CAPITAL CITY BANK GROUP INC
Form 10-K
March 04, 2010

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, 2009
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

(Exact name of Registrant as specified in its charter)

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

| | |
|---|---|
| 217 North Monroe Street, Tallahassee, Florida | 32301 |
| (Address of principal executive offices) | (Zip Code) |

(850) 671-0300
(Registrant’s telephone number, including area code)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] 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, 2009, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $141,409,946 (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 26, 2010 |
|---|---|
| Common Stock, $0.01 par value per share | 17,056,303 shares |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the Annual Meeting of Shareowners to be held on April 20, 2010, are incorporated by reference in Part III.

CAPITAL CITY BANK GROUP, INC.
ANNUAL REPORT FOR 2009 ON FORM 10-K

TABLE OF CONTENTS

INTRODUCTORY NOTE

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

- legislative or regulatory changes;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision;
- the effects of the health and soundness of other financial institutions, including the FDIC’s need to increase Deposit Insurance Fund assessments;
- our ability to declare and pay dividends;
- 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;
- 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;
- 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.

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 ("Gramm-Leach-Bliley Act"). CCBG was incorporated under Florida law on December 13, 1982, to acquire five national banks and one state bank that all subsequently became part of CCBG's bank subsidiary, Capital City Bank ("CCB" or the "Bank"). In this report, the terms "Company", "we", "us", or "our" mean CCBG and all subsidiaries included i 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 70 full-service banking locations in Florida, Georgia, and Alabama. CCB operates these banking locations.

At December 31, 2009, we had total consolidated assets of approximately $2.708 billion, total deposits of approximately $2.258 billion and shareowners' equity was approximately $268 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, 2009, and approximately 100% of consolidated net income for the year ended December 31, 2009. 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 wholly-owned subsidiaries of CCBG, CCBG Capital Trust I and CCBG Capital Trust II.

Dividends and management fees received from the Bank are our primary 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 1,006 (full-time equivalent) associates at February 26, 2010. Page 27 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.

### Regulatory Matter

In late February 2010, the Board of Directors of the Bank and the Board of Directors of CCBG agreed to approve certain board resolutions requested by the Federal Reserve (the "Federal Reserve Resolutions"). From a regulatory perspective, this is an informal, nonpublic agreement; however, in the interest of full disclosure, we are summarizing the main obligations of the Federal Reserve Resolutions. The Federal Reserve Resolutions require the Bank and CCBG to take actions to address areas of concern and to provide periodic reports to the Federal Reserve. For the Bank, these actions include, among other things, requiring the Bank to receive approval from the Federal Reserve prior to declaring or paying dividends and requiring the preparation of a written capital plan that demonstrates the Bank's ability to remain "well capitalized". Without the prior approval of the Federal Reserve, CCBG agreed to not (i) incur any new debt or refinance existing debt; (ii) declare any dividends on any class of stock or make any payments on its trust preferred securities; (iii) reduce its capital position by redeeming shares of stock; or (iv) make any payment that would reduce capital outside of normal and routine operating expenses.

We have received approval from the Federal Reserve to pay a $0.19 per share dividend in March 2010.

Going forward, we may be unable to obtain the required approvals discussed above. If we are unable to obtain these approvals, then the Federal Reserve Resolutions may have a significant effect on our future operations, as well as our ability to continue paying dividends and repurchase stock. As of December 31, 2009, without the need to draw additional dividends from the Bank, we believe CCBG has sufficient cash to fund shareowner dividends in 2010 should the Board choose to declare and pay a quarterly dividend during the year and we receive the required approval from the Federal Reserve.

In addition to the above, we may elect to withdraw our election to be designated as a financial holding company. At this time, because we are not engaged in any of the activities permitted by this designation, we do not expect there to be a material impact on our operations if we choose to withdraw that election.

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 residential mortgage (ARM) loans. As of December 31, 2009, approximately 13.2% of the Bank's loan portfolio consisted of residential ARM loans. A portion of our loans originated are sold into the secondary market. The Bank offers these products through its existing network of banking offices. We do not originate subprime residential real estate loans.

§ 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, PC/Internet banking, and mobile banking. Clients can use 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 in North Florida and South Georgia. As of February 26, 2010, 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 $706.8 million as of December 31, 2009, with total assets under administration exceeding $784.9 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 2009, we opened one replacement office in Gainesville, Florida.  In 2009, we implemented a branding program for our retail banking offices - we expect to open two replacement offices in Macon, Georgia and Palatka, Florida, and a new office for Capital City Trust Company in Tallahassee, Florida during 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 model has resulted in a more tactical focus on organic growth within certain higher growth metro markets, including Macon, Tallahassee, Gainesville, and Hernando/Pasco counties.  Acquisitions will be focused on Florida, Georgia, and Alabama with particular focus on acquiring banks and banking offices that 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.  Subject to regulatory approval, we will continue to seek expansion opportunities which meet our financial and strategic objectives.

Competition

We operate in a highly competitive environment, especially with respect to services and pricing. In addition, the banking business is experiencing enormous changes.  In 2009, 140 financial institutions failed in the U.S., including 25 in Georgia and 14 in Florida, nearly all of which were community banks.  The assets and deposits of many of these failed community banks were acquired mostly by large financial institutions, and we expect significant consolidation to continue during 2010.  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 $844.8 million, or 37.4%, of our consolidated deposits at December 31, 2009.

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) | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Florida | | | |
| Alachua County | 3.9% | 4.6% | 4.7% |
| Bradford County | 51.3% | 50.1% | 47.6% |
| Citrus County | 2.7% | 3.1% | 3.0% |
| Clay County | 1.7% | 1.9% | 2.0% |
| Dixie County | 23.4% | 23.4% | 22.9% |
| Gadsden County | 55.1% | 55.7% | 61.0% |
| Gilchrist County | 39.5% | 37.8% | 33.6% |
| Gulf County | 7.7% | 9.1% | 11.7% |
| Hernando County | 1.6% | 1.2% | 1.2% |
| Jefferson County | 18.3% | 21.9% | 22.8% |
| Leon County | 15.9% | 17.6% | 16.2% |
| Levy County | 27.9% | 31.7% | 33.0% |
| Madison County | 10.1% | 12.1% | 13.1% |
| Pasco County | 0.2% | 0.2% | 0.2% |

| | | | |
|---|---|---|---|
| Putnam County | 14.0% | 19.7% | 11.1% |
| St. Johns County | 0.8% | 1.1% | 1.2% |
| Suwannee County | 6.6% | 7.2% | 7.7% |
| Taylor County | 30.7% | 31.1% | 30.1% |
| Wakulla County | 3.8% | 5.5% | 2.6% |
| Washington County | 14.2% | 17.0% | 13.8% |
| Georgia | | | |
| Bibb County | 2.6% | 2.1% | 2.5% |
| Burke County | 7.7% | 7.4% | 7.8% |
| Grady County | 16.2% | 16.7% | 18.7% |
| Laurens County | 12.7% | 16.2% | 19.2% |
| Troup County | 5.9% | 5.6% | 6.2% |
| Alabama | | | |
| Chambers County | 6.6% | 7.3% | 6.5% |

(1) Obtained from the June 30, 2009 FDIC/OTS Summary of Deposits Report.

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 | 15 | 66 |
| Bradford | 3 | 3 |
| Citrus | 14 | 49 |
| Clay | 15 | 31 |
| Dixie | 4 | 4 |
| Gadsden | 4 | 6 |
| Gilchrist | 3 | 6 |
| Gulf | 6 | 9 |
| Hernando | 13 | 43 |
| Jefferson | 2 | 2 |
| Leon | 20 | 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 | 6 | 5 |
| Georgia | | |
| Bibb | 12 | 57 |
| Burke | 5 | 10 |
| Grady | 5 | 8 |
| Laurens | 10 | 20 |
| Troup | 11 | 27 |
| Alabama | | |
| Chambers | 5 | 10 |

Data obtained from the June 30, 2009 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 fourth quarter and decline with spending thereafter.

## 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.

### Regulatory Reform

On June 17, 2009, the U.S. Treasury Department released a white paper entitled "Financial Regulatory Reform—A New Foundation: Rebuilding Financial Regulation and Supervision," which outlined the Obama administration's plan to make extensive and wide ranging reforms to the U.S. financial regulatory system.  The plan contains proposals to, among other things, (i) create a new financial regulatory agency called the Consumer Financial Protection Agency, (ii) enhance supervision and regulation of securitization markets, (iii) dispose of the interstate branching framework of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act") by giving national and state-chartered banks the unrestricted ability to branch across state lines, (iv) establish strengthened capital and prudential standards for banks and bank holding companies, (v) increase supervision and regulation of large financial firms, and (vi) create an Office of National Insurance within the U.S. Treasury Department.

On December 10, 2009, the U.S. House of Representatives approved "The Wall Street Reform and Consumer Protection Act," which included some of the U.S. Treasury Department's proposed reforms.  The House bill provides for, among other things, (i) the creation of the Consumer Financial Protection Agency, (ii) reforming mortgage lending and predatory lending practices, (iii) increased supervision and regulation of large financial firms, (iv) the creation of a federal insurance office, and (v) executive compensation reform.

We are unsure of what regulatory reforms, if any, will be adopted.  Thus, this "Regulatory Considerations" section discusses what we believe to be the most significant laws we currently face without regard to the impact of these significant, but not yet adopted, reforms.

### 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 bank 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 modernized the U.S. banking system 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. Our common stock is registered under Section 12 of the Exchange Act.

The Federal Reserve Board maintains a policy statement on minority equity investments in banks and bank holding companies, that permits investors to (1) acquire up to 33 percent of the total equity of a target bank or bank holding company, subject to certain conditions, including (but not limited to) that the investing firm does not acquire 15 percent or more of any class of voting securities, and (2) designate at least one director, without triggering the various regulatory requirements associated with control.

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.

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 (other than traditional banking products) offered by the holding company or its affiliates.

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, including the need to seek prior approval from the Federal Reserve in accordance with the Federal Reserve Resolutions, we are generally 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.

In accordance with state and federal regulations, the ability of the Bank to pay dividends is subject to prior approval by the Florida Office of Financial Regulation and the Federal Reserve Bank, and is further governed by the recently issued Federal Reserve Resolutions, which require us to receive approval from the Federal Reserve prior to paying a dividend.  Subject to compliance with federal and state securities laws, and without the need to seek regulatory approval, CCBG may raise capital for contributions to the Bank by issuing securities.

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 bank 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 bank 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.

Reserves. The Federal Reserve requires all depository institutions to maintain reserves against certain categories of transaction 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. In accordance with the recently issued Federal Reserve Resolutions, the Bank must receive approval from the Federal Reserve before declaring or paying any dividends. These regulations and restrictions may severely 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.

In addition, Florida law places 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 and Federal Reserve, 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.

The Bank's aggregate net profits for the past two years is significantly less than the dividends declared and paid to CCBG over that same period. As a result, the Bank must seek approval from its regulators to issue and declare any further dividends to CCBG.  The Bank may not receive the required approvals.  Without such approvals, we would not have sufficient cash to continue to pay dividends on shares of our common stock or our trust preferred securities after December 31, 2010.  Even if we have sufficient cash to pay the dividend, we must seek prior Federal Reserve approval before paying any dividends.

Insurance of Accounts and Other Assessments. We pay our deposit insurance assessments to the Deposit Insurance Fund, which is determined through a risk-based assessment system.

Our deposit accounts are currently insured by the Deposit Insurance Fund generally up to a maximum of $100,000 per separately insured depositor, except for certain retirement plan accounts, which are insured up to $250,000; however, the Emergency Economic Stabilization Act of 2008, temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor.  The basic deposit insurance limit will return to $100,000 after December 31, 2013.

In addition, on November 26, 2008, the FDIC issued a final rule under its Transaction Account Guarantee Program ("TAGP"), pursuant to which the FDIC fully guarantees 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, under TAGP, all money in these accounts is fully insured by the FDIC regardless of dollar amount. This second increase to coverage was originally in effect through December 31, 2009, but was extended until June 30, 2010, unless we elected to "opt out" of participating in the expanded coverage, which we did not do. The cost to us for participating in this expanded deposit insurance coverage program is a 15 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.

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. Total base assessment rates currently range from 0.07% of deposits for an institution in the highest sub-category of the highest category to 0.775% of deposits for an institution in the lowest category. On May 22, 2009, the FDIC imposed a special assessment of five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital, as of June 30, 2009. This special assessment was collected on September 30, 2009, and resulted in an additional charge to us of $1.2 million. Finally, on November 12, 2009, the FDIC adopted a new rule requiring insured institutions to prepay on December 30, 2009, estimated quarterly risk-based assessments for the 4th quarter of 2009 and for all of 2010, 2011, and 2012. We prepaid an assessment of $11.5 million, which incorporated a uniform 3 basis point increase effective January 1, 2011.

In addition, all FDIC insured institutions are required to pay assessments to the FDIC at an annual rate of approximately one basis point 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.

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 bank 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 bank holding company. An unsatisfactory record can substantially delay or block the transaction. The Bank 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 bank 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 bank 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 bank 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 bank 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 bank holding companies to maintain a minimum level of Tier I Capital to total assets less goodwill of 4% (the "leverage ratio"). The Federal Reserve permits a bank to maintain a minimum 3% leverage ratio if the bank achieves a 1 rating under the CAMELS rating system in its most recent examination, as long as the bank is not experiencing or anticipating significant growth. The CAMELS rating is a non-public system used by bank regulators to rate the strength and weaknesses of financial institutions. The CAMELS rating is comprised of six categories: capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk.

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

Federal law and regulations establish a capital-based regulatory scheme designed to promote early intervention for troubled banks and require the FDIC to choose the least expensive resolution of bank failures. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” To qualify as a “well-capitalized” institution, a bank must have a leverage ratio of no less than 5%, a Tier I Capital 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 bank 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. Bank 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 banking 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 to be classified as “well capitalized” and are unaware of any material violation or alleged violation of these regulations, policies or directives. Rapid growth, poor loan portfolio performance, or poor earnings performance, or a combination of these factors, could change our capital position in a relatively short period of time, making additional capital infusions necessary.

Interstate Banking and Branching. The Bank Holding Company Act was amended by 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.

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.

Anti-money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (“USA PATRIOT Act”), provides the federal government with additional powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act (“BSA”), the USA PATRIOT Act puts in place measures intended to encourage information sharing among bank regulatory and law enforcement agencies. In addition, certain provisions of the USA PATRIOT Act impose affirmative obligations on a broad range of financial institutions.

Among other requirements, the USA PATRIOT Act and the related Federal Reserve regulations require banks to establish anti-money laundering programs that include, at a minimum:

- § internal policies, procedures and controls designed to implement and maintain the savings association's compliance with all of the requirements of the USA PATRIOT Act, the BSA and related laws and regulations;
- § systems and procedures for monitoring and reporting of suspicious transactions and activities;
- § a designated compliance officer;
- § employee training;
- § an independent audit function to test the anti-money laundering program;
- § procedures to verify the identity of each customer upon the opening of accounts; and
- § heightened due diligence policies, procedures and controls applicable to certain foreign accounts and relationships.

Additionally, the USA PATRIOT Act requires each financial institution to develop a customer identification program ("CIP") as part of our anti-money laundering program. The key components of the CIP are identification, verification, government list comparison, notice and record retention. The purpose of the CIP is to enable the financial institution to determine the true identity and anticipated account activity of each customer. To make this determination, among other things, the financial institution must collect certain information from customers at the time they enter into the customer relationship with the financial institution. This information must be verified within a reasonable time through documentary and non-documentary methods. Furthermore, all customers must be screened against any CIP-related government lists of known or suspected terrorists. We and our affiliates have adopted policies, procedures and controls to comply with the BSA and the USA PATRIOT Act, and we engage in very few transactions of any kind with foreign financial institutions or foreign persons.

Federal Home Loan Bank System. The Bank is a member of the FHLB of Atlanta, which is one of 12 regional Federal Home Loan Banks. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from funds deposited by member institutions and proceeds from the sale of consolidated obligations of the FHLB system. It makes loans to members (i.e. advances) in accordance with policies and procedures established by the board of trustees of the FHLB.

As a member of the FHLB of Atlanta, the Bank is required to own capital stock in the FHLB in an amount at least equal to 0.18% (or 18 basis points) of the Bank's total assets at the end of each calendar year, plus 4.5% of its outstanding advances (borrowings) from the FHLB of Atlanta under the activity-based stock ownership requirement. On December 31, 2009, the Bank was in compliance with this requirement.

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.

Overdraft Fee Regulation. Effective July 1, 2010, a new federal banking rule under the Electronic Fund Transfer Act will prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machines ("ATM") and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those type of transactions. If a consumer does not opt in, any ATM transaction or debit that overdraws the consumer's account will be denied. Overdrafts on the payment of checks and regular electronic bill payments are not covered by this new rule. Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. Financial institutions must provide consumers who do not opt in with the same account terms, conditions and features (including pricing) that they provide to consumers who do opt in. Management is currently studying the impact of the new rules on our business because overdraft fees are a significant source of revenue for us.

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 Credit Card Accountability, Responsibility, and Disclosure Act (CARD), the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair and Accurate Transaction Act, the Mortgage Disclosure Improvement 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.

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.

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.

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.

Item 1A. Risk Factors

An investment in our common stock contains a high degree of risk. 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

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

The Emergency Economic Stabilization Act of 2008, or EESA, was enacted on October 3, 2008. Under EESA, the U.S. Treasury has the authority to, among other things, invest in financial institutions and purchase up to $700 billion of troubled assets and mortgages from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. Under the U.S. Treasury's Capital Purchase Program, or CPP, it committed to purchase up to $250 billion of preferred stock and warrants in eligible institutions. The EESA also temporarily increased FDIC deposit insurance coverage to $250,000 per depositor through December 31, 2009, which was recently extended to December 31, 2013 under the Helping Families Save Their Homes Act of 2009.

On February 10, 2009, the U.S. Treasury announced the Financial Stability Plan which, among other things, provides a forward-looking supervisory capital assessment program that is mandatory for banking institutions with over $100 billion of assets and makes capital available to financial institutions qualifying under a process and criteria similar to the CPP. In addition, the American Recovery and Reinvestment Act of 2009, or ARRA, was signed into law on February 17, 2009, and includes, among other things, extensive new restrictions on the compensation and governance arrangements of financial institutions.

Numerous actions have been taken by the U.S. Congress, the Federal Reserve, the U.S. Treasury, the FDIC, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime mortgage crisis that commenced in 2007, including the Financial Stability Program adopted by the U.S. Treasury. In addition, the Secretary of the Treasury proposed fundamental changes to the regulation of financial institutions, markets and products on June 17, 2009. On December 10, 2009, the U.S. House of Representatives approved "The Wall Street Reform and Consumer Protection Act," which included some of the U.S. Treasury Department's proposed reforms.

We cannot predict the actual effects of EESA, the ARRA, the proposed regulatory reform measures and various governmental, regulatory, monetary and fiscal initiatives which have been and may be enacted on the economy, the financial markets, on us. The terms and costs of these activities, or the failure of these actions to help stabilize the financial markets, asset prices, market liquidity and a continuation or worsening of current financial market and economic conditions, could materially and adversely affect our business, financial condition, results of operations, and the trading price of our common stock.

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 consumer confidence, increased market volatility and widespread reduction in general business activity.

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 beyond EESA, ARRA, and other recent proposed or enacted regulations, such as the new overdraft regulations, as a result of these downward trends.

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 customers and the other financial institutions in our market. As a result, we may experience increases in foreclosures, delinquencies, and customer bankruptcies, as well as more restricted access to funds. Additional regulation may also reduce our revenue, increase our costs, and reduce our net income.

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.

As of December 31, 2009, the Bank’s allowance for loan losses was $44.0 million, which represented approximately 2.30% of its total amount of loans. The Bank had $86.3 million in non-accruing loans as of December 31, 2009. The allowance may not prove sufficient to cover future loan losses. Although management uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to the Bank’s non-performing or performing loans. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require us to recognize additional losses based on their judgments about information available to them at the time of their examination. Accordingly, the allowance for loan losses may not be adequate to cover loan losses or significant increases to the allowance may be required in the future if economic conditions should worsen. Material additions to the Bank’s allowance for loan losses would adversely impact our net income and capital.

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. Our compliance with these industry regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits, access to capital and brokered deposits and locations of banking offices. In addition, please see “Item 1. Business–About Us–Regulatory Matter” for a discussion regarding the Federal Reserve Resolutions. If we are unable to meet these regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

The Bank must also meet regulatory capital requirements imposed by our regulators. An inability to meet these capital requirements would result in numerous mandatory supervisory actions and additional regulatory restrictions, and could have a negative impact on our financial condition, liquidity and results of operations.

In addition to the regulations of 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 Agency and the Federal Home Loan Bank.

Regulation by all of 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.

We may be required to pay significantly higher FDIC deposit insurance premiums and assessments in the future.

Recent insured depository institution failures, as well as deterioration in banking and economic conditions, have significantly increased the loss provisions of the FDIC, resulting in a decline in the designated reserve ratio of the Deposit Insurance Fund to historical lows. The FDIC expects a higher rate of insured depository institution failures in the next few years compared to recent years; thus, the reserve ratio may continue to decline. In addition, the deposit insurance limit on FDIC deposit insurance coverage generally has increased to $250,000 through December 31, 2013, which may result in even larger losses to the Deposit Insurance Fund. These developments have caused an increase to our assessments, and the FDIC may be required to make additional increases to the assessment rates and levy additional special assessments on us. Higher assessments increase our non-interest expense.

In 2009, our assessment rates, which also include our assessment for participating in the FDIC's Transaction Account Guarantee Program, increased from 10.00 basis points to 15.00 basis points. Additionally, on May 22, 2009, the FDIC announced a final rule imposing a special 5 basis point emergency assessment as of June 30, 2009, payable September 30, 2009, based on assets minus Tier 1 Capital at June 30, 2009, but the amount of the assessment was capped at 10.00 basis points of domestic deposits. Finally, on November 12, 2009, the FDIC adopted a new rule requiring insured institutions to prepay on December 30, 2009, estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011, and 2012. We prepaid an assessment of $11.5 million, which incorporated a uniform 3.00 basis point increase effective January 1, 2011.

These higher FDIC assessment rates and special assessments have had and will continue to have an adverse impact on our results of operations. Our FDIC insurance related cost was $4.6 million for the year ended December 31, 2009 compared to $0.8 million for the year ended December 31, 2008. We are unable to predict the impact in future periods, including whether and when additional special assessments will occur.

Higher insurance premiums and assessments increase our costs and may 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 have incurred net losses for 2009 and may incur further losses.

We incurred a net loss of $3.5 million for the year ended December 31, 2009. We may incur further losses, especially in light of economic conditions that continue to adversely affect our borrowers and us.

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, 2009, approximately 37.4% and 34.6% of our $1.916 billion loan portfolio was secured by commercial real estate and residential real estate, respectively. As of this same date, approximately 5.8% 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.

Our loan portfolio incudes loans with a higher risk of loss.

We originate commercial real estate loans, commercial loans, construction loans, vacant land loans, consumer loans, and residential mortgage loans primarily within our market area. Commercial real estate, commercial, construction, vacant land, and consumer loans may expose a lender to greater credit risk than loans secured by single-family residential real estate because the collateral securing these loans may not be sold as easily as single-family residential real estate. In addition, these loan types tend to involve larger loan balances to a single borrower or groups of related borrowers and are more susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had greater credit risk than other loans for the following reasons:

§ Commercial Real Estate Loans. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. These loans also involve greater risk because they are generally not fully amortizing over a loan period, but rather have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or timely sell the underlying property.

§ Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business.

§ Construction Loans. The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral.

§ Vacant Land Loans. Because vacant or unimproved land is generally held by the borrower for investment purposes or future use, payments on loans secured by vacant or unimproved land will typically rank lower in priority to the borrower than a loan the borrower may have on their primary residence or business. These loans are susceptible to adverse conditions in the real estate market and local economy.

§ Consumer Loans. Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

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

At December 31, 2009, our non-performing loans (which consist of non-accrual loans) totaled $107.9 million, or 5.6% of the total loan portfolio, which is an increase of $99.9 million over non-performing loans at December 31, 2006. At December 31, 2009, our nonperforming assets (which include foreclosed real estate) were $144.1 million, or 5.3% of total assets. In addition, the Bank had approximately $36.5 million in accruing loans that were 30-89 days delinquent as of December 31, 2009. 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. In addition, 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. In addition, the resolution of non-performing assets requires the active involvement of management, which can distract them from more profitable activity.

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, including the sustained trading price of our common stock at below book value, 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. Please see Note 5 in the Notes to Consolidated Financial Statements for additional discussion. As of December 31, 2009, we had $84.8 million in goodwill, which represented approximately 3.1% of our total assets.

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 maintain required minimum capital ratios, make strategic acquisitions or investments, or for future growth. Such financing may not be available to us on acceptable terms or at all. Prior to issuing new or refinancing existing debt, we must request approval from the Federal Reserve.

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.

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

Our profitability depends to a large extent 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 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, thereby limiting the incremental income generated by those loans in any one year. 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, 2009, approximately 77.3% 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, 2009, substantially all of our loans secured by real estate are secured by commercial and residential properties located in Northern Florida and Middle and Southern 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 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. CCBG's ability to borrow requires prior approval from the Federal Reserve.

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 the Bank in an effort to ensure that the amount that they have on deposit at the Bank is fully insured. Decreases in deposits may adversely affect our funding costs and net income.

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 slowdown 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. Additionally, if property values continue to decline, this could lead to additional valuation adjustments on our loan portfolios.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty, lending, or other relationships. As a result, defaults by, or even rumors or questions about, one or more financial institutions, or the financial services industry generally, could lead to market-wide liquidity problems, losses of depositor, creditor or counterparty confidence and could result in losses or defaults by us or by other institutions. We could experience increases in assets as a result of other banks' difficulties or failure, which would increase the level of capital required to support the incremental growth.

The market value of our investments could decline.

Our investment securities portfolio as of December 31, 2009 has been designated as available-for-sale pursuant to U.S. generally accepted accounting principles relating to accounting for investments. Such principles require 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/loss. At December 31, 2009, 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 fair value of our investment portfolio may decline, causing a corresponding decline in shareowners' equity.

Management believes that several factors will affect the fair 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.

Florida financial institutions, such as the Bank, face a higher risk of noncompliance and enforcement actions 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 compliance with the rules enforced by the Office of Foreign Assets Control ("OFAC"). Since 2004, federal banking regulators and examiners have been extremely aggressive in their supervision and examination of financial institutions located in the State of Florida with respect to the institution's Bank Secrecy Act/Anti-Money Laundering compliance. Consequently, numerous formal enforcement actions have been issued against financial institutions.

In order to comply with regulations, guidelines and examination procedures in this area, the Bank has been required to adopt new policies and procedures and to install new systems. If the Bank's policies, procedures and systems are deemed deficient or the policies, procedures and systems of the financial institutions that it has already acquired or may acquire in the future are deficient, the Bank would be subject to liability, including fines and regulatory actions such as restrictions on its ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of its business plan, including its acquisition plans. In addition, because the Bank operates in Florida, we expect that the Bank will face a higher risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

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.

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.

Risks Related to an Investment in Our Common Stock

Our ability to declare and pay dividends is subject to our regulators' approval and restrictions under the terms of the trust preferred securities.

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 quarterly, semi-annually, or annually declare and pay dividends to CCBG 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 and Federal Reserve, declare a dividend from retained net profits which accrued prior to the preceding two years.

The Bank's aggregate net profits for the past two years is significantly less than the dividends declared and paid to CCBG over that same period. In addition, pursuant to the Federal Reserve Resolutions, the Bank must request approval from the Federal Reserve prior to paying any dividends to us. The Bank may not receive the required approvals. Without such approvals, we would not have sufficient cash to continue to pay dividends on shares of our common stock after December 31, 2010. Even if we have sufficient cash to pay the dividend, we must seek prior Federal Reserve approval before paying any dividends.

Dividends paid by the Bank to CCBG also provide cash flow used to service the interest payments on our trust preferred securities. Under the Federal Reserve Resolutions, the Bank must receive approval from the Federal Reserve prior to paying dividends to CCBG, and CCBG must receive approval from the Federal Reserve prior to making distributions (interest payments) on our trust preferred securities. Under the terms of the trust preferred securities notes, we may elect to defer interest payments on the notes for up to five years; however, during such deferment (or if we default) we would be restricted from declaring or paying dividends on our shares of common stock.

Thus, holders of our common stock should understand that future dividends could be reduced or eliminated. In addition, if we suspend or curtail our dividends, the price of our shares of common stock may decline.

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, 2009 was approximately 46,881 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 42.7% of the outstanding shares of our stock as of February 26, 2010. 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.

Securities analysts may not initiate coverage or continue to cover our common stock, and this may have a negative impact on its market price.

The trading market for our common stock will depend in part on the research and reports that securities analysts publish about our business and our Company. We do not have any control over these securities analysts and they may not initiate coverage or continue to cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect its market price. If we are covered by securities analysts, and our common stock is the subject of an unfavorable report, our stock price would likely decline. If one or more of these analysts ceases to cover our Company or fails to publish regular reports on us, we could lose visibility in the financial markets, which may cause our stock price or trading volume to decline.

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 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 bank 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.

Your 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.

Item 1B. Unresolved Staff Comments

None.

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, 2010, the Bank had 70 banking locations. Of the 70 locations, the Bank leases the land, buildings, or both at 11 locations and owns the land and buildings at the remaining 59.

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. Reserved

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 1,778 shareowners of record as of February 26, 2010.

| | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Common stock price: | | | | | | | | |
| High | $ 14.34 | $ 17.10 | $ 17.35 | $ 27.31 | $ 33.32 | $ 34.50 | $ 30.19 | $ 29.99 |
| Low | 11.00 | 13.92 | 11.01 | 9.50 | 21.06 | 19.20 | 21.76 | 24.76 |
| Close | 13.84 | 14.20 | 16.85 | 11.46 | 27.24 | 31.35 | 21.76 | 29.00 |
| Cash dividends declared per share | .1900 | .1900 | .1900 | .1900 | .1900 | .1850 | .1850 | .1850 |

Future payment of dividends will be subject to determination and declaration by our Board of Directors. Florida law limits the amount of dividends that the Bank can pay annually to us. In addition, the Bank must seek approval from our regulators prior to paying any dividends to us. If these approvals are not received, our ability to pay dividends to our shareowners is severely limited. Furthermore, in accordance with the Federal Reserve Resolutions, we must seek regulatory approval from the Federal Reserve before paying any dividends to our shareowners. See subsection entitled "Capital; Dividends; Sources of Strength" and “Dividends” in the Business section on pages 9 and 10, respectively, and the section entitled “Liquidity and Capital Resources – Dividends” -- in Management's Discussion and Analysis of Financial Condition and Operating Results on page 49 and Note 15 in the Notes to Consolidated Financial Statements.

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, 2004 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 | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 |
| Capital City Bank Group, Inc. | $ 100.00 | $ 104.36 | $ 109.58 | $ 89.68 | $ 89.10 | $ 48.04 |
| NASDAQ Composite | 100.00 | 101.37 | 111.03 | 121.92 | 72.49 | 104.31 |
| SNL $1B-$5B Bank Index | 100.00 | 98.29 | 113.74 | 82.85 | 64.72 | 49.26 |

Item 6. Selected Financial Data

| (Dollars in Thousands, Except Per Share Data)(1) (3) | For the Years Ended December 31, 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Interest Income | $ 122,776 | $ 142,866 | $ 165,323 | $ 165,893 | $ 140,053 |
| Net Interest Income | 105,934 | 108,866 | 112,241 | 119,136 | 109,990 |
| Provision for Loan Losses | 40,017 | 32,496 | 6,163 | 1,959 | 2,507 |
| Net (Loss) Income | (3,471) | 15,225 | 29,683 | 33,265 | 30,281 |
| | | | | | |
| Per Common Share: | | | | | |
| Basic Net (Loss) Income | $ (0.20) | $ 0.89 | $ 1.66 | $ 1.79 | $ 1.66 |
| Diluted Net (Loss) Income | (0.20) | 0.89 | 1.66 | 1.79 | 1.66 |
| Cash Dividends Declared | .760 | .745 | .710 | .663 | .619 |
| Book Value | 15.72 | 16.27 | 17.03 | 17.01 | 16.39 |
| | | | | | |
| Key Performance Ratios: | | | | | |
| Return on Average Assets | (0.14)% | 0.59% | 1.18% | 1.29% | 1.22% |
| Return on Average Equity | (1.26) | 5.06 | 9.68 | 10.48 | 10.56 |
| Net Interest Margin (FTE) | 4.96 | 4.96 | 5.25 | 5.35 | 5.09 |
| Dividend Pay-Out Ratio | NM | 83.71 | 42.77 | 37.01 | 37.35 |
| Equity to Assets Ratio | 9.89 | 11.20 | 11.19 | 12.15 | 11.65 |
| | | | | | |
| Asset Quality: | | | | | |
| Allowance for Loan Losses | $ 43,999 | $ 37,004 | $ 18,066 | $ 17,217 | $ 17,410 |
| Allowance for Loan Losses to Loans | 2.30% | 1.89% | 0.95% | 0.86% | 0.84% |
| Nonperforming Assets | 144,052 | 107,842 | 28,163 | 8,731 | 5,550 |
| Nonperforming Assets to Loans + ORE | 7.38 | 5.48 | 1.47 | 0.44 | 0.27 |
| Allowance to Nonperforming Loans | 40.77 | 37.52 | 71.92 | 214.09 | 331.11 |
| Net Charge-Offs to Average Loans | 1.66 | 0.71 | 0.27 | 0.11 | 0.13 |
| | | | | | |
| Averages for the Year: | | | | | |
| Loans, Net | $ 1,961,990 | $ 1,918,417 | $ 1,934,850 | $ 2,029,397 | $ 1,968,289 |
| Earning Assets | 2,184,232 | 2,240,649 | 2,183,528 | 2,258,277 | 2,187,672 |
| Total Assets | 2,516,815 | 2,567,905 | 2,507,217 | 2,581,078 | 2,486,733 |
| Deposits | 1,992,429 | 2,066,065 | 1,990,446 | 2,034,931 | 1,954,888 |
| Subordinated Notes | 62,887 | 62,887 | 62,887 | 62,887 | 50,717 |
| Long-Term Borrowings | 51,973 | 39,735 | 37,936 | 57,260 | 70,216 |
| Shareowners' Equity | 275,545 | 300,890 | 306,617 | 317,336 | 286,712 |
| | | | | | |
| Year-End Balances: | | | | | |
| Loans, Net | $ 1,915,940 | $ 1,957,797 | $ 1,915,850 | $ 1,999,721 | $ 2,067,494 |
| Earning Assets | 2,369,029 | 2,156,172 | 2,272,829 | 2,270,410 | 2,299,677 |
| Total Assets | 2,708,324 | 2,488,699 | 2,616,327 | 2,597,910 | 2,625,462 |
| Deposits | 2,258,234 | 1,992,174 | 2,142,344 | 2,081,654 | 2,079,346 |
| Subordinated Notes | 62,887 | 62,887 | 62,887 | 62,887 | 62,887 |

| | | | | | |
|---|---|---|---|---|---|
| Long-Term Borrowings | 49,380 | 51,470 | 26,731 | 43,083 | 69,630 |
| Shareowners' Equity | 267,899 | 278,830 | 292,675 | 315,770 | 305,776 |
| | | | | | |
| Other Data: | | | | | |
| Basic Average Shares Outstanding | 17,043,964 | 17,141,454 | 17,909,396 | 18,584,519 | 18,263,855 |
| Diluted Average Shares Outstanding | 17,044,711 | 17,146,914 | 17,911,587 | 18,609,839 | 18,281,243 |
| Shareowners of Record(2) | 1,778 | 1,756 | 1,750 | 1,805 | 1,716 |
| Banking Locations(2) | 70 | 68 | 70 | 69 | 69 |
| Full-Time Equivalent Associates(2) | 1,006 | 1,042 | 1,097 | 1,056 | 1,013 |

(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 record date. The record date is on or about March 1st of the following year.
(3) The consolidated financial statements reflect the acquisition of First Alachua Banking Corporation on May 20, 2005.
NM= Not meaningful

## 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," “Fourth Quarter, 2009 Financial Results,” 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 2009 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, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Efficiency ratio | 79.77% | 68.09% | 70.13% |
| Effect of intangible amortization and merger expenses | (2.44)% | (3.19)% | (3.36)% |
| Operating efficiency ratio | 77.33% | 64.91% | 66.77% |

Reconciliation of operating net noninterest expense ratio:

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Net noninterest expense as a percent of average assets | 2.97% | 2.12% | 2.50% |
| Effect of intangible amortization and merger expenses | (0.16)% | (0.22)% | (0.23)% |
| Operating net noninterest expense as a percent of average assets | 2.81% | 1.90% | 2.27% |

28

## 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 70 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 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, Hernando and Pasco counties in Florida, the western panhandle of 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. Our ability to expand, however, may be restricted by the Federal Reserve Resolutions (See Item 1. Business-About Us-Regulatory Matter).

Much of our lending operations is in the State of Florida, which has been particularly hard hit in the current U.S. economic recession. Evidence of the economic downturn in Florida is reflected in current unemployment statistics. According to the U.S. Department of Labor, the Florida unemployment rate (seasonally adjusted) at December 2009 increased to 11.8% from 7.6% at the end of 2008 and 4.8% at the end of 2007. A worsening of the economic condition in Florida would likely exacerbate the adverse effects of these difficult market conditions on our clients, which may have a negative impact on our financial results.

FINANCIAL OVERVIEW

A summary overview of our financial performance for 2009 versus 2008 is provided below.

2009 Financial Performance Highlights –

- For the full year 2009, we realized a net loss of $3.5 million, $0.20 per diluted share, compared to net income of $15.2 million, or $0.89 per diluted share for 2008. For the year, weak economic and real estate market conditions required an increase in our loan loss provision. Higher pension expense, FDIC insurance fees, and an increase in costs related to the management and resolution of problem assets also negatively impacted earnings for 2009. For 2008, our earnings included a $6.25 million gain ($0.22 per diluted share) from the sale of a portion of the bank's merchant services portfolio, a $2.4 million gain from the redemption of Visa shares and the reversal of $1.1 million in Visa related litigation reserves.

- For 2009, tax equivalent net interest income declined $3.1 million, or 2.8%, to $108.2 million due primarily to a higher level of foregone interest and lower loan fees, both associated with an increased level of nonperforming loans. During the course of 2009, unfavorable asset re-pricing also placed pressure on our net interest margin, which was flat year over year at 4.96%.

- Loan loss provision was $40.0 million for 2009 compared to $32.5 million for 2008 with the increase attributable to a higher level of required reserves. Growth in the level of nonaccrual loans coupled with weaker economic conditions and declining property values (primarily vacant residential land) were the primary factors contributing to the higher required reserves. Net loan charge-offs for 2009 were 166 basis points of average loans compared to 71 basis points in 2008. At year-end 2009, the allowance for loan losses was 2.30% of outstanding loans (net of overdrafts) and provided coverage of 41% of nonperforming loans, compared to 1.89% and 38%, respectively, at the end of 2008.

- For 2009, noninterest income decreased $9.6 million, or 14.4%, due to one-time transactions in 2008, including a $6.25 million pre-tax gain from the Bank's merchant services portfolio sale and a $2.4 million pre-tax gain from the redemption of Visa shares. Additionally, lower merchant fees of $3.2 million related to the disposition of a portion of our merchant services portfolio also contributed to the unfavorable variance. Improvement in deposit fees ($400,000) and mortgage banking fees ($1.1 million) as well as a higher level of card fees ($794,000), partially offset the aforementioned unfavorable variances.

- Noninterest expense increased $10.6 million, or 8.8%, in 2009 due to higher legal fees ($1.7 million), other real estate owned ("OREO") expenses ($5.7 million), pension expense ($2.8 million), and FDIC insurance fees ($3.9 million). Legal fees and OREO expenses were higher due to the cost of managing and resolving problem assets. The unfavorable variance in pension expense reflects a decline in pension asset value in 2008. FDIC insurance fees increased as a result of the second quarter special assessment as well as the general increase in premium rates as mandated by the FDIC. The unfavorable variance was also impacted by the reversal of a portion ($1.1 million) of our Visa litigation accrual in 2008, which had the effect of reducing noninterest expense. Lower intangible amortization expense ($1.6 million) as well as various initiatives to better manage controllable expenses partially offset the aforementioned unfavorable variances.

- Average earning assets were $2.244 billion for the fourth quarter of 2009, an increase of $86.7 million, or 4.0%, from the fourth quarter of 2008 due to improvement in the overnight funds position primarily driven by deposit growth of $144.1 million, or 7.4%.

-

As of December 31, 2009, we are well-capitalized with a risk based capital ratio of 14.11% and a tangible common equity ratio of 6.84% compared to 14.69% and 7.76%, respectively, at year-end 2008.

RESULTS OF OPERATIONS

For 2009, we realized a net loss of $3.5 million, or $0.20 per diluted share, compared to net income of $15.2 million, or $0.89 per diluted share in 2008, and $29.7 million, or $1.66 per diluted share, in 2007.

Earnings for 2009 include a loan loss provision of $40.0 million ($1.44 per diluted share) compared to $32.5 million ($1.16 per diluted share) for 2008. Lower net interest income ($2.9 million), higher pension costs ($2.8 million), FDIC insurance fees ($3.9 million), and an increase in costs related to the management and resolution of problem assets also negatively impacted earnings for 2009.

The decline in earnings in 2008 of $14.5 million, or $0.77 per diluted share, was primarily due to lower net interest income of $3.4 million and a higher loan loss provision of $26.3 million, partially offset by a $6.25 million gain from the sale of the bank's merchant services portfolio ($0.22 per diluted share) and a $2.4 million gain from the redemption of Visa, Inc. shares related to its initial public offering. Additionally, our 2007 earnings included a $1.9 million charge to reserve for Visa litigation and our 2008 earnings included the reversal of $1.1 million of our Visa litigation reserve.

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) | 2009 | 2008 | 2007 |
| Interest Income | $ 122,776 | $ 142,866 | $ 165,323 |
| Taxable Equivalent Adjustments | 2,296 | 2,482 | 2,420 |
| Total Interest Income (FTE) | 125,072 | 145,348 | 167,743 |
| Interest Expense | 16,842 | 34,000 | 53,082 |
| Net Interest Income (FTE) | 108,230 | 111,348 | 114,661 |
| Provision for Loan Losses | 40,017 | 32,496 | 6,163 |
| Taxable Equivalent Adjustments | 2,296 | 2,482 | 2,420 |
| Net Interest Income After Provision for Loan Losses | 65,917 | 76,370 | 106,078 |
| Noninterest Income | 57,391 | 67,040 | 59,300 |
| Noninterest Expense | 132,115 | 121,472 | 121,992 |
| (Loss) Income Before Income Taxes | (8,807) | 21,938 | 43,386 |
| Income Tax (Benefit) Expense | (5,336) | 6,713 | 13,703 |
| Net (Loss) Income | $ (3,471) | $ 15,225 | $ 29,683 |
| | | | |
| Basic Net (Loss) Income Per Share | $ (0.20) | $ 0.89 | $ 1.66 |
| Diluted Net (Loss) Income Per Share | $ (0.20) | $ 0.89 | $ 1.66 |

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 2009, our taxable equivalent net interest income decreased $3.1 million, or 2.8%. This follows a decrease of $3.3 million, or 2.9%, in 2008, and an increase of $6.3 million, or 5.2%, in 2007. The decrease in our taxable equivalent net interest income in 2009 primarily reflects a higher level of foregone interest associated with the increased level of nonperforming assets, unfavorable asset repricing and a decline in average earning assets, partially offset by the lower costs of funds for deposits.

For the year 2009, taxable equivalent interest income declined $20.3 million, or 13.9% from 2008 and $22.5 million, or 13.4% in 2008 over 2007. As compared to 2008, taxable equivalent interest income was impacted by the higher level of foregone interest on nonperforming loans, lower loan fees and unfavorable asset repricing due to the declining interest rate environment all of which resulted in a lower yield on our earning assets during 2009.

These factors produced a 75 basis point decline in the yield on earning assets, which decreased from 6.48% in 2008 to 5.73% for 2009. This compares to a 120 basis point decline in 2008 over 2007.

Interest expense decreased $17.2 million, or 50.0% from 2008, and $19.1 million, or 36.0% in 2008 over 2007. The decrease reflects declining market rates and management’s efforts to reduce its overall cost of funds. The Federal Reserve lowered its target fed funds rate during the latter part of 2007 and 2008, and kept this rate at historically low levels during 2009. In response, management aggressively lowered its deposit rates, which has helped to minimize the overall impact on our net interest margin.

The average rate paid on interest bearing liabilities in 2009 decreased 92 basis points compared to 2008, reflecting the factors mentioned above.

Our interest rate spread (defined as the taxable equivalent yield on average earning assets less the average rate paid on interest bearing liabilities) increased 17 basis points in 2009 compared to 2008 and 2 basis points in 2008 compared to 2007. The increase in 2009 was primarily attributable to the 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) of 4.96% in 2009 remained constant with 2008, but was lower than the 5.25% recorded in 2007. In 2009, compared to 2008, the yield on earning assets and the cost of funds both declined 75 basis points resulting in no change in the margin year-over-year.

While our net interest margin was flat year over year, pressure on asset repricing and an unfavorable shift in our earning asset mix resulted in a net interest margin of 4.59% for the fourth quarter of 2009, which represents a decline of 67 basis points over the fourth quarter of 2008 and 40 basis points over the linked quarter in 2009. The aforementioned shift in earning asset mix was attributable to strong deposit growth during the fourth quarter of 2009 (reflecting seasonal growth in public funds deposits and our Absolutely Free Money Market promotion), which enhanced our overall liquidity, but was a contributing factor to the reduction in our net interest margin percentage.

During the course of 2009, historically low interest rates (essentially setting a floor on deposit repricing), foregone interest, lower loan fees, unfavorable asset repricing without the flexibility to significantly adjust deposit rates and core deposit growth (which has strengthened our liquidity position, but resulted in an unfavorable shift in our earning asset mix), have all placed pressure on our net interest margin.  Although the market offers a steep yield curve, our current strategy as well as historically, is to not accept greater interest rate risk by reaching further out the curve for yield, particularly given the fact that short term rates are at historical lows.  We continue to maintain short duration portfolios on both sides of the balance sheet and believe we are well positioned to respond to changing market conditions.  Over time, this strategy has produced fairly consistent outcomes and a net interest margin that is significantly above peer comparisons.  Given our recent deposit growth and unfavorable asset repricing, we anticipate continued pressure on the margin during the first half of 2010.

Table 2
AVERAGE BALANCES AND INTEREST RATES

| (Taxable Equivalent Basis - Dollars in Thousands) | 2009 | | | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance | Interest | Rate | Balance | Interest | Rate | Balance | Interest | Rate |
| ASSETS | | | | | | | | | |
| Loans, Net of Unearned Interest(1)(2) | $ 1,961,990 | $ 118,186 | 6.02% | $ 1,918,417 | $ 133,457 | 6.96% | $ 1,934,850 | $ 155,434 | 8.03% |
| Taxable Investment Securities | 83,648 | 2,698 | 3.22 | 93,149 | 3,889 | 5.04 | 103,840 | 4,949 | 4.76 |
| Tax-Exempt Investment Securities(2) | 105,683 | 4,106 | 3.88 | 97,010 | 4,893 | 4.16 | 84,849 | 4,447 | 5.24 |
| Funds Sold | 32,911 | 82 | 0.25 | 132,073 | 3,109 | 2.32 | 59,989 | 2,913 | 4.79 |
| Total Earning Assets | 2,184,232 | 125,072 | 5.73% | 2,240,649 | 145,348 | 6.48% | 2,183,528 | 167,743 | 7.68% |
| Cash & Due From Banks | 76,107 | | | 82,410 | | | 86,692 | | |
| Allowance for Loan Losses | (42,331) | | | (23,015) | | | (17,535) | | |
| Other Assets | 298,807 | | | 267,861 | | | 254,532 | | |
| TOTAL ASSETS | $ 2,516,815 | | | $ 2,567,905 | | | $ 2,507,217 | | |
| | | | | | | | | | |
| LIABILITIES | | | | | | | | | |
| NOW Accounts | $ 711,753 | $ 1,039 | 0.15% | $ 743,327 | $ 7,454 | 1.00% | $ $557,060 | $ 10,748 | 1.93% |
| Money Market Accounts | 320,531 | 1,288 | 0.40 | 374,278 | 5,242 | 1.40 | 397,193 | 13,667 | 3.44 |
| Savings Accounts | 121,582 | 60 | 0.05 | 116,413 | 121 | 0.10 | 119,700 | 279 | 0.23 |
| Other Time Deposits | 420,198 | 8,198 | 1.95 | 424,748 | 14,489 | 3.41 | 474,728 | 19,993 | 4.21 |
| Total Interest Bearing Deposits | 1,574,064 | 10,585 | 0.67% | 1,658,766 | 27,306 | 1.65% | 1,548,681 | 44,687 | 2.89% |
| Short-Term Borrowings | 79,321 | 291 | 0.36 | 61,181 | 1,157 | 1.88 | 66,397 | 2,871 | 4.31 |
| Subordinated Notes Payable | 62,887 | 3,730 | 5.85 | 62,887 | 3,735 | 5.84 | 62,887 | 3,730 | 5.93 |
| Other Long-Term Borrowings | 51,973 | 2,236 | 4.30 | 39,735 | 1,802 | 4.54 | 37,936 | 1,794 | 4.73 |
| Total Interest Bearing Liabilities | 1,768,245 | 16,842 | 0.95% | 1,822,569 | 34,000 | 1.87% | 1,715,901 | 53,082 | 3.09% |
| Noninterest Bearing Deposits | 418,365 | | | 407,299 | | | 441,765 | | |
| Other Liabilities | 54,660 | | | 37,147 | | | 42,934 | | |
| TOTAL LIABILITIES | 2,241,270 | | | 2,267,015 | | | 2,200,600 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| SHAREOWNERS' EQUITY | | | | | | | | | |
| TOTAL SHAREOWNERS' EQUITY | 275,545 | | | 300,890 | | | 306,617 | | |
| | | | | | | | | | |
| TOTAL LIABILITIES & EQUITY | $ 2,516,815 | | | $ 2,567,905 | | | $ 2,507,217 | | |
| | | | | | | | | | |
| Interest Rate Spread | | | 4.78% | | | 4.61% | | | 4.59% |
| Net Interest Income | | $ 108,230 | | | $ 111,348 | | | $ 114,661 | |
| Net Interest Margin(3) | | | 4.96% | | | 4.96% | | | 5.25% |

(1) Average balances include nonaccrual loans. Interest income includes loan fees of $1.6 million, $2.3 million, and $3.0 million in 2009, 2008, and 2007, 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.

Table 3
RATE/VOLUME ANALYSIS (1)

| | 2009 Changes From 2008 | | | | 2008 Changes From 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | | Due to Average | | | | Due to Average | | |
| (Taxable Equivalent Basis - Dollars in Thousands) | Total | Calendar(3) | Volume | Rate | Total | Calendar(3) | Volume | Rate |
| Earnings Assets: | | | | | | | | |
| Loans, Net of Unearned Interest(2) | $ (15,271) | $ (365) | $ 2,491 | $ (17,397) | $ (21,978) | $ 426 | $ (2,012) | $ (20,392) |
| Investment Securities: | | | | | | | | |
| Taxable | (1,191) | (11) | (483) | (697) | (1,061) | 13 | (400) | (674) |
| Tax-Exempt(2) | (787) | (13) | 439 | (1,213) | 448 | 12 | 636 | (200) |
| Funds Sold | (3,027) | (8) | (2,368) | (651) | 196 | 8 | 3,393 | (3,205) |
| Total | (20,276) | (397) | 79 | (19,958) | (22,395) | 459 | 1,617 | (24,471) |
| Interest Bearing Liabilities: | | | | | | | | |
| NOW Accounts | (6,415) | (21) | (316) | (6,078) | (3,293) | 29 | 3,584 | (6,906) |
| Money Market Accounts | (3,954) | (14) | (753) | (3,187) | (8,425) | 37 | (786) | (7,676) |
| Savings Accounts | (61) | - | 4 | (65) | (159) | 1 | (8) | (152) |
| Time Deposits | (6,291) | (40) | (155) | (6,096) | (5,505) | 55 | (2,099) | (3,461) |
| Short-Term Borrowings | (866) | (3) | 227 | (1,090) | (1,713) | 8 | (185) | (1,536) |
| Subordinated Notes Payable | (5) | (10) | - | 5 | 5 | 10 | - | (5) |
| Long-Term Borrowings | 434 | (5) | 555 | (116) | 8 | 5 | 85 | (82) |
| Total | (17,158) | (93) | (438) | (16,627) | (19,082) | 145 | 591 | (19,818) |
| Changes in Net Interest Income | $ (3,118) | $ (304) | $ 517 | $ (3,331) | $ (3,313) | $ 314 | $ 1,026 | $ (4,653) |

(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 365 day year (2009 and 2007) versus 366 day year (2008).

34

Provision for Loan Losses

The provision for loan losses was $40.0 million in 2009, compared to $32.5 million in 2008 and $6.2 million in 2007. The increase in the provision for both 2009 and 2008 is attributable to a higher level of required reserves reflective of growth in the level of nonperforming loans due to weaker economic and real estate market conditions. Activity within our real estate markets slowed significantly in 2008 and remained at historically low levels during 2009, which has resulted in declining property values, particularly vacant residential land. Loans to consumers as well as builders and investors involved in the residential real estate industry have realized increased default and loss rates over the past two years.

Net charge-offs for 2009 totaled $32.6 million, or 1.66% of average loans for the year compared to $13.6 million, or .71% for 2008 and $5.3 million, or .27% for 2007. A majority (68%) of our net loan charge-offs realized during 2009 were for loans secured by residential real estate property. Consumer loan losses increased noticeably in 2008, but declined slightly in 2009 due to tightening of underwriting standards and increased collection efforts. See Table 7 on page 41 for a detailed analysis of loan charge-offs and recoveries over the past five years. Given the current stage of this credit cycle, we would expect that our net loan charge-offs will remain at an elevated level in 2010.

Noninterest Income

Noninterest income decreased $9.6 million, or 14.4% and increased $7.7 million or 13.0%, in 2009 and 2008, respectively, compared to the immediately preceding year. For 2009, the unfavorable variance was particularly due to one-time transactions in 2008, including a $6.25 million pre-tax gain from the sale of the bank's merchant services portfolio and a $2.4 million pre-tax gain from the redemption of Visa shares. Additionally, lower merchant fees of $3.2 million related to the aforementioned merchant services portfolio sale also contributed to the unfavorable variance. Improvement in deposit fees ($400,000) and mortgage banking fees ($1.1 million) as well as a higher level of card fees ($794,000) partially offset the aforementioned unfavorable variances.

The increase in 2008 was primarily due to the aforementioned one-time transactions as well as strong improvement in deposit fees ($1.6 million). The aforementioned gains were partially offset by a reduction in merchant services fees ($1.7 million) attributable to the merchant services portfolio sale and lower mortgage banking revenues ($1.0 million).

Noninterest income as a percent of average assets was 2.28% in 2009, compared to 2.61% in 2008, and 2.37% in 2007. One-time transactions in 2008 related to the sale of the bank's merchant services portfolio and the redemption of Visa shares were the primary reasons for the variances for both 2009 and 2008. Noninterest income as a percent of taxable equivalent operating revenues was 34.7% in 2009, down from 37.6% in 2008 with the reduction also 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) | 2009 | 2008 | 2007 |
| Noninterest Income: | | | |
| Service Charges on Deposit Accounts | $ 28,142 | $ 27,742 | $ 26,130 |
| Data Processing Fees | 3,628 | 3,435 | 3,133 |
| Asset Management Fees | 3,925 | 4,235 | 4,700 |
| Retail Brokerage Fees | 2,655 | 2,399 | 2,510 |
| Gain/(Loss) on Sale/Call of Investment Securities | 10 | 125 | 14 |
| Mortgage Banking Revenues | 2,699 | 1,623 | 2,596 |

| | | | |
|---|---|---|---|
| Merchant Fees(1) | 2,359 | 5,548 | 7,257 |
| Interchange Fees(1) | 4,432 | 4,165 | 3,757 |
| Gain on Sale of Portion of Merchant Services Portfolio | - | 6,250 | - |
| ATM/Debit Card Fees(1) | 3,515 | 2,988 | 2,692 |
| Other | 6,026 | 8,530 | 6,511 |
| Total Noninterest Income | $ 57,391 | $ 67,040 | $ 59,300 |

(1) Together called “Bank Card Fees”

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

Service Charges on Deposit Accounts. Deposit service charge fees increased $400,000, or 1.4%, in 2009, compared to an increase of $1.6 million, or 6.2%, in 2008. 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 $400,000 increase for 2009 was primarily due to a lower level of overdraft charge-offs relative to 2008. For 2008, a higher level of overdraft and nonsufficient funds ("NSF") activity as well as improved fee collection contributed to the improvement. Effective July 2010, new federal rules under the Electronic Funds Transfer Act will potentially reduce the level of our overdraft and NSF fees prospectively. Management is currently studying the impact of the new rules and, in an effort to mitigate the impact on this revenue source, we are developing programs to inform and educate our clients on their options and the value of our overdraft protection programs. Total overdraft and NSF fees for 2009 and 2008 were $23.6 million and $23.5 million, respectively.

Asset Management Fees. In 2009, asset management fees decreased $310,000, or 7.3%, versus a decline of $465,000, or 9.9%, in 2008. At year-end 2009, assets under management totaled $706.8 million, reflecting an increase of $42.1 million, or 6.3% from 2008. At year-end 2008, assets under management totaled $664.7 million, reflecting a decline of $116.6 million, or 14.9% from 2007. The decline for 2009 primarily reflects a lower level of estate management fees. The decrease in 2008 was due to a reduction in assets under management because of a decline in market values for managed accounts.

Mortgage Banking Revenues. In 2009, mortgage banking revenues increased $1.1 million, or 66.3%, compared to a $973,000, or 37.5% decrease in 2008. In early 2009, a lower interest rate environment generated an increase in refinancing activity which was the primary reason for the increase. Lower production reflective of weak economic conditions and a significant slowdown in our housing markets was the primary reason for the decline in 2008. 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 one merchant account which continues to be serviced by the Bank.

Bank Card Fees. Bank Card fees (including merchant service fees, interchange fees, and ATM/debit card fees) decreased $2.4 million, or 18.9%, in 2009 despite interchange fees and ATM/debit card fees increasing 6.4% and 17.7%, respectively, for the year due to higher transaction volumes and a fee increase for certain ATM/debit card transactions. Merchant service fees declined significantly due to the sale of a portion of the bank’s merchant services portfolio in July 2008. In 2008, card fees decreased $1.0 million, or 7.3% despite interchange fees and ATM/debit card fees increasing 10.9% and 11.0%, respectively, due to higher transaction volumes. Merchant service fees were significantly reduced due to the aforementioned merchant services portfolio sale.

Other. Other income decreased $2.2 million, or 20.6%, from 2008 due to the impact of a $2.4 million gain in 2008 from the redemption of Visa shares related to its initial public offering. A higher level of retail brokerage fees ($257,000) in 2009 partially offset the aforementioned unfavorable variance related to the one-time gain from the sale of Visa shares.

Noninterest Expense

Noninterest expense increased $10.6 million, or 8.8%, in 2009 primarily due to higher legal fees ($1.7 million), OREO expenses ($5.7 million), pension expense ($2.8 million), and FDIC insurance fees ($3.9 million). The increase in legal fees and OREO expenses were both attributable to the cost of managing and resolving problem assets. The unfavorable variance in pension expense reflects a decline in pension asset value in 2008. FDIC insurance fees increased as a result of the second quarter special assessment as well as the general increase in premium rates. The unfavorable variance was also impacted by the reversal of a portion ($1.1 million) of our Visa litigation accrual in 2008, which had the effect of reducing noninterest expense. Lower expense for intangible amortization expense ($1.6 million) and interchange fees ($2.6 million) as well as various initiatives to better manage controllable expenses partially offset the aforementioned unfavorable variances.

For 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 in July 2008 also contributed to the favorable variance for the year. Partially offsetting the aforementioned favorable variances were increases in salary expense ($1.1 million), legal fees ($501,000), FDIC insurance fees ($555,000), OREO expense ($1.0 million), and higher processing costs for our accounts receivable financing service ($643,000).

The table below reflects the major components of noninterest expense.

| | For the Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 | 2007 |
| Noninterest Expense: | | | |
| Salaries | $ 50,494 | $ 50,581 | $ 49,206 |
| Associate Benefits | 14,573 | 11,250 | 11,073 |
| Total Compensation | 65,067 | 61,831 | 60,279 |
| | | | |
| Premises | 9,798 | 9,729 | 9,347 |
| Equipment | 9,096 | 9,902 | 9,890 |
| Total Occupancy | 18,894 | 19,631 | 19,237 |
| | | | |
| Legal Fees | 3,975 | 2,240 | 1,739 |
| Professional Fees | 4,501 | 4,083 | 3,855 |
| Processing Services | 3,591 | 3,921 | 3,278 |
| Advertising | 3,285 | 3,609 | 3,742 |
| Travel and Entertainment | 1,123 | 1,390 | 1,470 |
| Printing and Supplies | 1,882 | 1,977 | 2,124 |
| Telephone | 2,227 | 2,522 | 2,373 |
| Postage | 1,711 | 1,743 | 1,565 |
| FDIC Insurance Fees | 4,616 | 835 | 240 |
| Intangible Amortization | 4,042 | 5,685 | 5,834 |
| Interchange Fees | 1,929 | 4,577 | 6,118 |
| Other Real Estate Owned | 6,843 | 1,120 | 159 |
| Miscellaneous | 8,429 | 6,308 | 9,979 |
| Total Other | 48,154 | 40,010 | 42,476 |
| | | | |
| Total Noninterest Expense | $ 132,115 | $ 121,472 | $ 121,992 |

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

Compensation. Total compensation expense increased $3.2 million, or 5.2% in 2009 due to higher associate benefit expense of $3.3 million, or 29.5%, reflective of higher expense for our pension plan driven primarily by a loss in market value for pension plan assets. In 2010, we expect our pension plan expense to decrease slightly due to improvement in the market value of pension plan assets during 2009.

In 2008, total compensation expense increased $1.6 million, or 2.6% 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.

Occupancy. Occupancy expense (including furniture, fixtures and equipment) decreased by $737,000, or 3.8% in 2009 primarily due to a decrease in depreciation and maintenance expense for furniture, fixtures, and equipment ("FF&E"). The decreases reflect the full depreciation of several larger technology systems and an overall effort to improve the management and control of these expenditures. In 2010, we expect our occupancy expense to increase by approximately $1.5 million primarily due to the opening of one relocated retail banking office in Macon, Georgia and a new office building for Capital City Trust Company located in Tallahassee, Florida.

In 2008, occupancy expense (including furniture, fixtures and equipment) increased by $394,000, or 2.0% primarily due to an increase in depreciation expense for both buildings and furniture, fixtures, and equipment. 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.

Other. Other noninterest expense increased $8.1 million, or 20.4%, in 2009 due to higher legal fees ($1.7 million), OREO expenses ($5.7 million), and FDIC insurance fees ($3.9 million). Legal fees and OREO expenses were higher due to the cost of managing and resolving problem assets. FDIC insurance fees increased as a result of the second quarter special assessment and a general increase in premium rates as mandated by the FDIC. The unfavorable variance was also impacted by the reversal of a portion ($1.1 million) of our Visa litigation accrual in 2008, which had the effect of reducing noninterest expense in that year. Lower expense for intangible amortization expense ($1.6 million) and interchange fees ($2.6 million) as well as various initiatives to better manage controllable expenses partially offset the aforementioned unfavorable variances. Given the stage of this credit cycle, we expect that our legal expenses and OREO expense will remain at an elevated level in 2010.

For 2008, other noninterest expense decreased $2.3 million, or 6.3%, 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. 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 fees ($555,000), and OREO 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 fees increased during the second half of 2008 primarily reflecting the full use of our premium credits. Expense related to our OREO 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.

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 2.81% in 2009 compared to 1.90% in 2008, and 2.27% in 2007. 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 77.33%, 64.91%, and 66.87% in 2009, 2008 and 2007, respectively.

The increase in the both of the aforementioned ratios in 2009 is attributable to a higher level of operating expenses as previously discussed. A lower level of operating revenues (tax equivalent net interest income plus noninterest income) in 2009 also contributed to the decline in the operating efficiency ratio.

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 shares, and the $1.1 million reversal of Visa litigation reserve, which were the primary factors driving the change in these ratios for 2008.

As part of our strategic planning process, we continue to review and enhance our expense control procedures, including the implementation of a vendor contract review process in 2009 which accrued cost savings benefits in 2009 and will continue to do so in 2010.

Income Taxes

In 2009, we realized a tax benefit of $5.3 million as compared to tax expense of $6.7 million in 2008 and $13.7 million in 2007. In 2009, a financial statement operating loss and $2.3 million of tax free investment and loan income were the primary reasons for the tax benefit for the year. A lower level of financial statement operating income was the primary reason for the decline in the 2008 income tax provision as compared to 2007.

The effective tax rate was 60.6% in 2009, 30.6% in 2008, and 31.6% in 2007. As previously noted, the effective tax rate for 2009 was affected by a financial statement operating loss and favorable permanent financial statement/tax differences, specifically tax-exempt income on loans and securities. The effective tax rates for 2008 and 2007 were affected by a lower level of financial statement operating income, primarily reflective of our higher loan loss provisions, in relation to the size of our permanent financial statement/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 $2.517 billion, a decrease of $51.0 million, or 1.9%, in 2009 versus the comparable period in 2008.  Average earning assets for 2009 were approximately $2.184 billion, representing a decrease of $56.4 million, or 2.2%, over 2008.  A decrease in average short term investments of $99.2 million partially offset by an increase in average loans of $43.6 million drove the decrease 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.

Loans

Average loans increased $43.6 million, or 2.3%, from the comparable period in 2008. Loans as a percent of average earning assets declined to 85.0% in 2009, down from the 2008 level of 85.6%. The loan portfolio experienced growth during the first half of 2009 driven by increases in the commercial real estate and home equity loan categories. The increase in the commercial real estate category reflects both the reclassification of construction loans to permanent status as well as new loan production. New production was centered in loans secured by both owner occupied and non-owner occupied commercial properties. Our home equity loan balance increased primarily due to increased line utilization by existing borrowers and to a lesser extent new production related to a mid-year promotion. Loan balances declined during the second half of 2009 as production eased in the majority of CCB markets and the migration of nonaccrual loans to the other real estate owned category ($44.0 million) and/or loan charge-offs (gross charge-offs totaled $36.1 million) increased.

Our bankers continue to try to reach clients who are interested in moving or expanding their banking relationships. 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) | 2008 to 2009 Change | Percentage Of Total Change | Components of Average Earning Assets 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Loans: | | | | | |
| Commercial, Financial, and Agricultural | 2,988 | 5.0 % | 9.1% | 8.8% | 9.5% |
| Real Estate – Construction | (7,797) | (14.0)% | 6.4% | 6.6% | 7.3% |
| Real Estate – Commercial | 59,353 | 105.0 % | 31.5% | 28.0% | 29.2% |
| Real Estate – Residential | (7,421) | (13.0)% | 31.6% | 31.1% | 31.5% |
| Consumer | (3,550) | (6.0)% | 11.2% | 11.1% | 11.2% |
| Total Loans | 43,573 | 77.0 % | 89.8% | 85.6% | 88.7% |
| | | | | | |
| Investment Securities: | | | | | |
| Taxable | (9,501) | (17.0)% | 3.8% | 4.2% | 4.8% |
| Tax-Exempt | 8,673 | 16.0 % | 4.9% | 4.3% | 3.8% |
| Total Securities | (828) | (1.0)% | 8.7% | 8.5% | 8.6% |
| | | | | | |
| Funds Sold | (99,162) | (176.0)% | 1.5% | 5.9% | 2.7% |
| | | | | | |
| Total Earning Assets | $ (56,417) | 100.0% | 100.0% | 100.0% | 100.0% |

Our average loan-to-deposit ratio increased to 98.5% in 2009 from 92.9% in 2008. The higher loan-to-deposit ratio reflects both growth in average loan balances, and a lower 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, 2009, based upon maturities. As a percent of the total portfolio, loans with fixed interest rates represent 34.6% as of December 31, 2009, versus 33.2% at December 31, 2008.

Table 5
LOANS BY CATEGORY

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 | 2007 | 2006 | 2005 |
| Commercial, Financial and Agricultural | $ 189,061 | $ 206,230 | $ 208,864 | $ 229,327 | $ 218,434 |
| Real Estate - Construction | 111,249 | 141,973 | 142,248 | 179,072 | 160,914 |
| Real Estate - Commercial | 716,791 | 656,959 | 634,920 | 643,885 | 718,741 |
| Real Estate - Residential | 416,469 | 484,238 | 488,372 | 536,138 | 558,000 |
| Real Estate – Home Equity | 246,722 | 218,500 | 192,428 | 173,597 | 165,336 |
| Consumer | 235,648 | 249,897 | 249,018 | 237,702 | 246,069 |
| Total Loans, Net of Unearned Interest | $ 1,915,940 | $ 1,957,797 | $ 1,915,850 | $ 1,999,721 | $ 2,067,494 |

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 | $ 90,321 | $ 81,995 | $ 16,745 | $ 189,061 |
| Real Estate – Construction | 97,860 | 10,581 | 2,808 | 111,249 |
| Real Estate – Commercial Mortgage | 159,873 | 130,602 | 426,316 | 716,791 |
| Real Estate – Residential | 79,179 | 45,919 | 291,371 | 416,469 |
| Real Estate – Home Equity | 618 | 7,328 | 238,776 | 246,722 |
| Consumer(1) | 23,967 | 168,062 | 43,619 | 235,648 |
| Total | $ 451,818 | $ 444,487 | $ 1,019,635 | $ 1,915,940 |
| | | | | |
| Loans with Fixed Rates | $ 158,165 | $ 337,403 | $ 166,920 | $ 662,488 |
| Loans with Floating or Adjustable Rates | 293,653 | 107,084 | 852,715 | 1,253,452 |
| Total | $ 451,818 | $ 444,487 | $ 1,019,635 | $ 1,915,940 |

(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 to determine if a loan is impaired 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 risk 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.

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 $44.0 million at December 31, 2009 and $37.0 million at December 31, 2008. The allowance for loan losses was 2.30% of outstanding loans (net of overdrafts) and provided coverage of 41% of nonperforming loans at year-end 2009 compared to 1.89% and 38% in 2008. Growth in the level of nonaccrual loans reflective of weaker economic conditions and declining property values (particularly vacant residential land) were the primary factors contributing to the higher level of required reserves. 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, 2009 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) | 2009 | 2008 | 2007 | 2006 | 2005 |
| Balance at Beginning of Year | $ 37,004 | $ 18,066 | $ 17,217 | $ 17,410 | $ 16,037 |
| Acquired Reserves | - | - | - | - | 1,385 |
| Reclassification of Unfunded Reserve to Other Liability | 392 | - | - | - | - |
| Charge-Offs: | | | | | |
| Commercial, Financial and Agricultural | 2,590 | 1,649 | 1,462 | 841 | 1,287 |
| Real Estate - Construction | 8,031 | 2,581 | 166 | - | - |
| Real Estate - Commercial | 4,417 | 1,499 | 709 | 346 | 255 |
| Real Estate - Residential | 13,491 | 3,787 | 407 | 260 | 311 |
| Real Estate - Home Equity | 1,632 | 267 | 1,022 | 20 | 10 |
| Consumer | 5,912 | 6,192 | 3,451 | 2,516 | 2,380 |
| Total Charge-Offs | 36,073 | 15,975 | 7,217 | 3,983 | 4,243 |
| Recoveries: | | | | | |
| Commercial, Financial and Agricultural | 567 | 331 | 174 | 246 | 180 |
| Real Estate - Construction | 540 | 4 | - | - | - |
| Real Estate - Commercial | 53 | 15 | 14 | 17 | 3 |
| Real Estate - Residential | 525 | 161 | 34 | 11 | 37 |
| Real Estate - Home Equity | 5 | 1 | 2 | - | - |
| Consumer | 1,753 | 1,905 | 1,679 | 1,557 | 1,504 |
| Total Recoveries | 3,443 | 2,417 | 1,903 | 1,831 | 1,724 |
| Net Charge-Offs | 32,630 | 13,558 | 5,314 | 2,152 | 2,519 |
| Provision for Loan Losses | 40,017 | 32,496 | 6,163 | 1,959 | 2,507 |

| | | | | | |
|---|---|---|---|---|---|
| Balance at End of Year | $ 43,999 | $ 37,004 | $ 18,066 | $ 17,217 | $ 17,410 |
| Ratio of Net Charge-Offs to Average Loans Outstanding | 1.66% | .71% | .27% | .11% | .13% |
| Allowance for Loan Losses as a Percent of Loans at End of Year | 2.30% | 1.89% | .94% | .86% | .84% |
| Allowance for Loan Losses as a Multiple of Net Charge-Offs | 1.35x | 2.73x | 3.40x | 8.00x | 6.91x |

Table 8
ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

| (Dollars in Thousands) | 2009 Allowance Amount | 2009 Percent of Loans in Each Category To Total Loans | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| Commercial, Financial and Agricultural | $ 2,409 | 9.9% | $ 2,401 | 10.5% | $ 3,106 | 10.9% | $ 3,900 | 11.5% | $ 3,663 | 10.6% |
| Real Estate: | | | | | | | | | | |
| Construction | 12,117 | 5.8 | 8,973 | 7.3 | 3,117 | 7.4 | 745 | 9.0 | 762 | 7.8 |
| Commercial | 8,751 | 37.4 | 6,022 | 33.6 | 4,372 | 33.1 | 5,996 | 32.2 | 6,352 | 34.7 |
| Residential | 14,159 | 21.7 | 12,489 | 24.7 | 3,733 | 35.6 | 1,050 | 35.5 | 1,019 | 35.0 |
| Home Equity | 2,201 | 12.9 | 1,091 | 11.2 | - | - | - | - | - | - |
| Consumer | 3,457 | 12.3 | 5,055 | 12.8 | 2,790 | 13.0 | 3,081 | 11.8 | 3,105 | 11.9 |
| Not Allocated | 905 | - | 973 | - | 948 | - | 2,445 | - | 2,509 | - |
| Total | $ 43,999 | 100.0% | $ 37,004 | 100.0% | $ 18,066 | 100.0% | $ 17,217 | 100.0% | $ 17,410 | 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 this section.

Nonperforming Assets. At year-end 2009, nonperforming assets (including nonaccrual loans, troubled debt restructurings, and other real estate owned) totaled $144.1 million, a net increase of $36.2 million from year-end 2008. Nonaccrual loans totaled $86.3 million at year-end 2009, a net decrease of $10.6 million from year-end 2008 reflective of the migration of loans to the other real estate owned category, loan charge-offs, as well as improvement in successful problem loan restructurings. Troubled debt restructurings increased $19.9 million to $21.6 million and other real estate owned increased $26.9 million to $36.1 million at year-end 2009. Compared to the prior year-end, the overall increase in nonperforming assets generally reflects weak economic and real estate market conditions, which have increased loan default rates primarily within our residential real estate loan portfolio. Vacant residential land loans of $28.1 million (approximately 110 borrowing relationships) represented approximately 33% of our nonaccrual loan balance at year-end 2009, which is a decline from $47.5 million, or 49%, at the end of 2008. Total nonperforming assets represented 7.38% of loans and other real estate at year-end 2009 compared to 5.48% at the end of 2008.

Generally, loans are placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectability 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 or when future payments are reasonably assured. If interest on our loans classified as nonaccrual during 2009 had been recognized on a fully accruing basis, we would have recorded an additional $10.9 million of interest income for the year ended December 31, 2009.

Troubled debt restructurings 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. Loans with this classification totaled $21.6 million at December 31, 2009 compared to $1.7 million at December 31, 2008.

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.

Other real estate owned totaled $36.1 million at December 31, 2009 versus $9.2 million at December 31, 2008. 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 2009, we added properties totaling $44.0 million, and partially or completely liquidated properties totaling $12.4 million, resulting in a net increase in other real estate of approximately $26.9 million. Revaluation adjustments for other real estate owned properties during 2009 totaled $4.7 million and were charged to noninterest expense when realized.

Table 9
RISK ELEMENT ASSETS

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 | 2007 | 2006 | 2005 |
| Nonaccruing Loans | $ 86,274 | $ 96,876 | $ 25,119 | $ 8,042 | $ 5,258 |
| Troubled Debt Restructurings | 21,644 | 1,744 | - | - | - |
| Total Nonperforming Loans | 107,918 | 98,620 | 25,119 | 8,042 | 5,258 |
| Other Real Estate Owned | 36,134 | 9,222 | 3,043 | 689 | 292 |
| Total Nonperforming Assets | $ 144,052 | $ 107,842 | $ 28,162 | $ 8,731 | $ 5,550 |
| Past Due 90 Days or More (still accruing interest) | $ - | $ 88 | $ 416 | $ 135 | $ 309 |
| | | | | | |
| Nonperforming Loans/Loans | 5.63% | 5.04% | 1.31% | .40% | .25% |
| Nonperforming Assets/Loans Plus Other Real Estate | 7.38% | 5.48% | 1.47% | .44% | .27% |
| Nonperforming Assets/Capital(1) | 46.19% | 34.15% | 9.06% | 2.62% | 1.72% |
| Allowance/Nonperforming Loans | 40.77% | 37.52% | 71.92% | 214.09% | 331.11% |

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

Potential Problem Loans. Potential problem loans are defined as those loans which are now current but where management has doubt as to the borrower’s ability to comply with present loan repayment terms. At December 31, 2009, we had $28.0 million in loans of this type which are not included in either of the nonaccrual, troubled debt restructurings or 90 day past due loan categories compared to $30.0 million at year-end 2008. The year over year decline reflects a slowdown in the additions to our potential problem loan pool during the second half of 2009. Approximately $6.2 million of the potential problem loans at December 31, 2009 were secured by vacant residential land. Management monitors these loans closely and reviews their performance on a regular basis.

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

While we have a majority of our loans (77.3%) secured by real estate, the primary types of real estate collateral are commercial properties and 1-4 family residential properties. At December 31, 2009, commercial real estate mortgage loans and residential real estate mortgage loans accounted for 37.4% and 34.6%, respectively, of the loan portfolio. Furthermore, approximately 9.5% of our loan portfolio is secured by vacant residential land loans. These loans include both improved and unimproved land and are comprised of loans to individuals as well as builders/developers.

43

Investment Securities

In 2009, our average investment portfolio decreased $0.8 million, or 0.4%, from 2008 and increased $1.5 million, or 0.8%, from 2007 to 2008. As a percentage of average earning assets, the investment portfolio represented 8.7% in 2009, compared to 8.5% in 2008. In 2009, the decrease in the average balance of the investment portfolio was primarily attributable to not replacing a portion of maturing securities due to a reduction in the level of securities required to be pledged against our public funds deposits. The lower level of pledging requirements is primarily attributable to the FDIC Transaction Account Guarantee Program. In 2008, the increase in the average balance of the investment portfolio was primarily due to the reinvestment of a portion of the interest earned on these investments. In 2010, we will closely monitor liquidity levels and pledging requirements to assess the need to purchase additional investments.

In 2009, average taxable investments decreased $9.5 million, or 10.2%, while tax-exempt investments increased $8.7 million, or 8.9%. The mix changed as tax-exempt securities offered a more attractive spread compared to taxable securities during the year. Management will continue to purchase municipal issues when it considers the yield to be attractive and we can do so without adversely impacting our tax position.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. As of December 31, 2009, all securities are classified as available-for-sale which offers management full flexibility in managing our liquidity and interest rate sensitivity without adversely impacting our regulatory capital levels. It is neither management's intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio. Securities in the available-for-sale portfolio are recorded at fair value with unrealized gains and losses associated with these securities recorded net of tax, in the accumulated other comprehensive income (loss) component of shareowners' equity. At December 31, 2009, the investment portfolio maintained a net pre-tax unrealized gain of $2.0 million compared to a net pre-tax unrealized gain of $2.3 million at December 31, 2008. Approximately $8.5 million of our investment securities have an unrealized loss totaling $0.1 million and have been in a loss position for less than 12 months. These securities consist of mortgage-backed securities and municipal bonds that are in a loss position because they were acquired when the general level of interest rates was lower than that on December 31, 2009. For 2009, we realized $0.3 million in other than temporary impairment through earnings for one preferred bank stock issue.

The average maturity of the total portfolio at December 31, 2009 and 2008 was 1.13 and 2.00 years, respectively. See Table 10 for a breakdown of maturities by investment type.

The weighted average taxable equivalent yield of the investment portfolio at December 31, 2009 was 3.43%, versus 4.26% in 2008. This lower yield was a result of matured bonds being invested at lower market rates during 2009. Our bond portfolio contained no investments in obligations, other than U.S. Governments, of any one state, municipality, political subdivision or any other issuer that exceeded 10% of our shareowners' equity at December 31, 2009. New investments are being made selectively into high quality bonds. Due diligence is continually performed on the investment portfolio, namely the municipal bonds.

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

Table 10
MATURITY DISTRIBUTION OF INVESTMENT SECURITIES

| | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | 2007 | | |
| (Dollars in Thousands) | Amortized Cost | Market Value | Weighted(1) Average Yield | Amortized Cost | Market Value | Weighted(1) Average Yield | Amortized Cost | Market Value | Weighted(1) Average Yield |
| U.S. GOVERNMENTS | | | | | | | | | |
| Due in 1 year or less | $ 11,034 | $ 11,111 | 2.04% | $ 18,695 | $ 19,033 | 3.54% | $ 36,441 | $ 36,570 | 4.62% |
| Due over 1 year through 5 years | 11,236 | 11,333 | 1.53 | 17,490 | 17,909 | 1.98 | 25,264 | 25,493 | 4.46 |
| Due over 5 years through 10 years | - | - | - | - | - | - | - | - | - |
| Due over 10 years | - | - | - | - | - | - | - | - | - |
| TOTAL | 22,270 | 22,444 | 1.78 | 36,185 | 36,942 | 2.79 | 61,705 | 62,063 | 4.56% |
| STATES & POLITICAL SUBDIVISIONS | | | | | | | | | |
| Due in 1 year or less | 58,987 | 59,477 | 3.90 | 39,277 | 39,581 | 5.02 | 25,675 | 25,697 | 5.19 |
| Due over 1 year through 5 years | 47,468 | 48,073 | 2.49 | 61,093 | 61,981 | 4.55 | 64,339 | 64,304 | 5.38 |
| Due over 5 years through 10 years | - | - | - | - | - | - | - | - | - |
| Due over 10 years | - | - | - | - | - | - | - | - | - |
| TOTAL | 106,455 | 107,550 | 3.28 | 100,370 | 101,562 | 4.74 | 90,014 | 90,001 | 5.32% |
| MORTGAGE-BACKED SECURITIES(2) | | | | | | | | | |
| Due in 1 year or less | 8,400 | 8,506 | 3.91 | 1,258 | 1,267 | 3.84 | 4,125 | 4,117 | 4.23 |
| Due over 1 year through 5 years | 24,742 | 25,398 | 4.01 | 30,803 | 30,907 | 4.44 | 15,043 | 15,070 | 4.89 |
| Due over 5 years through 10 years | 233 | 239 | 4.44 | 1,420 | 1,426 | 5.29 | 7,166 | 7,100 | 5.21 |
| Due over 10 years | - | - | - | 6,379 | 6,476 | 5.38 | - | - | - |
| TOTAL | 33,375 | 34,143 | 3.99 | 39,860 | 40,076 | 3.74 | 26,334 | 26,287 | 4.87% |
| OTHER SECURITIES | | | | | | | | | |
| Due in 1 year or less | - | - | - | - | - | - | - | - | - |
| Due over 1 year through 5 years | - | - | - | - | - | - | - | - | - |
| Due over 5 years through 10 years | - | - | - | 1,000 | 1,107 | 5.00 | 1,000 | 1,061 | 5.00 |
| Due over 10 years(3) | 12,536 | 12,536 | 6.18 | 11,882 | 11,882 | 5.94 | 11,307 | 11,307 | 5.90 |
| TOTAL | 12,536 | 12,536 | 6.18 | 12,882 | 12,989 | 5.87 | 12,307 | 12,368 | 5.90 |
| | $ 174,636 | $ 176,673 | 3.43% | $ 189,297 | $ 191,569 | 4.26% | $ 190,360 | $ 190,719 | 5.08% |

TOTAL INVESTMENT
SECURITIES

(1) Weighted average yields are calculated on the basis of the amortized cost of the security. The weighted average yields on tax-exempt obligations are computed on a taxable equivalent basis using a 35% tax rate.
(2) Based on weighted average life.
(3) Federal Home Loan Bank Stock and Federal Reserve Bank Stock are included in this category for weighted average yield, but do not have stated maturities.

AVERAGE MATURITY

| | As of December 31, | | |
|---|---|---|---|
| (In Years) | 2009 | 2008 | 2007 |
| U.S. Governments | 0.95 | 1.15 | 1.09 |
| States and Political Subdivisions | 0.96 | 1.56 | 1.48 |
| Mortgage-Backed Securities | 1.82 | 4.98 | 3.47 |
| Other Securities | - | - | - |
| TOTAL | 1.13 | 2.24 | 1.63 |

Deposits and Funds Purchased

Average total deposits for the year were $1.992 billion, a decrease of $73.6 million, or 3.6%, compared to the same period in 2008. The decline was primarily a result of lower money market and NOW deposits of $53.7 million and $31.5 million, respectively. A steady decline in the money market balances occurred throughout the first nine months. During the fourth quarter, the money market campaigns that started late in the third quarter generated in excess of $90 million in new deposit balances and served to support our core deposit growth initiatives and to further strengthen the bank's overall liquidity position. NOW balances declined during the second and third quarters primarily as a result of a decline in public funds. Starting late in the fourth quarter, we had an influx of public funds deposits (primarily NOW accounts), which is seasonal in nature and we anticipate those deposits will decline during the first and second quarter of 2010. Partially offsetting the declines during the first nine months in average money market and NOW balances discussed above were higher noninterest bearing deposits of $11.1 million. This was a result of our Absolutely Free Checking product which continues to be successful as both balances and the number of accounts continued to experience growth.

Compared to year-end 2008, the increase in average deposits reflects higher core deposits and public funds. Core deposits have increased and money market balances declined during the first half of 2009, but have experienced an increase primarily as a result of the factors discussed above. We continue to pursue prudent pricing discipline and to manage the mix of our deposits. Therefore, we are not attempting to compete on price with higher rate paying competitors for these deposits.

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

Average short-term borrowings, which include federal funds purchased, securities sold under agreements to repurchase, Federal Home Loan Bank ("FHLB") advances (maturing in less than one year), and other borrowings, increased $18.1 million, or 29.6% in 2009. The increase is attributable to a $21.9 million increase in funds purchased, partially offset by a decline in repurchase agreements of $1.2 million and a $2.6 million decrease in other borrowings primarily attributable to maturities of FHLB advances. See Note 8 in the Notes to Consolidated Financial Statements for further information on short-term borrowings.

Strategically, we continue to focus on the value of our deposit franchise, which produces a strong base of core deposits with minimal reliance on wholesale funding.

Table 11
SOURCES OF DEPOSIT GROWTH

| (Average Balances - Dollars in Thousands) | | 2008 to 2009 Change | Percentage of Total Change | | 2009 | | Components of Total Deposits 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Noninterest Bearing Deposits | $ | 11,066 | 15.0 | % | 21.0 | % | 19.7 | % | 22.2 | % |
| NOW Accounts | | (31,574) | (42.9) | | 35.7 | | 36.0 | | 28.0 | |
| Money Market Accounts | | (53,747) | (73.0) | | 16.1 | | 18.1 | | 20.0 | |
| Savings | | 5,169 | 7.0 | | 6.1 | | 5.6 | | 6.0 | |
| Time Deposits | | (4,550) | (6.1) | | 21.1 | | 20.6 | | 23.9 | |
| Total Deposits | $ | (73,636) | (100.0) | % | 100.0 | % | 100.0 | % | 100.0 | % |

Table 12

MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSIT $100,000 OR OVER

| | December 31, 2009 | |
|---|---|---|
| (Dollars in Thousands) | Time Certificates of Deposit | Percent |
| Three months or less | $ 45,973 | 29.84% |
| Over three through six months | 38,893 | 25.24 |
| Over six through twelve months | 50,779 | 32.96 |
| Over twelve months | 18,420 | 11.96 |
| Total | $ 154,065 | 100.00% |

Market Risk and Interest Rate Sensitivity

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

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

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

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

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

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

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

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

ESTIMATED CHANGES IN NET INTEREST INCOME (1)

| Changes in Interest Rates | +300 bp | +200 bp | +100 bp | -100 bp |
|---|---|---|---|---|
| Policy Limit | +/-10.0% | +/-7.5% | +/-5.0% | +/-5.0% |
| December 31, 2009 | -6.1% | -3.4% | -0.8% | 0.7% |
| December 31, 2008 | 1.4% | 1.6% | 1.2% | -1.4% |

The Net Interest Income at Risk position declined for the month of December 2009, when compared to the same period in 2008, for the "up rate" scenarios. Our largest exposure is at the +300 basis point ("bp") level, with a measure of -6.1%, which is still within our policy limit of -10.0%. The year-over-year variance is attributable to several key assumption changes, as a result of recommendations from an independent third party review of the asset/liability simulation process and completion of a core deposit study. All measures of net interest income at risk are within our prescribed policy limits.

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

ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY (1)

| Changes in Interest Rates | +300 bp | +200 bp | +100 bp | -100 bp |
|---|---|---|---|---|
| Policy Limit | +/-12.5% | +/-10.0% | +/-7.5% | +/-7.5% |
| December 31, 2009 | -4.3% | 0.4% | 2.7% | -7.0% |
| December 31, 2008 | 0.5% | 2.0% | 1.7% | -3.8% |

Our risk profile, as measured by EVE, declined for the month of December 2009, when compared to the same period in 2008, for the "down rate" and "up rate" scenarios, with the exception of the +100 bp scenario. The unfavorable variance between periods is attributable to the changes in several key assumptions, as previously mentioned above in the Net Interest Income at Risk section. All measures of economic value of equity are within our prescribed policy limits.

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

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

In general terms, liquidity is a measurement of our ability to meet our cash needs. Our objective in managing our liquidity is to maintain our ability to meet loan commitments, purchase securities or repay deposits and other liabilities in accordance with their terms, without an adverse impact on our current or future earnings. Our liquidity strategy is guided by policies that are formulated and monitored by our Asset Liability Committee (ALCO) and senior management, and which take into account the marketability of assets, the sources and stability of funding and the level of unfunded commitments. We regularly evaluate all of our various funding sources with an emphasis on accessibility, stability, reliability and cost-effectiveness. For the years ended December 31, 2009 and 2008, our principal source of funding has been our client deposits, supplemented by our short-term and long-term borrowings, primarily from securities sold under repurchase agreements, federal funds purchased and FHLB borrowings. We believe that the cash generated from operations, our borrowing capacity and our access to capital resources are sufficient to meet our future operating capital and funding requirements.

Overall, we have the ability to generate $950 million in additional liquidity through all of our available resources. In addition to primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. Management recognizes the importance of maintaining liquidity and has developed a Contingent Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. The liquidity available to us is considered sufficient to meet the ongoing needs.

We view our investment portfolio as a liquidity source and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental agencies, and municipal governments. The weighted average life of the portfolio is approximately one year and as of year-end had a net unrealized pre-tax gain of $2.0 million.

Our average liquidity (defined as funds sold plus interest bearing deposits with other banks less funds purchased) for the fourth quarter of 2009 reflects a net overnight funds sold position of $101.1 million during the fourth of 2009 compared to an average net overnight funds purchased position of $53.5 million in the third quarter and an average net overnight funds purchased position of $18.0 million during the fourth quarter of 2008. The favorable variance of $154.5 million in the funds position compared to the linked quarter is primarily attributable to the growth in core deposits mentioned above and net reductions in both the loan and investment portfolios. The favorable variance from the fourth quarter of 2008 reflects core deposit growth and a net reduction in investment securities.

Capital expenditures are expected to approximate $10.2 million over the next 12 months, which consist primarily of new banking office construction, office equipment and furniture, and technology purchases. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

### Borrowings

At December 31, 2009, advances from the FHLB consisted of $50.0 million in outstanding debt consisting of 41 notes. In 2009, the Bank made FHLB advance payments totaling approximately $39.7 million and obtained five new FHLB advances totaling $38.6 million. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

49

Table 13
CONTRACTUAL CASH OBLIGATIONS

Table 13 sets forth certain information about contractual cash obligations at December 31, 2009.

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| (Dollars in Thousands) | < 1 Yr | > 1 – 3 Yrs | > 3 – 5 Yrs | > 5 Years | Total |
| Federal Home Loan Bank Advances | $ 3,277 | $ 16,069 | $ 15,597 | $ 15,072 | $ 50,015 |
| Subordinated Notes Payable | - | - | - | 62,887 | 62,887 |
| Operating Lease Obligations | 1,268 | 1,138 | 862 | 4,739 | 8,007 |
| Time Deposit Maturities | 378,009 | 53,698 | 3,612 | - | 435,319 |
| Liability for Unrecognized Tax Benefits | 590 | 2,091 | 2,318 | 673 | 5,672 |
| Total Contractual Cash Obligations | $ 383,144 | $ 72,996 | $ 22,389 | $ 83,371 | $ 561,900 |

We have issued two junior subordinated deferrable interest notes to wholly owned Delaware statutory trusts. The first note for $30.9 million was issued to CCBG Capital Trust I in November 2004. The second note for $32.0 million was issued to CCBG Capital Trust II in May 2005. See Note 9 in the Notes to Consolidated Financial Statements for additional information on these borrowings. The interest payments for the CCBG Capital Trust I borrowing are due quarterly at a fixed rate of 5.71% and effective January 2010 will adjust quarterly to a variable rate of LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The interest payments for the CCBG Capital Trust II borrowing are due quarterly at a fixed rate of 6.07% and effective June 2010 will adjust annually to a variable rate of LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds of these borrowings were used to partially fund acquisitions.

In accordance with the Federal Reserve Resolutions, CCBG must receive approval from the Federal Reserve prior to incurring new debt, refinancing existing debt, or making interest payments on its trust preferred securities. Under the terms of each trust preferred securities note, in the event of default or if we elect to defer interest on the note, we may not, with certain exceptions, declare or pay dividends or make distributions on our capital stock or purchase or acquire any of our capital stock.

Capital

We continue to maintain a strong capital position. The ratio of shareowners' equity to total assets at year-end was 9.89%, 11.20%, and 11.19%, in 2009, 2008, and 2007, respectively. Management believes its strong capital base offers protection against adverse developments that may arise during the course of an economic downturn.

We are subject to risk-based capital guidelines that measure capital relative to risk weighted assets and off-balance sheet financial instruments. Capital guidelines issued by the Federal Reserve Board require bank holding companies to have a minimum total risk-based capital ratio of 8.00%, with at least half of the total capital in the form of Tier I Capital. As of December 31, 2009, we exceeded these capital guidelines with a total risk-based capital ratio of 14.11% and a Tier 1 ratio of 12.76%, compared to 14.69% and 13.34%, respectively, in 2008. As allowed by Federal Reserve Board capital guidelines the trust preferred securities issued by CCBG Capital Trust I and CCBG Capital Trust II are included as Tier I Capital in our capital calculations previously noted. See Note 9 in the Notes to Consolidated Financial Statements for additional information on our two trust preferred security offerings. See Note 14 in the Notes to Consolidated Financial Statements for additional information as to our capital adequacy.

A tangible leverage ratio is also used in connection with the risk-based capital standards and is defined as Tier I Capital divided by average assets. The minimum leverage ratio under this standard is 3% for the highest-rated bank holding companies which are not undertaking significant expansion programs. An additional 1% to 2% may be required for other companies, depending upon their regulatory ratings and expansion plans. On December 31, 2009, we had a leverage ratio of 10.39% compared to 11.51% in 2008.

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

| (Dollars in Thousands) | 2009 | 2008 | 2007 |
|---|---|---|---|
| Common Stock | 170 | 171 | 172 |
| Additional Paid-in Capital | 36,099 | 36,783 | 38,243 |
| Retained Earnings | 246,460 | 262,890 | 260,325 |
| Subtotal | 282,729 | 299,844 | 298,740 |
| Accumulated Other Comprehensive (Loss), Net of Tax | (14,830) | (21,014) | (6,065) |
| Total Shareowners' Equity | $ 267,899 | $ 278,830 | $ 292,675 |

At December 31, 2009, our common stock had a book value of $15.72 per diluted share compared to $16.27 in 2008. Book value is impacted by the net unrealized gains and losses on investment securities available-for-sale. At December 31, 2009, the net unrealized gain was $0.6 million compared to $1.5 million in 2008. Beginning in 2006, book value has been impacted by the recording of our unfunded pension liability through other comprehensive income in accordance with Accounting Standards Code Topic 715. At December 31, 2009, the net pension liability reflected in other comprehensive income was $15.4 million compared to $22.5 million at December 31, 2008. The change in our net pension liability in 2008 was primarily attributable to a decline in pension plan assets driven by market disruption and significant asset de-valuation occurring during the second half of the year. In 2009, pension plan asset values improved resulting in a favorable variance in our net pension liability.

Our Board of Directors has authorized the repurchase of up to 2,671,875 shares of our outstanding common stock. The purchases are made in the open market or in privately negotiated transactions. During the nine year period ended December 31, 2009, we have repurchased a total of 2,520,130 shares at an average purchase price of $25.19 per share. In 2009, we repurchased 145,888 shares at an average purchase price of $10.65 and in 2008 we repurchased a total of 90,041 shares at an average purchase price of $26.77 per share. We must seek prior approval from the Federal Reserve before repurchasing any additional shares of our common stock.

We offer an Associate Stock Incentive Plan under which certain associates are eligible to earn shares of our common stock based upon achieving established performance goals. In 2009 and 2008, we issued no shares under this plan as the financial performance goal for each year was not achieved.

We also offer stock purchase plans, which permit our associates and directors to purchase shares at a 10% discount. In 2009, 49,104 shares, valued at approximately $700,000 (before 10% discount), were issued under these plans.

Dividends

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

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

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

Dividends declared and paid totaled $.7600 per share in 2009. For each quarter of 2009, we declared and paid a dividend of $.1900 per share. We paid dividends of $.7450 per share in 2008 and $.7100 per share in 2007. Total cash dividends declared per share in 2009 represented a 2.0% increase over 2008. For 2009, our dividend payout ratio was not meaningful as our dividends exceeded our earnings for the year by $16.4 million. The dividend payout ratio was 83.71% and 42.77% for 2008 and 2007, respectively.

State and federal regulations place certain restrictions on the payment of dividends by both CCBG and the Bank. The Bank’s aggregate net profits for the past two years are significantly less than the dividends declared and paid to CCBG over that same period. In addition, in accordance with the Federal Reserve Resolutions, the Bank must seek approval from the Federal Reserve prior to declaring or paying a dividend.  As a result, the Bank must obtain approval from its regulators to issue and declare any further dividends to CCBG.  The Bank may not receive the required approvals.  As of December 31, 2009, we believe we have sufficient cash to fund shareowner dividends in 2010 should the Board choose to declare and pay a quarterly dividend during the year.  Even if we have sufficient cash to pay dividends, we must seek approval from the Federal Reserve to pay dividends to our shareowners and may not receive the required approvals.  We will continue to evaluate our dividend quarterly and consult with our regulators concerning matters relating to our overall dividend policy.

Inflation

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

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

## OFF-BALANCE SHEET ARRANGEMENTS

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

At December 31, 2009, we had $326.2 million in commitments to extend credit and $13.2 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

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

## FOURTH QUARTER 2009 – FINANCIAL RESULTS

For the fourth quarter of 2009, we realized a net loss of $3.4 million, or $0.20 per diluted share compared to a net loss of $1.5 million, or $0.08 per diluted share, for the third quarter of 2009. The loss reported for the fourth quarter reflects a loan loss provision of $10.8 million ($0.39 per diluted share) versus $12.3 million ($0.45 per diluted share) in the third quarter. Higher costs related to the management and resolution of problem assets also negatively impacted earnings for the fourth quarter.

Tax equivalent net interest income for the fourth quarter of 2009 was $25.8 million compared to $27.1 million for the third quarter of 2009. The decrease of $1.3 million in net interest income from the third quarter was partially due to a shift in earning asset mix, unfavorable asset repricing and a slight increase in the costs of funds. Quarter over quarter, interest income was adversely impacted by declines in the investment and loan portfolios as well as unfavorable repricing, while interest expense increased reflecting the incremental costs of our money market promotion. A decrease in both short-term and long-term borrowings, and a lower level of foregone interest on nonaccrual loans partially offset the unfavorable variances referenced above.

Pressure on asset repricing and an unfavorable shift in our earning asset mix, coupled with a higher cost of funds resulted in the net interest margin of 4.59% for the fourth quarter of 2009, which represents a decline of 40 basis points from the third quarter.

The provision for loan losses for the fourth quarter was $10.8 million compared to $12.3 million for the third quarter of 2009. The reduction in the loan loss provision compared to the prior quarter was primarily due to a lower level of reserves required for impaired loans as this portfolio declined $9.1 million from the third quarter. Net charge-offs in the fourth quarter totaled $11.8 million (2.42% of average loans) compared to $8.7 million (1.76% of average loans) in the third quarter of 2009. At year-end 2009, the allowance for loan losses of $44.0 million was 2.30% of outstanding loans (net of overdrafts) and provided coverage of 41% of nonperforming loans compared to 2.32% and 41%, respectively at the end of the third quarter.

Noninterest income for the fourth quarter of 2009 totaled $14.4 million compared to $14.3 million in the third quarter of 2009. Compared to the linked quarter, the $0.1 million, or 0.7% increase was due to higher deposit and asset management fees of $84,000 and $105,000, respectively, partially offset by lower mortgage banking revenues ($113,000). The increase in deposit fees reflects a reduction in overdraft losses, while the increase in asset management fees is attributable to higher account valuations for managed accounts. The decline in mortgage banking revenues is attributable to a reduction in our residential real estate loan pipeline.

Noninterest expense totaled $35.3 million for the fourth quarter of 2009 compared to $31.6 million in the third quarter of 2009. Compared to the linked quarter, increases in professional fees ($595,000), legal fees ($214,000), OREO expense ($1.6 million), pension expense ($587,000), and advertising expense ($223,000) drove the unfavorable variance. Legal fees and OREO expenses were higher due to the cost of managing and resolving problem assets. The increase in professional fees primarily reflects payment to a consulting firm for services related to a review of our vendor maintenance contracts that will result in future cost reductions. The variance in pension expense reflects a third quarter adjustment based on final pension expense estimates provided to us by our actuarial firm. A deposit promotion initiated during the fourth quarter as well an increase in public relations expenses drove the unfavorable variance in advertising expense.

The $3.0 million tax benefit is attributable to our book operating loss and reflects a higher than normalized effective tax rate due to our permanent book/tax differences, primarily tax exempt income.

Average earning assets were $2.238 billion for the fourth quarter of 2009, an increase of $80.2 million, or 3.6% from the third quarter of 2009. The improvement from the third quarter is primarily attributable to an increase in the overnight funds position of $109.0 million, partially offset by a $9.2 million and $20.1 million decrease in the investment and loan portfolios, respectively.

The improvement in the net funds position reflects our focus on core deposit growth, a successful money market account ("MMA") campaign in selected markets and the increase in balances of several large deposit relationships. Loans declined primarily in the residential and construction portfolios with moderate growth experienced in the commercial mortgage portfolio. Loans transferred to Other Real Estate Owned and gross charge-offs were significant factors contributing to the net reduction in the loan portfolio for the quarter.

At the end of the fourth quarter, nonperforming assets (including nonaccrual loans, restructured loans, and other real estate owned) totaled $144.1 million, a net decrease of $0.3 million from the third quarter. Nonaccrual loans totaled $86.3 million at the end of the fourth quarter, a net decrease of $5.6 million from the prior linked quarter primarily due to the migration of loans to the other real estate owned category and loan charge-offs. Quarter over quarter, the other real estate owned balance increased $2.8 million and restructured loans increased by $2.5 million. Vacant residential land loans of $28.1 million represented approximately 33% of our nonaccrual loan balance at quarter-end, which is a decline from $39.4 million, or 43%, at the end of the linked quarter. Total nonperforming assets represented 7.38% of loans and other real estate at the end of the fourth quarter compared to 7.25% at the prior quarter-end. The increase over the linked quarter is attributable to a net decline in the loan portfolio as nonperforming assets have been essentially flat for the last two quarters.

Average total deposits were $2.090 billion for the fourth quarter, an increase of $139.8 million, or 7.2%, from the third quarter. On a linked quarter basis, the increase reflects core deposit growth of approximately $150.0 million resulting from the MMA campaign in select markets and the opening of several large deposit relationships. The recent MMA campaign, which was launched during the third quarter, generated in excess of $90.0 million in new deposit balances and served to support our core deposit growth initiatives and to further strengthen the bank's overall liquidity position. Additionally, our absolutely free checking product continues to be successful as both balances and the number of accounts continue to post growth quarter over quarter. Certificates of deposit balances have grown as rate pressures from higher paying institutions have eased in most of our markets. Partially offsetting the core deposit growth was a decline in average public funds of approximately $10.0 million attributable to seasonal run-off and the decision not to match competitors' rates. Starting late in the fourth quarter, we had an influx of public funds deposits (an increase of $159 million over prior quarter-end), which is seasonal in nature and we anticipate those deposits will decline during the first and second quarter of 2010.

We maintained an average net overnight funds (deposits with banks plus Fed funds sold less Fed funds purchased) sold position of $101.1 million during the fourth of 2009 compared to an average net overnight funds purchased position of $53.5 million in the third quarter. The favorable variance of $154.5 million in the funds position compared to the linked quarter is primarily attributable to the growth in core deposits mentioned above and net reductions in both the loan and investment portfolios.

ACCOUNTING POLICIES

Critical Accounting Policies

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

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

The allowance for loan losses includes allowance allocations calculated in accordance with FASB ASC Topic 310 – Receivables (formerly Statement of Financial Accounting Standards ("SFAS") No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS 118), and allowance allocations calculated in accordance with ASC Topic 450 (formerly SFAS 5), "Accounting for Contingencies." The level of the allowance reflects management's continuing evaluation of specific credit risks, loan loss experience, current loan portfolio quality, present economic conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

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

Intangible Assets. Intangible assets consist primarily of goodwill, core deposit assets, and other identifiable intangibles that were recognized in connection with various acquisitions. Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We perform an impairment review on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment testing requires management to make significant judgments and estimates relating to the fair value of its reporting unit.

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

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

The weighted-average discount rate is determined by matching the anticipated defined pension plan cash flows to a long-term corporate Aa-rated bond index and solving for the underlying rate of return, which investing in such securities would generate. This methodology is applied consistently from year-to-year. The discount rate utilized in 2009 was 6.00%. The estimated impact to 2009 pension expense of a 25 basis point increase or decrease in the discount rate would have been a decrease and increase of approximately $344,000 and $361,000, respectively. We anticipate using a 5.75% discount rate in 2010.

The weighted-average expected long-term rate of return on plan assets is determined based on the current and anticipated future mix of assets in the plan. The assets currently consist of equity securities, U.S. Government and Government agency debt securities, and other securities (typically temporary liquid funds awaiting investment). The weighted-average expected long-term rate of return on plan assets utilized for 2009 was 8.0%. The estimated impact to 2009 pension expense of a 25 basis point increase or decrease in the rate of return would have been an approximate $158,000 decrease or increase, respectively. We anticipate using a rate of return on plan assets for 2010 of 8.0%.

The assumed rate of annual compensation increases of 5.50% in 2009 is based on expected trends in salaries and the employee base. We anticipate using a compensation increase of 4.5% for 2010 reflecting current market trends.

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

Recent Accounting Pronouncements

The Financial Accounting Standards Board, the SEC, and other regulatory bodies have enacted new accounting pronouncements and standards that either has impacted our results in prior years presented, or will likely impact our results in 2010. Please refer to the footnote No. 1 in the Notes to our Consolidated Financial Statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

Item 8. Financial Statements and Supplementary Data

Table 14
QUARTERLY FINANCIAL DATA (Unaudited)

| | 2009 | | | | 2008 | | |
|---|---|---|---|---|---|---|---|
| (Dollars in Thousands, Except Per Share Data) | Fourth | Third(1) | Second | First | Fourth | Third | Second |
| Summary of Operations: | | | | | | | |
| Interest Income | $ 29,756 | $ 30,787 | $ 31,180 | $ 31,053 | $ 33,229 | $ 34,654 | $ 36,2 |
| Interest Expense | 4,464 | 4,235 | 4,085 | 4,058 | 5,482 | 7,469 | 8,7 |
| Net Interest Income | 25,292 | 26,552 | 27,095 | 26,995 | 27,747 | 27,185 | 27,4 |
| Provision for Loan Losses | 10,834 | 12,347 | 8,426 | 8,410 | 12,497 | 10,425 | 5,4 |
| Net Interest Income After Provision for Loan Losses | 14,458 | 14,205 | 18,669 | 18,585 | 15,250 | 16,760 | 22,0 |
| Noninterest Income | 14,411 | 14,304 | 14,634 | 14,042 | 13,311 | 20,212 | 15,7 |
| Noninterest Expense | 35,313 | 31,615 | 32,930 | 32,257 | 31,002 | 29,916 | 30,7 |
| (Loss) Income Before Income Taxes | (6,444) | (3,106) | 373 | 370 | (2,441) | 7,056 | 7,0 |
| Income Tax (Benefit) Expense | (3,037) | (1,618) | (401) | (280) | (738) | 2,218 | 2,1 |
| Net (Loss) Income | $ (3,407) | $ (1,488) | $ 774 | $ 650 | $ (1,703) | $ 4,838 | $ 4,8 |
| Net Interest Income (FTE) | $ 25,845 | $ 27,128 | $ 27,679 | $ 27,578 | $ 28,387 | $ 27,802 | $ 28,0 |
| Per Common Share: | | | | | | | |
| Net (Loss) Income Basic | $ (0.20) | $ (0.08) | $ 0.04 | $ 0.04 | $ (0.10) | $ 0.29 | $ 0 |
| Net (Loss) Income Diluted | (0.20) | (0.08) | 0.04 | 0.04 | (0.10) | 0.29 | 0 |
| Dividends Declared | 0.190 | 0.190 | 0.190 | 0.190 | 0.190 | 0.185 | 0.1 |
| | 15.72 | 15.76 | 16.03 | 16.18 | 16.27 | 17.45 | 17 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Diluted Book Value | | | | | | | |
| Market Price: | | | | | | | |
| High | 14.34 | 17.10 | 17.35 | 27.31 | 33.32 | 34.50 | 30 |
| Low | 11.00 | 13.92 | 11.01 | 9.50 | 21.06 | 19.20 | 21 |
| Close | 13.84 | 14.20 | 16.85 | 11.46 | 27.24 | 31.35 | 21 |
| | | | | | | | |
| Selected Average Balances: | | | | | | | |
| Loans | $ 1,944,873 | $ 1,964,984 | $ 1,974,197 | $ 1,964,086 | $ 1,940,083 | $ 1,915,008 | $ 1,908,8 |
| Earning Assets | 2,237,561 | 2,157,362 | 2,175,281 | 2,166,237 | 2,150,841 | 2,207,670 | 2,303,9 |
| Assets | 2,575,250 | 2,497,969 | 2,506,352 | 2,486,925 | 2,463,318 | 2,528,638 | 2,634,7 |
| Deposits | 2,090,008 | 1,950,170 | 1,971,190 | 1,957,354 | 1,945,866 | 2,030,684 | 2,140,5 |
| Shareowners' Equity | 268,556 | 275,027 | 277,114 | 281,634 | 302,227 | 303,595 | 300,8 |
| Common Equivalent Average Shares: | | | | | | | |
| Basic | 17,034 | 17,024 | 17,010 | 17,109 | 17,125 | 17,124 | 17,1 |
| Diluted | 17,035 | 17,025 | 17,010 | 17,131 | 17,135 | 17,128 | 17,1 |
| | | | | | | | |
| Ratios: | | | | | | | |
| Return on Assets | (0.52)% | (0.24)% | 0.12% | 0.11% | (0.28)% | 0.76% | 0 |
| Return on Equity | (5.03)% | (2.15)% | 1.12% | 0.94% | (2.24)% | 6.34% | 6 |
| Net Interest Margin (FTE) | 4.59% | 4.99% | 5.11% | 5.16% | 5.26% | 5.01% | 4 |
| Efficiency Ratio | 85.21% | 73.86% | 75.44% | 75.07% | 71.21% | 59.27% | 66 |

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

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED FINANCIAL STATEMENTS

## Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated statements of financial condition of Capital City Bank Group, Inc. and subsidiary as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareowners' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capital City Bank Group, Inc. and subsidiary at December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Capital City Bank Group, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 4, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Birmingham, Alabama
March 4, 2010

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

| | As of December 31, | |
|---|---|---|
| (Dollars in Thousands) | 2009 | 2008 |
| ASSETS | | |
| Cash and Due From Banks | $ 57,877 | $ 88,143 |
| Federal Funds Sold and Interest Bearing Deposits | 276,416 | 6,806 |
| Total Cash and Cash Equivalents | 334,293 | 94,949 |
| | | |
| Investment Securities, Available-for-Sale | 176,673 | 191,569 |
| | | |
| Loans, Net of Unearned Interest | 1,915,940 | 1,957,797 |
| Allowance for Loan Losses | (43,999) | (37,004) |
| Loans, Net | 1,871,941 | 1,920,793 |
| | | |
| Premises and Equipment, Net | 115,439 | 106,433 |
| Goodwill | 84,811 | 84,811 |
| Other Intangible Assets | 4,030 | 8,072 |
| Other Assets | 121,137 | 82,072 |
| Total Assets | $ 2,708,324 | $ 2,488,699 |
| | | |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest Bearing Deposits | $ 427,791 | $ 419,696 |
| Interest Bearing Deposits | 1,830,443 | 1,572,478 |
| Total Deposits | 2,258,234 | 1,992,174 |
| | | |
| Short-Term Borrowings | 35,841 | 62,044 |
| Subordinated Notes Payable | 62,887 | 62,887 |
| Other Long-Term Borrowings | 49,380 | 51,470 |
| Other Liabilities | 34,083 | 41,294 |
| Total Liabilities | 2,440,425 | 2,209,869 |
| | | |
| SHAREOWNERS' EQUITY | | |
| Preferred Stock, $.01 par value; 3,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common Stock, $.01 par value; 90,000,000 shares authorized; 17,036,407 and 17,126,997 shares issued and outstanding at December 31, 2009 and December 31, 2008, respectively | 170 | 171 |
| Additional Paid-In Capital | 36,099 | 36,783 |
| Retained Earnings | 246,460 | 262,890 |
| Accumulated Other Comprehensive Loss, Net of Tax | (14,830) | (21,014) |
| Total Shareowners' Equity | 267,899 | 278,830 |
| Total Liabilities and Shareowners' Equity | $ 2,708,324 | $ 2,488,699 |

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

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| | For the Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in Thousands, Except Per Share Data) | 2009 | 2008 | 2007 |
| INTEREST INCOME | | | |
| Interest and Fees on Loans | $ 117,324 | $ 132,682 | $ 154,567 |
| Investment Securities: | | | |
| U.S. Treasury | 547 | 747 | 574 |
| U.S. Government Agencies and Corporations | 1,827 | 2,562 | 3,628 |
| States and Political Subdivisions | 2,672 | 3,185 | 2,894 |
| Other Securities | 324 | 581 | 747 |
| Funds Sold | 82 | 3,109 | 2,913 |
| Total Interest Income | 122,776 | 142,866 | 165,323 |
| | | | |
| INTEREST EXPENSE | | | |
| Deposits | 10,585 | 27,306 | 44,687 |
| Short-Term Borrowings | 291 | 1,157 | 2,871 |
| Subordinated Notes Payable | 3,730 | 3,735 | 3,730 |
| Other Long-Term Borrowings | 2,236 | 1,802 | 1,794 |
| Total Interest Expense | 16,842 | 34,000 | 53,082 |
| | | | |
| NET INTEREST INCOME | 105,934 | 108,866 | 112,241 |
| Provision for Loan Losses | 40,017 | 32,496 | 6,163 |
| Net Interest Income After Provision for Loan Losses | 65,917 | 76,370 | 106,078 |
| | | | |
| NONINTEREST INCOME | | | |
| Service Charges on Deposit Accounts | 28,142 | 27,742 | 26,130 |
| Data Processing Fees | 3,628 | 3,435 | 3,133 |
| Asset Management Fees | 3,925 | 4,235 | 4,700 |
| Securities Transactions | 10 | 125 | 14 |
| Mortgage Banking Revenues | 2,699 | 1,623 | 2,596 |
| Bank Card Fees | 10,306 | 12,701 | 13,706 |
| Gain on Sale of Portion of Merchant Services Portfolio | - | 6,250 | - |
| Other | 8,681 | 10,929 | 9,021 |
| Total Noninterest Income | 57,391 | 67,040 | 59,300 |
| | | | |
| NONINTEREST EXPENSE | | | |
| Salaries and Associate Benefits | 65,067 | 61,831 | 60,279 |
| Occupancy, Net | 9,798 | 9,729 | 9,347 |
| Furniture and Equipment | 9,096 | 9,902 | 9,890 |
| Intangible Amortization | 4,042 | 5,685 | 5,834 |
| Other | 44,112 | 34,325 | 36,642 |
| Total Noninterest Expense | 132,115 | 121,472 | 121,992 |
| | | | |
| (LOSS) INCOME BEFORE INCOME TAXES | (8,807) | 21,938 | 43,386 |
| Income Tax (Benefit) Expense | (5,336) | 6,713 | 13,703 |

| | | | | | | |
|---|---|---|---|---|---|---|
| NET (LOSS) INCOME | $ | (3,471) | $ | 15,225 | $ | 29,683 |
| BASIC NET (LOSS) INCOME PER SHARE | $ | (0.20) | $ | 0.89 | $ | 1.66 |
| DILUTED NET (LOSS) INCOME PER SHARE | $ | (0.20) | $ | 0.89 | $ | 1.66 |
| | | | | | | |
| Average Basic Common Shares Outstanding | | 17,044 | | 17,141 | | 17,909 |
| Average Diluted Common Shares Outstanding | | 17,045 | | 17,147 | | 17,912 |

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

CAPITAL CITY BANK GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY

| (Dollars in Thousands, Except Per Share Data) | Shares Outstanding | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income, Net of Taxes | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2006 | 18,518,398 | 185 | 80,654 | 243,242 | (8,311) | 315,770 |
| Comprehensive Income: | | | | | | |
| Net Income | | - | - | 29,683 | - | 29,683 |
| Ne Net Change in Unrealized Loss On Available-for-Sale Securities (net of tax) | | - | - | - | 1,080 | 1,080 |
| Net Change in Funded Status of Defined Pension Plan and SERP Plan (net of tax) | | - | - | - | 1,166 | 1,166 |
| Total Comprehensive Income | | - | - | - | - | 31,929 |
| Miscellaneous – Other | | - | - | 223 | - | 223 |
| Cash Dividends ($.710 per share) | | - | - | (12,823) | - | (12,823) |
| Stock Performance Plan Compensation | | - | 265 | - | - | 265 |
| Issuance of Common Stock | 68,519 | 1 | 571 | - | - | 572 |
| Repurchase of Common Stock | (1,404,364) | (14) | (43,247) | - | - | (43,261) |
| Balance, December 31, 2007 | 17,182,553 | 172 | 38,243 | 260,325 | (6,065) | 292,675 |
| Cumulative Effect of Adoption of EITF 06-4 | | | | (30) | | (30) |
| ComComprehensive Income: | | | | | | |
| Net Net Income | | - | - | 15,225 | - | 15,225 |
| Net Change in Unrealized Gain On Available-for-Sale Securities (net of tax) | | - | - | - | 1,230 | 1,230 |
| Net Change in Funded Status of Defined Pension Plan and SERP Plan (net of tax) | | - | - | - | (16,179) | (16,179) |
| Total Comprehensive Income | | - | - | - | - | 276 |