shares have been reserved for issuance. In recent years, shares for the Dividend Reinvestment and Optional Stock Purchase Plan have been acquired in the open market and, thus, the Company did not issue any shares under this plan in 2008, 2007 and 2006.

## Note 13

## EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

| (Dollars in Thousands, Except Per Share Data)              | 2008      | 2007      | 2006      |
|--|-----------|-----------|-----------|
| <b>Numerator:</b>  |           |           |           |
| Net Income   | \$ 15,225 | \$ 29,683 | \$ 33,265 |
| <b>Denominator:</b>  |           |           |           |
| <b>Denominator for Basic Earnings Per Share</b>            |           |           |           |
| Weighted-Average Shares                                    | 17,141    | 17,909    | 18,585    |
| Effects of Dilutive Securities Stock Compensation Plans    | 5,460     | 2,191     | 25,320    |
| <b>Denominator for Diluted Earnings Per Share Adjusted</b> |           |           |           |
| Weighted-Average Shares and Assumed Conversions            | 17,147    | 17,912    | 18,610    |
| Basic Earnings Per Share                                   | \$ 0.89   | \$ 1.66   | \$ 1.79   |

|                            |    |      |    |      |    |      |
|----------------------------|----|------|----|------|----|------|
| Diluted Earnings per Share | \$ | 0.89 | \$ | 1.66 | \$ | 1.79 |
|----------------------------|----|------|----|------|----|------|

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CAPITAL

The Company is subject to various regulatory capital requirements which involve quantitative measures of the Company's assets, liabilities and certain off-balance sheet items. The Company's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require that the Company maintain amounts and ratios (set forth in the table below) of total and Tier I Capital to risk-weighted assets, and of Tier I Capital to average assets. As of December 31, 2008, the Company met all capital adequacy requirements to which it is subject.

A summary of actual, required, and capital levels necessary to be considered well-capitalized for Capital City Bank Group, Inc. consolidated and its banking subsidiary, Capital City Bank, as of December 31, 2008 and December 31, 2007 are as follows:

| (Dollars in Thousands)   | Actual     |        | Required<br>For Capital<br>Adequacy Purposes |       | To Be Well-<br>Capitalized<br>Under<br>Prompt<br>Corrective<br>Action<br>Provisions |        |
|--------------------------|------------|--------|--|-------|---|--------|
|                          | Amount     | Ratio  | Amount                                       | Ratio | Amount  | Ratio  |
| As of December 31, 2008: |            |        |  |       |   |        |
| Tier I Capital:          |            |        |  |       |   |        |
| CCBG                     | \$ 271,767 | 13.34% | \$ 81,948                                    | 4.00% | *   | *      |
| CCB                      | 269,812    | 13.27% | 81,762                                       | 4.00% | 122,643   | 6.00%  |
| Total Capital:           |            |        |  |       |   |        |
| CCBG                     | 299,263    | 14.69% | 163,895                                      | 8.00% | *   | *      |
| CCB                      | 295,362    | 14.53% | 163,524                                      | 8.00% | 204,405   | 10.00% |
| Tier I Leverage:         |            |        |  |       |   |        |
| CCBG                     | 271,767    | 11.51% | 81,948                                       | 4.00% | *   | *      |
| CCB                      | 269,812    | 11.45% | 81,762                                       | 4.00% | 102,202   | 5.00%  |
| As of December 31, 2007: |            |        |  |       |   |        |
| Tier I Capital:          |            |        |  |       |   |        |
| CCBG                     | \$ 261,172 | 13.05% | \$ 80,047                                    | 4.00% | *   | *      |
| CCB                      | 260,720    | 13.05% | 79,934                                       | 4.00% | 119,901   | 6.00%  |
| Total Capital:           |            |        |  |       |   |        |
| CCBG                     | 281,125    | 14.05% | 160,094                                      | 8.00% | *   | *      |
| CCB                      | 278,787    | 13.95% | 159,868                                      | 8.00% | 199,835   | 10.00% |
| Tier I Leverage:         |            |        |  |       |   |        |
| CCBG                     | 261,172    | 10.41% | 80,047                                       | 4.00% | *   | *      |
| CCB                      | 260,720    | 10.42% | 79,934                                       | 4.00% | 99,917  | 5.00%  |

\* Not applicable to bank holding companies.

Note 15  
DIVIDEND RESTRICTIONS

Substantially all the Company's retained earnings are undistributed earnings of its banking subsidiary which are restricted by various regulations administered by federal and state bank regulatory authorities.

The approval of the appropriate regulatory authority is required if the total of all dividends declared by a subsidiary bank in any calendar year exceeds the bank's net profits (as defined under Florida law) for that year combined with its retained net profits for the preceding two calendar years. Under these guidelines, the bank subsidiary may declare and pay dividends in an amount which approximates its net profits in 2009 up to the date of any such dividend declaration. Furthermore, the Bank has received authorization from the Office of Financial Regulation to declare and pay dividends up to a total of \$60 million during 2009 without further regulatory approval.

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## Note 16

## RELATED PARTY INFORMATION

Related Party Loans. At December 31, 2008 and 2007, certain officers and directors were indebted to the Company's bank subsidiary in the aggregate amount of \$20.7 million and \$9.1 million, respectively. During 2008, \$24.9 million in new loans were made and repayments totaled \$13.3 million. In the opinion of management, these loans were made on similar terms as loans to other individuals of comparable creditworthiness and were all current at year-end.

## Note 17

## SUPPLEMENTARY INFORMATION

Components of other noninterest income and noninterest expense in excess of 1% of the sum of total interest income and noninterest income, which are not disclosed separately elsewhere, are presented below for each of the respective years.

| (Dollars in Thousands)        | 2008     | 2007     | 2006     |
|-------------------------------|----------|----------|----------|
| Noninterest Income:           |          |          |          |
| Merchant Fee Income           | \$ 5,548 | \$ 7,257 | \$ 6,978 |
| Interchange Commission Fees   | 4,165    | 3,757    | 3,105    |
| ATM/Debit Card Fees           | 2,988    | 2,692    | 2,519    |
| Retail Brokerage Fees         | 2,399    | 2,510    | 2,091    |
| Noninterest Expense:          |          |          |          |
| Maintenance Agreements - FF&E | 3,506    | 3,684    | 3,483    |
| Legal Fees                    | 2,240    | 1,739    | 1,734    |
| Professional Fees             | 4,083    | 3,855    | 3,402    |
| Interchange Service Fees      | 4,577    | 6,118    | 6,010    |
| Telephone                     | 2,522    | 2,373    | 2,323    |
| Advertising                   | 3,609    | 3,742    | 4,285    |
| Commissions Fees              | 2,163    | 1,284    | 836      |
| Printing & Supplies           | 1,977(1) | 2,124(1) | 2,472    |

(1) <1% of appropriate threshold.



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## Note 18

## COMMITMENTS AND CONTINGENCIES

Lending Commitments. The Company is a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of its clients. These financial instruments consist of commitments to extend credit and standby letters of credit.

The Company's maximum exposure to credit loss under standby letters of credit and commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in establishing commitments and issuing letters of credit as it does for on-balance sheet instruments. As of December 31, 2008, the amounts associated with the Company's off-balance sheet obligations were as follows:

| (Dollars in Thousands)          | Amount     |
|---------------------------------|------------|
| Commitments to Extend Credit(1) | \$ 384,253 |
| Standby Letters of Credit       | \$ 18,946  |

(1) Commitments include unfunded loans, revolving lines of credit, and other unused commitments.

Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a client to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities. In general, management does not anticipate any material losses as a result of participating in these types of transactions. However, any potential losses arising from such transactions are reserved for in the same manner as management reserves for its other credit facilities.

For both on- and off-balance sheet financial instruments, the Company requires collateral to support such instruments when it is deemed necessary. The Company evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies, but may include deposits held in financial institutions; U.S. Treasury securities; other marketable securities; real estate; accounts receivable; property, plant and equipment; and inventory.

Other Commitments. In the normal course of business, the Company enters into lease commitments which are classified as operating leases. Rent expense incurred under these leases was approximately \$1.5 million in 2008, \$1.5 million in 2007, and \$1.5 million in 2006. Minimum lease payments under these leases due in each of the five years subsequent to December 31, 2008, are as follows (in millions): 2009, \$1.4; 2010, \$1.2; 2011, \$.5; 2012, \$.5; 2013, \$.5; thereafter, \$5.1.

Contingencies. The Company is a party to lawsuits and claims arising out of the normal course of business. In management's opinion, there are no known pending claims or litigation, the outcome of which would, individually or in the aggregate, have a material effect on the consolidated results of operations, financial position, or cash flows of the Company.

Indemnification Obligation. The Company is a member of the Visa U.S.A. network. Visa U.S.A believes that its member banks are required to indemnify Visa U.S.A. for potential future settlement of certain litigation (the "Covered

Litigation”). The Company recorded a charge in its fourth quarter 2007 financial statements of approximately \$1.9 million, or \$0.07 per diluted common share, to recognize its proportionate contingent liability related to the costs of the judgments and settlements from the Covered Litigation.

The Company reversed a portion of the Covered Litigation accrual in the amount of approximately \$1.1 million to account for the establishment of an escrow account by Visa Inc., the parent company of Visa U.S.A., in conjunction with Visa’s initial public offering during the first quarter of 2008. This escrow account was established to pay the costs of the judgments and settlements from the Covered Litigation. Approximately \$0.8 million remains accrued for the contingent liability related to remaining Covered Litigation.

In October 2008, Visa U.S.A. reached a settlement with Discover Financial Services related to a case within the Covered Litigation and as a result, the Company estimated that the settlement incrementally added \$0.4 million to the fair value of its guarantee liability. Following the Discover settlement, Visa U.S.A. funded an additional \$1.1 billion to the escrow account during December which in effect reduced the exchange ratio for the Company’s Class B shares of Visa U.S.A. While the Company could be required to separately fund its proportionate share of any Covered Litigation losses, it is expected that the escrow account will be used to pay all or a substantial amount of the losses.

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Note 19

FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements," for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position No. 157-2, "Effective Date of FASB Statement No. 157," the Company will delay application of SFAS 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact, and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation

methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value effective January 1, 2008.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Securities Available for Sale.** Securities classified as available for sale are reported at fair value on a recurring basis utilizing Level 1, 2, or 3 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service or a model that uses, as inputs, observable market based parameters. The fair value measurements consider observable data that may include quoted prices in active markets, or other inputs, including dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, and credit information and the bond's terms and conditions.

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The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

| (Dollars in Thousands)        | Level 1<br>Inputs | Level 2<br>Inputs | Level 3<br>Inputs | Total Fair<br>Value |
|-------------------------------|-------------------|-------------------|-------------------|---------------------|
| Securities Available for Sale | \$ 32,370\$       | 146,210\$         | 1,107\$           | 179,687             |

The change in the fair value of Level 3 securities from January 1, 2008 to December 31, 2008 primarily relates to the change in the unrealized gain for one security and was not material to the Company's financial statements.

Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and financial liabilities measured at fair value on a non-recurring basis were not significant at December 31, 2008.

**Impaired Loans.** On a non-recurring basis, certain impaired loans are reported at the fair value of the underlying collateral if repayment is expected solely from the liquidation of collateral. Collateral values are estimated using Level 3 inputs based on customized discounting criteria. Impaired loans had a carrying value of \$106.4 million, with a valuation allowance of \$15.9 million, resulting in an additional provision for loan losses of \$11.2 million for the year ended December 31, 2008.

**Loans Held for Sale.** Loans held for sale of \$3.2 million, which are carried at the lower of cost or fair value, are adjusted to fair value on a non-recurring basis. Fair value is based on observable markets rates for comparable loan products which is considered a level 2 fair value measurement.

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115." SFAS 159 permits the Company to choose to measure eligible items at fair value at specified election dates. Changes in fair value on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) is applied instrument by instrument, with certain exceptions, thus the Company may record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principals, (ii) is irrevocable (unless a new election date occurs), and (iii) is applied only to entire instruments and not to portions of instruments. Adoption of SFAS 159 on January 1, 2008 did not have a significant impact on the Company's financial statements because the Company did not elect fair value measurement under SFAS 159.

**Other Financial Instruments.** Many of the Company's assets and liabilities are short-term financial instruments whose carrying values approximate fair value. These items include Cash and Due From Banks, Interest Bearing Deposits with Other Banks, Federal Funds Sold, Federal Funds Purchased, Securities Sold Under Repurchase Agreements, and Short-Term Borrowings. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. The resulting fair values may be significantly affected by the assumptions used, including the discount rates and estimates of future cash flows.

The methods and assumptions used to estimate the fair value of the Company's other financial instruments are as follows:

Loans - The loan portfolio is segregated into categories and the fair value of each loan category is calculated using present value techniques based upon projected cash flows and estimated discount rates. The calculated present values are then reduced by an allocation of the allowance for loan losses against each respective loan category.

Deposits - The fair value of Noninterest Bearing Deposits, NOW Accounts, Money Market Accounts and Savings Accounts are the amounts payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using present value techniques and rates currently offered for deposits of similar remaining maturities.

Subordinated Notes Payable - The fair value of each note is calculated using present value techniques, based upon projected cash flows and estimated discount rates as well as rates being offered for similar obligations.

Long-Term Borrowings - The fair value of each note is calculated using present value techniques, based upon projected cash flows and estimated discount rates as well as rates being offered for similar debt.

Commitments to Extend Credit and Standby Letters of Credit - The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the present creditworthiness of the counterparties. The fair value of these fees is not material.

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The Company's financial instruments that have estimated fair values are presented below:

| (Dollars in Thousands)             | At December 31,     |                     |                     |                     |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                    | 2008                | Estimated           | 2007                | Estimated           |
|                                    | Carrying            | Fair                | Carrying            | Fair                |
|                                    | Value               | Value               | Value               | Value               |
| <b>Financial Assets:</b>           |                     |                     |                     |                     |
| Cash                               | \$ 88,143           | \$ 88,143           | \$ 93,437           | \$ 93,437           |
| Short-Term Investments             | 6,806               | 6,806               | 166,260             | 166,260             |
| Investment Securities              | 191,569             | 191,569             | 190,719             | 190,719             |
| Loans, Net of Allowance for Loan   |                     |                     |                     |                     |
| Losses                             | 1,920,793           | 1,915,887           | 1,897,784           | 1,982,661           |
| <b>Total Financial Assets</b>      | <b>\$ 2,207,311</b> | <b>\$ 2,202,405</b> | <b>\$ 2,348,200</b> | <b>\$ 2,433,077</b> |
| <b>Financial Liabilities:</b>      |                     |                     |                     |                     |
| Deposits                           | \$ 1,992,174        | \$ 1,960,361        | \$ 2,142,344        | \$ 2,089,550        |
| Short-Term Borrowings              | 62,044              | 61,799              | 53,131              | 53,022              |
| Subordinated Notes Payable         | 62,887              | 63,637              | 62,887              | 63,371              |
| Long-Term Borrowings               | 51,470              | 57,457              | 26,731              | 28,284              |
| <b>Total Financial Liabilities</b> | <b>\$ 2,168,575</b> | <b>\$ 2,143,254</b> | <b>\$ 2,285,093</b> | <b>\$ 2,234,227</b> |

All non-financial instruments are excluded from the above table. The disclosures also do not include certain intangible assets such as client relationships, deposit base intangibles and goodwill. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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Note 20

## PARENT COMPANY FINANCIAL INFORMATION

The operating results of the parent company for the three years ended December 31, are shown below:

## Parent Company Statements of Income

| (Dollars in Thousands)   | 2008      | 2007      | 2006      |
|--|-----------|-----------|-----------|
| <b>OPERATING INCOME</b>  |           |           |           |
| Income Received from Subsidiary Bank:  |           |           |           |
| Dividends  | \$ 16,655 | \$ 49,207 | \$ 20,166 |
| Overhead Fees  | 3,209     | 3,532     | 3,524     |
| Other Income   | 184       | 164       | 112       |
| Total Operating Income   | 20,048    | 52,903    | 23,802    |
| <b>OPERATING EXPENSE</b>   |           |           |           |
| Salaries and Associate Benefits  | 1,341     | 1,812     | 2,360     |
| Interest on Long-Term Debt   | 35        | -         | -         |
| Interest on Subordinated Notes Payable   | 3,735     | 3,730     | 3,725     |
| Professional Fees  | 978       | 787       | 741       |
| Advertising  | 244       | 260       | 403       |
| Legal Fees   | 213       | 375       | 604       |
| Other  | 620       | 621       | 649       |
| Total Operating Expense  | 7,166     | 7,585     | 8,482     |
| Income Before Income Taxes and Equity in Undistributed Earnings of Subsidiary Bank | 12,882    | 45,318    | 15,320    |
| Income Tax Benefit   | (737)     | (1,429)   | (1,835)   |
| Income Before Equity in Undistributed Earnings of Subsidiary Bank                  | 13,619    | 46,747    | 17,155    |
| Equity in Undistributed Earnings of Subsidiary Bank                                | 1,606     | (17,064)  | 16,110    |
| Net Income   | \$ 15,225 | \$ 29,683 | \$ 33,265 |

The following are condensed statements of financial condition of the parent company at December 31:

## Parent Company Statements of Financial Condition

| (Dollars in Thousands, Except Per Share Data) | 2008       | 2007       |
|---|------------|------------|
| <b>ASSETS</b>                                 |            |            |
| Cash and Due From Subsidiary Bank             | \$ 950     | \$ 958     |
| Investment in Subsidiary Bank                 | 343,603    | 357,093    |
| Other Assets                                  | 2,689      | 2,826      |
| Total Assets                                  | \$ 347,242 | \$ 360,877 |
| <b>LIABILITIES</b>                            |            |            |
| Subordinated Notes Payable                    | \$ 62,887  | \$ 62,887  |
| Other Liabilities                             | 5,525      | 5,315      |
| Total Liabilities                             | \$ 68,412  | \$ 68,202  |
| <b>SHAREOWNERS' EQUITY</b>                    |            |            |



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|   |            |            |
|---|------------|------------|
| Preferred Stock, \$.01 par value, 3,000,000 shares authorized; no shares issued and outstanding   | -          | -          |
| Common Stock, \$.01 par value; 90,000,000 shares authorized; 17,126,997 and 17,182,553 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively | 171        | 172        |
| Additional Paid-In Capital  | 36,783     | 38,243     |
| Retained Earnings   | 262,890    | 260,325    |
| Accumulated Other Comprehensive Loss, Net of Tax  | (21,014)   | (6,065)    |
| Total Shareowners' Equity   | 278,830    | 292,675    |
| Total Liabilities and Shareowners' Equity   | \$ 347,242 | \$ 360,877 |

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The cash flows for the parent company for the three years ended December 31, were as follows:

## Parent Company Statements of Cash Flows

| (Dollars in Thousands)  | 2008      | 2007      | 2006      |
|---|-----------|-----------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |           |           |           |
| Net Income  | \$ 15,225 | \$ 29,683 | \$ 33,265 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: |           |           |           |
| Equity in Undistributed Earnings of Subsidiary Bank                               | (1,606)   | 17,064    | (16,110)  |
| Non-Cash Compensation   | 62        | 238       | 1,673     |
| Increase in Other Assets  | 254       | (152)     | (670)     |
| Increase in Other Liabilities   | 210       | 222       | 1,976     |
| Net Cash Provided by Operating Activities   | 14,145    | 47,055    | 20,134    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |           |           |           |
| Cash Paid for Investment in:  |           |           |           |
| Purchase of held-to-maturity and available-for-sale securities                    | -         | (1,000)   | -         |
| Increase in Investment in Bank Subsidiary   | -         | 1,466     | -         |
| Net Cash Used in Investing Activities   | -         | 466       | -         |
| <b>CASH FROM FINANCING ACTIVITIES:</b>  |           |           |           |
| Payment of Dividends  | (12,630)  | (12,823)  | (12,322)  |
| Repurchase of Common Stock  | (2,414)   | (43,233)  | (5,360)   |
| Issuance of Common Stock  | 891       | 572       | 1,035     |
| Net Cash (Used in) Provided by Financing Activities                               | (14,153)  | (55,484)  | (16,647)  |
| Net Increase (Decrease) in Cash   | (8)       | (7,963)   | 3,487     |
| Cash at Beginning of Period   | 958       | 8,921     | 5,434     |
| Cash at End of Period   | \$ 950    | \$ 958    | \$ 8,921  |

## Note 21

## COMPREHENSIVE INCOME

SFAS No. 130, "Reporting Comprehensive Income," requires that certain transactions and other economic events that bypass the income statement be displayed as other comprehensive income (loss). Total comprehensive income is reported in the accompanying statements of changes in shareowners' equity. Information related to net comprehensive income (loss) is as follows:

| (Dollars in Thousands)  | 2008        | 2007     | 2006   |
|---|-------------|----------|--------|
| <b>Other Comprehensive Income (Loss):</b>   |             |          |        |
| Securities available for sale:  |             |          |        |
| Change in net unrealized gain, net of tax expense of \$683, \$616, and \$202  | \$ 1,230    | \$ 1,080 | \$ 412 |
| Retirement plans:   |             |          |        |
| Change in funded status of defined benefit pension plan and SERP, net of tax benefit of \$10,613 and tax expense of \$830 | (16,179)    | 1,166    | -      |
| Net Other Comprehensive (Loss) Gain   | \$ (14,949) | \$ 2,246 | \$ 412 |

The components of accumulated other comprehensive income, net of tax, as of year-end were as follows:

|  |    |          |    |         |    |         |
|--|----|----------|----|---------|----|---------|
| Net unrealized gain (loss) on securities available for sale      | \$ | 1,476    | \$ | 246     | \$ | (834)   |
| Net unfunded liability for defined benefit pension plan and SERP |    | (22,490) |    | (6,311) |    | (7,477) |
|  | \$ | (21,014) | \$ | (6,065) | \$ | (8,311) |

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As of December 31, 2008, the end of the period covered by this Annual Report on Form 10-K, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of December 31, 2008, the end of the period covered by this Annual Report on Form 10-K, we maintained effective disclosure controls and procedures.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation under the framework in Internal Control - Integrated Framework, our management has concluded we maintained effective internal control over financial reporting, as such term is defined in Securities Exchange Act of 1934 Rule 13a-15(f), as of December 31, 2008.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management is also responsible for the preparation and fair presentation of the consolidated financial statements and other financial information contained in this report. The accompanying consolidated financial statements were prepared in conformity with U.S. generally accepted accounting principles and include, as necessary, best estimates and judgments by management.

Ernst & Young, LLP, an independent registered public accounting firm, has audited our consolidated financial statements as of and for the year ended December 31, 2008, and opined as to the effectiveness of internal control over financial reporting as of December 31, 2008, as stated in its attestation report, which is included herein on page 94.

Change in Internal Control. Our management, including the Chief Executive Officer and Chief Financial Officer, has reviewed our internal control. There have been no significant changes in our internal control during our most recently completed fiscal quarter, nor subsequent to the date of their evaluation, that could significantly affect our internal control over financial reporting.

Item 9B. Other Information

None.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of  
Capital City Bank Group, Inc.

We have audited Capital City Bank Group, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Capital City Bank Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report on the Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Capital City Bank Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated statements of condition of Capital City Bank Group, Inc. and subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareowners' equity, and cash flows for the years then ended of Capital City Bank Group, Inc. and our report dated March 12, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Birmingham, Alabama

March 12, 2009

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## Part III

## Item 10. Directors, Executive Officers, and Corporate Governance

Incorporated herein by reference to the subsection entitled “Codes of Conduct and Ethics” under the section entitled “Corporate Governance,” “Nominees for Election as Directors,” “Continuing Directors and Executive Officers,” “Share Ownership” and the subsection entitled “Committees of the Board” under the section “Board and Committee Membership” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 21, 2009.

## Item 11. Executive Compensation

Incorporated herein by reference to the sections entitled “Executive Compensation” and “Director Compensation” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 21, 2009.

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

## Equity Compensation Plan Information

Our 2005 Associate Incentive Plan, 2005 Associate Stock Purchase Plan, and 2005 Director Stock Purchase Plan were approved by our shareowners. The following table provides certain information regarding our equity compensation plans.

| Plan Category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights<br>(a) | Weighted-average exercise price of outstanding options, warrants and rights<br>(b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))<br>(c) |
|--|--|--|--|
| Equity Compensation Plans Approved by Securities Holders     | 60,384(1)  | \$32.79  | 1,376,506(2)   |
| Equity Compensation Plans Not Approved by Securities Holders |  |  |  |
| Total  | 60,384   | \$32.79  | 1,376,506  |

(1) Includes 60,384 shares that may be issued upon exercise of outstanding options under the terminated 1996 Associate Incentive Plan.

(2) Consists of 814,108 shares available for issuance under our 2005 Associate Incentive Plan, 511,968 shares available for issuance under our 2005 Associate Stock Purchase Plan, and 50,430 shares available for issuance under our 2005 Director Stock Purchase Plan. Of these plans, the only plan under which options may be granted in the future is our 2005 Associate Incentive Plan.



For additional information about our equity compensation plans, see Stock Based Compensation in Note 11 in the Notes to the Consolidated Financial Statements.

The other information required by Item 12 is incorporated herein by reference to the section entitled “Share Ownership” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 21, 2009.

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

Incorporated herein by reference to the subsections entitled “Related Person Transaction Policy” and “Transactions With Related Persons” under the section entitled “Executive Officers and Transactions with Related Persons” and the subsection entitled “Independent Directors” under the section entitled “Corporate Governance” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 21, 2009.

Item 14. Principal Accountant Fees and Services

Incorporated herein by reference to the section entitled “Audit Fees and Related Matters” in the Registrant’s Proxy Statement relating to its Annual Meeting of Shareowners to be held April 21, 2009.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report

1. Financial Statements

Reports of Independent Registered Public Accounting Firms

Consolidated Statements of Income for Fiscal Years 2008, 2007, and 2006

Consolidated Statements of Financial Condition at the end of Fiscal Years 2008 and 2007

Consolidated Statements of Changes in Shareowners' Equity for Fiscal Years 2008, 2007, and 2006

Consolidated Statements of Cash Flows for Fiscal Years 2008, 2007, and 2006

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Other schedules and exhibits are omitted because the required information either is not applicable or is shown in the financial statements or the notes thereto.

3. Exhibits Required to be Filed by Item 601 of Regulation S-K

Reg. S-K

Exhibit

Table

Item No.

Description of Exhibit

3.1 Amended and Restated Articles of Incorporation - incorporated herein by reference to Exhibit 3 of the Registrant's 1996 Proxy Statement (filed 4/11/96) (No. 0-13358).

3.2 Amended and Restated Bylaws - incorporated herein by reference to Exhibit 3.2 of the Registrant's Form 8-K (filed 11/30/07) (No. 0-13358).

4.1 See Exhibits 3.1, and 3.2 for provisions of Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, which define the rights of its shareholders.

4.2 Capital City Bank Group, Inc. 2005 Director Stock Purchase Plan - incorporated herein by reference to Exhibit 4.3 of the Registrant's Form S-8 (filed 11/5/04) (No. 333-120242).

4.3 Capital City Bank Group, Inc. 2005 Associate Stock Purchase Plan - incorporated herein by reference to Exhibit 4.4 of the Registrant's Form S-8 (filed 11/5/04) (No. 333-120242).

4.4 Capital City Bank Group, Inc. 2005 Associate Incentive Plan - incorporated herein by reference to Exhibit 4.5 of the Registrant's Form S-8 (filed 11/5/04) (No. 333-120242).

4.5 In accordance with Regulation S-K, Item 601(b)(4)(iii)(A) certain instruments defining the rights of holders of long-term debt of Capital City Bank Group, Inc. not exceeding 10% of the total assets of Capital City Bank Group, Inc. and its consolidated subsidiaries have been omitted; the Registrant agrees to furnish a copy of any

such instruments to the Commission upon request.

- 10.1 Capital City Bank Group, Inc. 1996 Dividend Reinvestment and Optional Stock Purchase Plan - incorporated herein by reference to Exhibit 10 of the Registrant's Form S-3 (filed 01/30/97) (No. 333-20683).
- 10.2 Capital City Bank Group, Inc. Supplemental Executive Retirement Plan - incorporated herein by reference to Exhibit 10(d) of the Registrant's Form 10-K (filed 3/27/03) (No. 0-13358).
- 10.3 Capital City Bank Group, Inc. 401(k) Profit Sharing Plan – incorporated herein by reference to Exhibit 4.3 of Registrant's Form S-8 (filed 09/30/97) (No. 333-36693).
- 10.4 2005 Stock Option Agreement by and between Capital City Bank Group, Inc. and William G. Smith, Jr., dated March 24, 2005 – incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 8-K (filed 3/31/05) (No. 0-13358).
- 10.5 2006 Stock Option Agreement by and between Capital City Bank Group, Inc. and William G. Smith, Jr., dated March 23, 2006 – incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 8-K (filed 3/29/06) (No. 0-13358).
- 10.6 Capital City Bank Group, Inc. Non-Employee Director Plan, as amended – incorporated herein by reference to Exhibit 10.2 of the Registrant's Form 8-K (filed 3/29/06) (No. 0-13358).
- 10.7 Form of Participant Agreement for the Capital City Bank Group, Inc. Long-Term Incentive Plan – incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 10-Q (filed 8/10/06) (No. 0-13358).
- 10.8 Form of Participant Agreement for 2008 Stock-Based Incentive Plan – incorporated herein by reference to Exhibit 10.1 of the Registrant's Form 8-K (filed 6/5/08) (No. 0-13358).

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Statement re Computation of Per Share Earnings.\*

- 14 Capital City Bank Group, Inc. Code of Ethics for the Chief Financial Officer and Senior Financial Officers - incorporated herein by reference to Exhibit 14 of the Registrant's Form 8-K (filed 3/11/05) (No. 0-13358).

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- 21 Capital City Bank Group, Inc. Subsidiaries, as of December 31, 2008.\*\*
- 23.1 Consent of Independent Registered Public Accounting Firm.\*\*
- 23.2 Consent of Independent Registered Public Accounting Firm.\*\*

31.1 Certification of CEO pursuant to Securities and Exchange Act Section 302 of the Sarbanes-Oxley Act of 2002.\*\*

31.2 Certification of CFO pursuant to Securities and Exchange Act Section 302 of the Sarbanes-Oxley Act of 2002.\*\*

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

\* Information required to be presented in Exhibit 11 is provided in Note 13 to the consolidated financial statements under Part II, Item 8 of this Form 10-K in accordance with the provisions of FASB Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share.

\*\* Filed electronically herewith.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 13, 2009, on its behalf by the undersigned, thereunto duly authorized.

CAPITAL CITY BANK GROUP, INC.

/s/ William G. Smith, Jr.  
William G. Smith, Jr.  
Chairman, President and Chief  
Executive Officer  
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 13, 2009 by the following persons in the capacities indicated.

/s/ William G. Smith, Jr.  
William G. Smith, Jr.  
Chairman, President and Chief  
Executive Officer  
(Principal Executive Officer)

/s/ J. Kimbrough Davis  
J. Kimbrough Davis  
Executive Vice President and Chief  
Financial Officer  
(Principal Financial and Accounting  
Officer)

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 13, 2009, on its behalf by the undersigned, thereunto duly authorized.

Directors:

/s/ DuBose Ausley  
DuBose Ausley

/s/ John K. Humphress  
John K. Humphress

/s/ Thomas A. Barron  
Thomas A. Barron

/s/ L. McGrath Keen, Jr.  
L. McGrath Keen, Jr.

/s/ Frederick Carroll, III  
Frederick Carroll, III

/s/ Lina S. Knox  
Lina S. Knox

/s/ Cader B. Cox, III  
Cader B. Cox, III

/s/ Henry Lewis III  
Henry Lewis III

/s/ J. Everitt Drew  
J. Everitt Drew

/s/ William G. Smith, Jr.  
William G. Smith, Jr.