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

217 North Monroe Street, Tallahassee, Florida (Address of principal executive offices)	32301 (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 incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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 [X] 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 [X]

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 simila 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 inclu 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).

- 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
Florida			
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%
Georgia			
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%
Alabama			
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
Florida		
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
Georgia		
Bibb	12	57
Burke	5	10
Grady	5	8
Laurens	10	20
Troup	12	27
Alabama		
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.

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." T 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. 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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Item 1A 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, relativity 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.

	Period Ending					
Index	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

(Dollars in Thousands, Except Per Share Data)(1) (3)	For the Years Ended December 31, 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

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.

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

	For the Years Ended December 31,		
(Dollars in Thousands, Except Per Share Data)	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 Basis - Dollars in Thousands)	2008 Balance	2008 Interest	2008 Rate	2007 Balance	2007 Interest	2007 Rate	2006 Balance	2006 Interest	2006 Rate
ASSETS									
Loans, Net of Unearned 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 Securities	93,149	3,889	5.04	103,840	4,949	4.76	112,392	4,851	4.31
Tax-Exempt Investment 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 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 Banks	82,410			86,692			100,237		
Allowance for Loan Losses	(23,015)			(17,535)			(17,486)		
Other Assets	267,861			254,532			240,050		
TOTAL ASSETS	$ 2,567,905			$ 2,507,217			$ 2,581,078		
LIABILITIES									
NOW Accounts	$ 743,327	$ 7,454	1.00%	$ $557,060	$ 10,748	1.93%	$ 518,671	$ 7,658	1.48%
Money Market 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 Deposits	424,748	14,489	3.41	474,728	19,993	4.21	507,283	17,630	3.48
Total Interest 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 Borrowings	61,181	1,157	1.88	66,397	2,871	4.31	78,700	3,074	3.89
Subordinated Notes Payable	62,887	3,735	5.84	62,887	3,730	5.93	62,887	3,725	5.92
Other Long-Term Borrowings	39,735	1,802	4.54	37,936	1,794	4.73	57,260	2,705	4.72
Total Interest 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 Deposits	407,299			441,765			504,687		
Other Liabilities	37,147			42,934			29,964		
TOTAL LIABILITIES	2,267,015			2,200,600			2,263,742		

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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Table 3
RATE/VOLUME ANALYSIS (1)

(Taxable Equivalent Basis - Dollars in Thousands)	2008 Changes From 2007 Total	Calendar(3)	Due to Average Volume	Rate	2007 Changes From 2006 Total	Due to Average Volume	Rate
Earnings Assets:							
Loans, Net of Unearned Interest (2)	$ (21,978)	$ 426	$ (2,012)	$ (20,392)	$ (1,792)	$ (7,465)	$ 5,673
Investment Securities:							
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)
Total	(22,395)	459	1,617	(24,471)	38	(6,441)	6,479
Interest Bearing Liabilities:							
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
Total	19,082	145	591	(19,818)	6,325	(1,080)	7,405
Changes in Net Interest Income	$ (3,313)	$ 314	$ 1,026	$ (4,653)	$ (6,287)	$ (5,361)	$ (926)

(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.

	For the Years Ended December 31,		
(Dollars in Thousands)	2008	2007	2006
Noninterest Income:			
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
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.

	For the Years Ended December 31,		
(Dollars in Thousands)	2008	2007	2006
Noninterest Expense:			
Salaries	$ 50,581	$ 49,206	$ 46,604
Associate Benefits	11,250	11,073	14,251
Total Compensation	61,831	60,279	60,855
Premises	9,729	9,347	9,395
Equipment	9,902	9,890	9,911
Total Occupancy	19,631	19,237	19,306
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
Total Other	40,010	42,476	41,407
Total Noninterest Expense	$ 121,472	$ 121,992	$ 121,568

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.

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 Thousands)	2007 to 2008 Change	Percentage Of Total Change	Components of Average Earning Assets 2008	2007	2006
Loans:					
Commercial, Financial, and 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%
Investment Securities:					
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

	As of December 31,				
(Dollars in Thousands)	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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Table 6
LOAN MATURITIES

	Maturity Periods			
(Dollars in Thousands)	One Year or Less	Over One Through Five Years	Over Five Years	Total
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
Total	$ 509,932	$ 420,610	$ 1,027,255	$ 1,957,797
Loans with Fixed Rates	$ 347,099	$ 268,030	$ 35,218	$ 650,347
Loans with Floating or Adjustable Rates	162,833	152,580	992,037	1,307,450
Total	$ 509,932	$ 420,610	$ 1,027,255	$ 1,957,797

(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

	For the Years Ended December 31,				
(Dollars in Thousands)	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)
Charge-Offs:					
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
Total Charge-Offs	15,975	7,217	3,983	4,243	5,058
Recoveries:					
Commercial, Financial and Agricultural	331	174	246	180	81

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

(Dollars in Thousands)	2008 Allowance Amount	2008 Percent of Loans in Each Category To Total Loans	2007 Allowance Amount	2007 Percent of Loans in Each Category To Total Loans	2006 Allowance Amount	2006 Percent of Loans in Each Category To Total Loans	2005 Allowance Amount	2005 Percent of Loans in Each Category To Total Loans	2004 Allowance Amount	2004 Percent of Loans in Each Category To Total Loans
Commercial, Financial and 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	-
Total	$ 37,004	100.0%	$ 18,066	100.0%	$ 17,217	100.0%	$ 17,410	100.0%	$ 16,037	100.0%

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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Table 9
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		