Form 10-K

Securities and Exchange Commission
Washington, D.C. 20549

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act Of 1934

For the Fiscal Year Ended December 31, 1998

Commission File Number 0-13358

CAPITAL CITY BANK GROUP, INC.
Incorporated in the State of Florida

I.R.S. Employer Identification Number 59-2273542

Address: 217 North Monroe Street, Tallahassee, Florida 32301

Telephone: (850) 671-0610

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock - $.01 par value

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 shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the 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)

As of March 1, 1999, there were issued and outstanding 8,862,038 shares of the registrant's common stock. The registrant's voting stock is listed on the National Association of Securities Dealers Automated Quotation ("Nasdaq") National Market under the symbol "CCBG." The aggregate market value of the voting stock held by nonaffiliates of the registrant, based on the average of the bid and asked prices of the registrant's common stock as quoted on Nasdaq on March 1, 1999, was $81.3 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement (pursuant to Regulation 14A), to be filed not more than 120 days after the end of the fiscal year covered by this report, are incorporated by reference into Part III.

CAPITAL CITY BANK GROUP, INC.
ANNUAL REPORT FOR 1998 ON FORM 10-K

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PART I

Item 1. Business

General

Capital City Bank Group, Inc. ("CCBG" or "Company"), is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. At December 31, 1998, the Company had consolidated total assets of $1.3 billion and shareowners' equity of $111.7 million. Its principal asset is the capital stock of Capital City Bank (the "Bank" or "CCB"). The Bank accounted for approximately 99.9% of the consolidated assets at December 31, 1998 and approximately 100% of consolidated net income of the Company for the year ended December 31, 1998. In addition to its banking subsidiary, the Company has four other indirect subsidiaries, Capital City Trust Company, Capital City Securities, Inc., Capital City Mortgage Company (inactive) and Capital City Services Company, all of which are wholly-owned subsidiaries of Capital City Bank.

On February 12, 1999, the Company entered into a definitive agreement to acquire Grady Holding Company and its subsidiary, First National Bank of Grady County in Cairo, Georgia. First National Bank of Grady County is a $114 million asset institution with offices in Cairo and Whigham, Georgia. The Company will issue 21.50 shares for each of the 60,910 shares of First National Bank of Grady County. The closing is scheduled for the second quarter of 1999 and the transaction will be accounted for as a pooling-of-interests.

On December 4, 1998, the Company completed its purchase and assumption transaction with First Union National Bank ("First Union") and acquired eight of First Union's branch offices which included deposits. The Company paid a deposit premium of $16.9 million, and assumed $219 million in deposits and acquired certain real estate. The deposit premium is being amortized over ten years.

On January 31, 1998, the Company completed its purchase and assumption transaction with First Federal Savings & Loan Association of Lakeland, Florida ("First Federal-Florida") and acquired five of First Federal-Florida's branch offices which included loans and deposits. The Company paid a deposit premium of $3.6 million, or 6.33%, and assumed $55 million in deposits and purchased loans equal to $44 million. Four of the five offices were merged into existing offices of Capital City Bank. The deposit premium is being amortized over fifteen years.

On October 18, 1997, the Company consolidated its three remaining bank affiliates, Levy County State Bank, Farmers & Merchants Bank of Trenton and Branford State Bank into Capital City Bank. The

consolidation enabled the Company to present a consistent image to a broader market and to better serve its clients through the use of a common name with multiple, convenient locations.

On July 1, 1996, the Company completed its acquisition of First Financial Bancorp, Inc. ("First Financial"), parent company of First Federal Bank, a federal savings bank headquartered in Tallahassee, Florida. First Financial was acquired for $20 million in cash. The Company borrowed $15 million to fund the acquisition. Subsequent to the acquisition of First Financial, First Federal Bank was merged into Capital City Bank on December 6, 1996. As of June 30, 1996, First Financial had approximately $244 million in assets, $192 million in loans, $205 million in deposits, $15 million in equity and operated five branch locations in North Florida.

The Company and Capital City Bank are headquartered in Tallahassee, Florida, the state capital. State government and two major state universities employ a large percentage of the local work force and help to provide a strong and stable economy for Tallahassee and the surrounding area.

Dividends and management fees received from the Bank are the Company's only source of income. Dividend payments by the Bank to CCBG depend on the capitalization, earnings and projected growth of the Bank, and are limited by various regulatory restrictions. See the section entitled "Regulation and Supervision" and Note 4 in the Notes to Consolidated Financial Statements for additional information.

The Company had a total of 633 (full-time equivalent) employees at March 1, 1999. Page 18 contains other financial and statistical information about the Company.

Banking Services

Capital City Bank is a state chartered, full service bank, engaged in the commercial and retail banking business, including accepting demand, savings and time deposits, extending credit, originating residential mortgage loans, providing data processing services, trust services, retail brokerage services and a broad range of other financial services to corporate and individual customers, governmental entities and correspondent banks.

The Bank is a member of the "Honor" system which enables customers to utilize their "QuickBucks" or "QuickCheck" cards to access cash at automatic teller machines ("ATMs") or point of sale merchants located throughout the state of Florida. Additionally, customers may access their cash outside Florida through various interconnected ATM networks and merchant locations.

Data Processing Services

Capital City Services Company provides data processing services to financial institutions (including CCB), government agencies and commercial customers located throughout North Florida and South Georgia. As of March 1, 1999, the services company is providing computer services to correspondent banks which have relationships with Capital City Bank.

Trust Services

Capital City Trust Company is the investment management arm of Capital City Bank. The Trust Company provides asset management for individuals through agency, personal trust and IRA accounts personal investment management. Pension, profit sharing and 401(k) Plans administration are significant product lines. Associations, endowments and other non-profit entities hire the Trust Company

to manage their long-term investment portfolios. Individuals requiring the services of a trustee, personal representative, or a guardian are served by a staff of well trained professionals. The market value of trust assets under discretionary management exceeded $261 million as of December 31, 1998, with total assets under administration exceeding $305 million.

Brokerage Services

The Company offers access to retail investment products through Capital City Securities, Inc., a wholly-owned subsidiary of Capital City Bank. These products are offered through FSC Securities Corporation, a registered Broker/Dealer, member NASD and SIPC. Insurance products are provided by FSC Agency, Inc. Non-deposit investment and insurance products are: not FDIC insured, not bank guaranteed, and may lose value. Capital City Securities, Inc.'s brokers are licensed through FSC Securities Corporation and FSC Agency, Inc., and offer a full line of retail securities products, including U.S. Government bonds, tax-free municipal bonds, stocks, mutual funds, unit investment trusts and annuities. Capital City Bank Group and its subsidiaries are not affiliated with FSC Securities Corporation or FSC Agency, Inc.

Competition

The banking business in Florida is rapidly changing and CCBG and its subsidiaries operate in a highly competitive environment, especially with respect to services and pricing. Recent consolidation of the industry significantly alters the competitive environment within the State of Florida and, management believes, further enhances the Company's competitive position and opportunities in many of its markets. CCBG's primary market area is seventeen counties in North Florida. 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. Capital City Bank's Leon County deposits totaled $462 million, or 39.8%, of the Company's consolidated deposits at December 31, 1998.

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

	Market Share as of September 30(1)		
	1998	1997	1996
Capital City Bank:			
Bradford County(3)	53.3%	--	--
Citrus County	4.3%	4.4%	4.4%
Clay County(3)	5.8%	--	--
Dixie County(2)	15.7%	--	--
Gadsden County	28.0%	29.8%	27.5%
Gilchrist County	50.5%	45.1%	47.4%
Gulf County(3)	48.6%	--	--
Hernando County	2.0%	2.0%	2.0%
Jefferson County	27.1%	28.2%	27.3%
Leon County	23.4%	22.8%	23.9%
Levy County	37.7%	25.6%	27.9%
Madison County	20.6%	22.6%	28.5%
Pasco County	1.2%	1.3%	1.5%
Putnam County(3)	30.3%	--	--
Suwannee County	18.7%	16.6%	16.2%
Taylor County	32.7%	36.0%	43.3%
Washington County(3)	30.0%	--	--

(1) Obtained from the September 30 Office Level Report published by the Florida Bankers Association for each year.

(2) Entered the market in January 1998.

(3) Entered the market in December 1998

The following table sets forth the number of commercial banks and offices, including the Company and its competitors, within each of the respective counties as of September 30, 1998.

County	Number of Commercial Banks	Number of Commercial Bank Offices
Bradford	3	5
Citrus	10	38
Clay	7	24
Dixie	3	4
Gadsden	4	9
Gilchrist	2	4
Gulf	2	4
Hernando	11	36
Jefferson	2	2
Leon	13	69
Levy	4	13
Madison	4	5
Pasco	14	85
Putnam	6	11
Suwannee	4	6
Taylor	3	5
Washington	3	3

Supervision and Regulation

The Company and the Bank must comply with state and federal banking laws and regulations that control virtually all aspects of operations. These laws and regulations generally aim to protect depositors, not shareholders. Particular references to statutes or regulations in this document qualify and supersede any summaries or descriptions of the particular statues or regulations. Any changes in applicable laws or regulations may materially affect the business and prospects of the Company. Such legislative changes or changes in regulator policies may also affect the operations of the Company and the Bank. The Company cannot predict the nature or extent of effects on business or earnings caused by future fiscal or monetary policies, economic control or new federal or state legislation.

The Company

General

As a result of its ownership of the Bank, the Company is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended ("BHCA") and is regulated by the Board of Governors of the Federal Reserve System ("FRB"). Under the BHCA, the Company is subject to periodic examination by the FRB and is required to file periodic reports of its operations and such additional information as the FRB may require.

The Bank Holding Company Act of 1956

Permitted Activities. The BHCA limits the Company's activities to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the FRB determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In determining whether a particular activity is permissible, the FRB 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. The FRB has determined the following activities, among others, to be permissible for bank holding companies:

Factoring accounts receivable;

- Acquiring or servicing loans;
- Leasing personal property;
- Conducting discount securities brokerage activities;
- Performing certain data processing services;
- Acting as agent or broker and selling credit life insurance and certain other types of insurance in connection with credit transactions; and
- Performing certain insurance underwriting activities.

There are no territorial limitations on permissible non-banking activities of bank holding companies. Despite prior approval, the FRB may order a holding company or its subsidiaries to terminate any activity or to terminate ownership or control of any subsidiary when the FRB 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. In addition, and subject to certain exceptions, the BHCA and the Change in Bank Control Act, together with regulations thereunder, require FRB approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company acquiring "control" of a bank holding company, such as the Company. A conclusive presumption of control exists if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. A rebuttable presumption of control exists if a person acquires 10% or more but less than 25% of any class of voting securities and either the Company has registered securities under Section 12 of the Securities Exchange Act of 1934, as amended, or no other person will own a greater percentage of that class of voting securities immediately after the transaction.

The BHCA requires, among other things, the prior approval of the FRB in any case where a bank holding company proposes to (i) acquire all or substantially all of the assets of a bank, (ii) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank (unless it owns a majority of such bank's voting shares), or (iii) merge or consolidate with any other bank holding company. Additionally, the BHCA prohibits a bank holding company, with certain limited exceptions, from (i) acquiring or retaining direct or indirect ownership or control of more than 5% of the outstanding voting stock of any company which is not a bank or bank holding company, or (ii) engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or performing services for its subsidiaries unless such non-banking business is determined by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto.

Tying. The BHCA also prohibits bank holding companies and their affiliates from tying the provision of certain services, such as extending credit, to other services offered by the bank holding company or its affiliates.

Capital; Dividends; Source of Strength. The FRB imposes certain capital requirements on the Company under the BHCA, 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, the Company is 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 the Company (although the ability of the Bank to pay dividends will be subject to regulatory restrictions as described below under "The Bank - Dividends"). The Company is also able to raise capital for contribution to the Bank by issuing securities without having to receive regulatory approval, subject to compliance with federal and state securities laws.

In accordance with FRB policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Company might not otherwise do so. Under the BHCA, the FRB 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 FRB'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.

Financial Institutions Reform, Recovery and Enforcement Act of 1989

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was enacted in August 1989. FIRREA contains major regulatory reforms which include stronger civil and criminal enforcement provisions applicable to all financial institutions. FIRREA allows the acquisition of healthy and failed savings and loans by bank holding companies, and removes all interstate barriers on these bank holding company acquisitions. With certain qualifications, FIRREA also allows bank holding companies to merge acquired savings and loans into their existing commercial bank subsidiaries.

The FRB, the Florida Department of Banking and Finance (the "FDBF") and the Federal Deposit Insurance Corporation ("FDIC") collectively have extensive enforcement authority over depository institutions and their holding companies, and this authority has been enhanced substantially by FIRREA. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders, to initiate injunctive actions, and, in extreme cases, to terminate deposit insurance. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the federal banking agencies. FIRREA significantly increased the amount of and grounds for civil money penalties and generally requires public disclosure of final enforcement actions.

FIRREA further requires a depository institution or holding company thereof to give 30 days' prior written notice to its primary federal regulator of the appointment of any proposed director or senior executive officer if the institution (i) has been chartered less than two years; (ii) has undergone a change in control within the preceding two years; or (iii) is not in compliance with the minimum capital requirements or otherwise is in a "troubled condition." The regulator would have the opportunity to disapprove any such appointment.

Economic Growth and Regulatory Paperwork Reduction Act of 1996

The enactment of the Economic Growth and Regulatory Paperwork Reduction Act of 1996 ("EGRPRA") streamlined the non-banking activities application process for well-capitalized and well-managed bank holding companies. Under EGRPRA, qualified bank holding companies may commence a regulatory approved non-banking activity without prior notice to the FRB; written notice is merely required within 10 days after commencing the activity. Also, under EGRPRA, the prior notice period is reduced to 12 business days in the event of any non-banking acquisition or share purchase, assuming the size of the acquisition does not exceed 10% of risk-weighted

assets of the acquiring bank holding company and the consideration does not exceed 15% in Tier 1 capital. This prior notice requirement also applies to commencing a non-banking activity de novo which has been previously approved by order of the FRB, but not yet implemented by regulations.

The Bank

General

The Bank is a banking institution which is chartered by and operated in the State of Florida, and it is subject to supervision and regulation by the FDBF. The Bank is a member bank of the Federal Reserve System and its operations are also subject to broad federal regulation and oversight by the FRB. The deposit accounts of the Bank are insured by the FDIC which gives the FDIC certain enforcement powers over the Bank. 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 laws, and fair credit reporting.

The FDBF supervises and regulates all areas of the Bank's operations including, without limitation, making of loans, the issuance of securities, the conduct of the Bank's corporate affairs, capital adequacy requirements, the payment of dividends and the establishment or closing of branches.

In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 prohibits insured state chartered institutions from conducting activities as principal that are not permitted for national banks. A bank may, however, 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 funds.

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 savings and time deposits and pay interest on them, to accept checking accounts, 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 customers.

The FRB requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements.

Institutions are authorized to borrow from the Federal Reserve Bank "discount window," but FRB regulations require institutions to exhaust other reasonable alternative sources of funds before borrowing from the Federal Reserve Bank.

Dividends

The Bank is subject to legal limitations on the frequency and amount of dividends that can be paid to the Company. The FRB may restrict the ability of a bank to pay dividends if such payments would constitute an unsafe or unsound banking practice. These regulations and restrictions may limit the Company's ability to obtain funds from the Bank for its cash needs, including funds for acquisitions and the payment of dividends, interest and operating expenses.

In addition, Florida law also places certain restrictions on the declaration of dividends from state chartered banks to their holding companies. Pursuant to Section 658.37 of the Florida Banking

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 FDBF, 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 FDBF or a federal regulatory agency.

Insurance of Accounts and Other Assessments

The Bank's deposit accounts are insured by the Bank Insurance Fund ("BIF") of the FDIC to a maximum of $100,000 for each insured depositor. The federal banking agencies require an annual audit by independent accountants of the Bank and make their own periodic examinations of the Bank. They may revalue assets of an insured institution based upon appraisals, and require establishment of specific reserves in amounts equal to the difference between such revaluation and the book value of the assets, as well as require specific charge-offs relating to such assets. The federal banking agencies may prohibit any FDIC-insured institution from engaging in any activity they determine by regulation or order poses a serious threat to the insurance fund.

Under federal law, BIF and the Savings Association Insurance Fund ("SAIF") are each statutorily required to be recapitalized to a 1.25% of insured reserve deposits ratio. In view of the BIF's achieving the 1.25% ratio during 1995, the FDIC reduced the assessments for most banks by adopting a new assessment rate schedule of 4 to 31 basis points for BIF deposits. The FDIC further reduced the BIF assessment schedule by an additional four basis points for the 1996 calendar year so that most BIF members paid only the statutory minimum semiannual assessment of $1,000. During this same period, the FDIC retained the existing assessment rate schedule applicable to SAIF deposits of 23 cents to 31 cents per $100 of domestic deposits, depending on the institution's risk classification.

On September 30, 1996, the Deposit Insurance Funds Act of 1996 ("DIFA") was enacted and signed into law. DIFA was intended to reduce the amount of semi-annual FDIC insurance premiums for savings association deposits acquired by banks to the same levels assessed for deposits insured by BIF. To accomplish this reduction, DIFA provided for a special one-time assessment imposed on deposits insured by SAIF to recapitalize SAIF and bring it up to statutory required levels. This one-time assessment accrued in the third quarter of 1996. As a result, since early 1997, both BIF and SAIF deposits have been assessed at the same rate of 0 to 27 basis points depending on risk classification.

Effective January 1, 1997, DIFA also separated from the SAIF assessments the Financing Corporation ("FICO") assessments which service the interest on its bond obligations. According to the FDIC's risk-related assessment rate schedules, the amount assessed on individual institutions by the FICO will be in addition to the amount paid for deposit insurance. By law, the FICO rate on BIF-assessable deposits must be one-fifth the rate on SAIF-assessable deposits until the insurance funds are

merged as specified in DIFA or until January 1, 2000, whichever occurs first.

Transactions With Affiliates

The authority of the Bank to engage in transactions with related parties or "affiliates" or to make loans to insiders is limited by certain provisions of law and regulations. Commercial banks, such as the Bank, are prohibited from making extensions of credit to any affiliate that engages in an activity not permissible under the regulations of the FRB for a bank holding company. Pursuant to Sections 23A and 23B of the Federal Reserve Act ("FRA"), member banks are subject to restrictions regarding transactions with affiliates ("Covered Transactions").

With respect to any Covered Transaction, the term "affiliate" includes any company that controls or is controlled by a company that controls the Bank, a bank or savings association subsidiary of the Bank, any persons who own, control or vote more than 25% of any class of stock of the Bank or the Company and any persons who the Board of Directors determines exercises a controlling influence over the management of the Bank or the Company. The term "affiliate" also includes any company controlled by controlling stockholders of the Bank or the Company and any company sponsored and advised on a contractual basis by the Bank or any subsidiary or affiliate of the Bank. Such transactions between the Bank and its respective affiliates are subject to certain requirements and limitations, including limitations on the amounts of such Covered Transac tions that may be undertaken with any one affiliate and with all affiliates in the aggregate. The federal banking agencies may further restrict such transactions with affiliates in the interest of safety and soundness.

Section 23A of the FRA limits Covered Transactions with any one affiliate to 10% of an institution's capital stock and surplus and limits aggregate affiliate transactions to 20% of the Bank's capital stock and surplus. Sections 23A and 23B of the FRA provide that a loan transaction with an affiliate generally must be collateralized (but may not be collateralized by a low quality asset or securities issued by an affiliate) and that all Covered Transactions, as well as the sale of assets, the payment of money or the provision of services by the Bank to an affiliate, must be on terms and condi tions that are substantially the same, or at least as favorable to the Bank, as those prevailing for comparable nonaffiliated transactions. A Covered Transaction generally is defined as a loan to an affiliate, the purchase of securities issued by an affiliate, the purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral for a loan, or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In addition, the Bank generally may not purchase securities issued or underwritten by an affiliate.

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 ("Principal Shareholders") and their related interests (i.e., any company controlled by such executive officer, director, or Principal Shareholders), or to any political or campaign committee the funds or services of which will benefit such executive officers, directors, or Principal Shareholders or which is controlled by such executive officers, directors or Principal Shareholders, are subject to Sections 22(g) and 22(h) of the FRA and the regulations promulgated thereunder (Regulation O).

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 such persons must first be approved in advance by a disinterested majority of the entire board of directors. Section 22(h) of the FRA prohibits loans to any such 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 such extensions of credit outstanding to all such 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 of 1977 ("CRA") requires a financial institution to help meet the credit needs of its entire community, including low-income and moderate-income areas. On May 3, 1995, the federal banking agencies issued final regulations which change the manner in which the regulators measure a bank's compliance with the CRA obligations. The final regulations adopt a performance-based evaluation system which bases CRA ratings on an institutions's actual lending, service and investment performance, rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. Federal banking agencies may take CRA compliance into account when regulating and supervising bank and holding company activities; for example, CRA performance may be considered in approving proposed bank acquisitions.

Capital Regulations

The FRB has adopted capital adequacy guidelines for bank holding companies and their subsidiary state-chartered banks that are members of the Federal Reserve System. Bank holding companies and their subsidiary state-chartered member banks must comply with the FRB's risk-based capital guidelines. 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 1 Capital. Tier I Capital, which includes common stockholders' equity, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, 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 FRB (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 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 which supplement the risk-based guideline. 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 FRB 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, asset quality, management, earnings, liquidity, and interest rate sensitivity.

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 FRB also continues 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 1 risk-based ratio of no less than 6%, and a total risk-based capital ratio of no less than 10%, and the bank must not be under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level.

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 FRB possesses the discretionary authority to require higher ratios with respect to bank holding companies and state-member banks.

The Company and the Bank currently exceed the requirements contained in FRB regulations, policies and directives pertaining to capital adequacy, and management of the Company and the Bank is unaware of any violation or alleged violation of these regulations, policies or directives.

Interstate Banking and Branching

The BHCA was amended in September 1994 by the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act"). The Interstate Banking Act provides that, effective September 29, 1995, adequately capitalized and managed bank holding companies were permitted to acquire banks in any state. State laws prohibiting interstate banking or discriminating against out-of-state banks are preempted as of the effective date. States were not permitted to enact laws opting out of this provision; however, states were 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 such 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 percent or more of the deposits of insured banks and thrift institutions held in the state in which the target maintains a branch or 10 percent or more of the deposits nationwide. States have the authority to waive the 30 percent 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 as of June 1, 1997, adequately capitalized and managed banks are able to engage in interstate branching by merging with banks in different states. States were permitted to enact legislation authorizing interstate mergers earlier than June 1, 1997, or, 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 before June 1, 1997.

Florida has responded to the enactment of the Interstate Banking Act by enacting the Florida Interstate Branching Act (the "Florida Branching Act") which became effective on May 31, 1997. The purpose of the Florida Branching Act was to permit interstate branching, effective June 1, 1997, through merger transactions under the Interstate Banking Act. Under the Florida Branching Act, with the prior approval of the FDBF, 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 such transaction may maintain and operate the branches of the Florida bank that participated in such 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.

Year 2000 Guidelines

The Federal Financial Institutions Examination Counsel ("FFIEC"), which is composed of federal bank regulatory authorities including the FDIC and the FRB, has issued supervisory guidelines on how banks must achieve Year 2000 compliance. Although federal bank regulatory authorities have not issued official regulations regarding the Year 2000 problem, if a bank fails to meet the FFIEC's Year 2000 guidelines, regulators may require the bank to submit an acceptable compliance plan. If an insured member bank consistently fails to satisfy the Year 2000 guidelines, either the FRB or FDIC may take corrective action based on their authority to maintain the safety and soundness of bank activities. The Company and the Bank have taken steps to comply with the FFIEC's Year 2000 guidelines. See "Item 7 - Year 2000 Compliance."

Future Legislative Developments

Because of concerns relating to competitiveness and the safety and soundness of the industry, Congress is considering a number of wide-ranging proposals for altering the structure, regulation and competitive relationships of the nation's financial institutions. Among such bills are proposals to prohibit banks and bank holding companies from conducting certain types of activities, to subject banks to increased disclosure and reporting requirements, to alter the statutory separation of commercial and investment banking and to further expand the powers of banks, bank holding companies and competitors of banks. It cannot be predicted whether or in what form any of these proposals will be adopted or the extent to which the business of the Company may be affected thereby.

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 FRB. 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 FRB. 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 FRB 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 FRB are influenced by various factors, including inflation, unemployment, 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.

Item 2. Properties

Capital City Bank Group, Inc., is headquartered in Tallahassee, Florida. The Company's 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 Capital City Bank but is located, in part, on land leased under a long-term agreement.

Capital City Bank's Parkway Office is located on land leased from the Smith Interests General Partnership in which several directors and officers have an interest. Lease payments during 1998 totaled approximately $65,000.

As of March 1, 1999 the Company had forty-four banking locations. Of the forty-four locations, the Company leases either the land or buildings (or both) at six locations and owns the land and buildings at the remaining thirty-eight.

Item 3. Legal Proceedings

Not Applicable

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

Not Applicable

PART II

Item 5. Market for the Registrant's Common Equity and Related Shareowner Matters

The Company's common stock trades on the Nasdaq National Market under the symbol "CCBG". "The Nasdaq National Market" or "Nasdaq" is a highly-regulated electronic securities market comprised of competing market makers whose trading is supported by a communications network linking them to quotation dissemination, trade reporting, and order execution. This market also provides specialized automation services for screen-based negotiations of transactions, on-line comparison of transactions, and a range of informational services tailored to the needs of the security industry, investors and issuers. The Nasdaq National Market is operated by The Nasdaq Stock Market, Inc., a wholly-owned subsidiary of the National Association of Securities Dealers, Inc.

<TABLE>
The following table presents the range of high and low closing sales prices reported on the Nasdaq National Market and cash dividends declared for each quarter during the past two years. The Company had a total of 1,294 shareowners of record at March 1, 1999.
<CAPTION>

	1998 (1)(2)				1997 (1)(2)			
	Fourth Qtr.	Third Qtr.	Second Qtr.	First Qtr.	Fourth Qtr.	Third Qtr.	Second Qtr.	First Qtr.
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Common stock price:								
High	$31.00	$33.13	$32.67	$32.67	$27.33	$23.50	$21.50	$21.33
Low	24.13	19.00	29.75	29.25	23.00	20.83	19.33	14.00
Close	27.63	29.13	31.38	31.67	27.00	23.17	20.83	20.17
Cash dividends declared per share	.12	.11	.11	.11	.11	.10	.10	.10

Future payment of dividends will be subject to determination and declaration by the Board of Directors.

(1) All share and per share information have been adjusted to reflect a three-for-two stock split effective June 1, 1998.

(2) Prior to February 3, 1997, there was not an established trading market for the common stock of the Company.
</TABLE>

<TABLE>
Item 6. Selected Financial & Other Data
(Dollars in Thousands, Except Per ShareData)(1)
<CAPTION>

	For the Years Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>

Interest Income	$ 79,253	$ 75,664	$ 66,171	$ 54,477	$ 47,891
Net Interest Income	47,911	46,524	40,752	33,989	33,166
Provision for Loan Losses	2,160	1,788	1,463	293	1,246
Net Income	13,188	12,438	11,360	9,522	8,825
Per Common Share:					
Basic Net Income	$ 1.49	$ 1.43	$ 1.32	$ 1.11	$ 1.03
Diluted Net Income	1.49	1.42	1.31	1.11	1.03
Cash Dividends Declared	.45	.41	.37	.33	.30
Book Value	12.62	11.45	10.33	9.48	8.48
Based on Net Income:					
Return on Average Assets	1.23%	1.24%	1.25%	1.25%	1.18%
Return on Average Equity	12.42	13.15	13.48	12.32	12.51
Dividend Payout Ratio	30.20	28.75	28.03	29.94	29.34
Averages for the Year:					
Loans, Net of Unearned Interest	$ 742,737	$ 692,691	$ 560,986	$ 432,313	$ 406,873
Earning Assets	961,349	900,824	815,467	681,186	666,919
Assets	1,070,862	1,001,110	910,658	763,697	745,334
Deposits	895,039	836,862	770,492	657,384	647,254
Long-Term Debt	15,850	17,202	10,120	71	1,144
Shareowners' Equity	106,196	94,591	84,287	77,259	70,563
Year-End Balances:					
Loans, Net of Unearned Interest	$ 763,667	$ 697,726	$ 672,196	$ 443,973	$ 420,804
Earning Assets	1,180,240	898,759	905,428	716,170	645,832
Assets	1,329,405	1,009,673	1,021,399	813,659	742,630
Deposits	1,160,284	834,812	866,696	699,579	648,174
Long-Term Debt	16,329	15,896	18,072	1,982	-
Shareowners' Equity	111,700	100,450	89,500	81,158	72,400
Equity to Assets Ratio	8.40%	9.95%	8.76%	9.97%	9.75%
Other Data:					
Basic Average Shares Outstanding	8,836,828	8,721,551	8,599,197	8,599,702	8,542,476
Shareowners of Record(2)	1,294	1,194	1,005	933	761
Banking Locations(2)	44	37	36	30	29
Full-Time Equivalent Associates(2)	633	593	573	503	489

(1) All share and per share data have been adjusted to reflect a 3-for-2 stock split effective June 1, 1998.

(2) As of March 1st of the following year.
</TABLE>

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

FINANCIAL REVIEW

The following analysis reviews important factors affecting the financial condition and results of operations of Capital City Bank Group, Inc., for the periods shown below. The Company, has made, and may continue to make, various forward-looking statements with respect to financial and business matters that involve numerous assumptions, risks and uncertainties. The following is a list of factors, among others, that could cause actual results to differ materially from the forward-looking statements: general and local economic conditions, competition for the Company's customers from other banking and financial institutions, government legislation and regulation, changes in interest rates, the impact of rapid growth, significant changes in the loan portfolio composition, and other risks described in the Company's filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of the Company.

This section provides supplemental information which should be read in conjunction with the consolidated financial statements and related notes. The Financial Review is divided into three subsections entitled Earnings Analysis, Financial Condition, and Liquidity and Capital Resources. Information therein should facilitate a better understanding of the major factors and trends which affect the Company's earnings performance and financial

condition, and how the Company's performance during 1998 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and its subsidiaries, collectively, are referred to as "CCBG" or the "Company." The subsidiary bank is referred to as the "Bank" or "CCB".

The year-to-date averages used in this report are based on daily balances for each respective year. In certain circumstances, comparing average balances for the fourth quarter of consecutive years may be more meaningful than simply analyzing year-to-date averages. Therefore, where appropriate, quarterly averages have been presented for analysis and have been noted as such. See Table 2 for annual averages and Table 14 for financial information presented on a quarterly basis.

All prior period share and per share data have been adjusted to reflect a three-for-two stock split effective June 1, 1998, and a two-for-one stock split effective April 1, 1997.

On February 12, 1999, the Company entered into a definitive agreement to acquire Grady Holding Company and its subsidiary, First National Bank of Grady County in Cairo, Georgia. First National Bank of Grady County is a $114 million asset institution with offices in Cairo and Whigham, Georgia. The Company will issue 21.50 shares for each of the 60,910 shares of First National Bank of Grady County. The closing is scheduled for the second quarter of 1999 and the transaction will be accounted for as a pooling-of-interests.

On December 4, 1998, the Company completed its purchase and assumption transaction with First Union National Bank ("First Union") and acquired eight of First Union's branch offices which included deposits. The Company paid a deposit premium of $16.9 million, and assumed $219 million in deposits and acquired certain real estate. The deposit premium is being amortized over ten years. Average balances and earnings of the Company for 1998 were not significantly impacted by the acquisition.

On January 31, 1998, the Company completed its purchase and assumption transaction with First Federal Savings & Loan Association of Lakeland, Florida ("First Federal-Florida") and acquired five of First Federal-Florida's branch offices which included loans and deposits. The Company paid a premium of $3.6 million, or 6.33%, and assumed $55 million in deposits and purchased loans equal to $44 million. Four of the five offices were merged into existing offices of Capital City Bank. The premium is being amortized over fifteen years.

On October 18, 1997, the Company consolidated its three remaining bank affiliates into Capital City Bank. See Note 20 in the Notes to Consolidated Financial Statements for further information.

On July 1, 1996, the Company completed its acquisition of First Financial Bancorp, Inc. and its wholly-owned subsidiary, First Federal Bank (collectively referred to as "First Financial"). The acquisition was accounted for as a purchase. Operating results of First Financial are included in the Company's consolidated financial statements presented herein for all periods subsequent to June 30, 1996. On December 6, 1996, First Federal Bank was merged into the Company's lead bank, Capital City Bank. Financial comparisons to prior year periods are not necessarily comparable due to the impact of the acquisition.

The bank is headquartered in Tallahassee and, as of December 31, 1998, had forty-four offices covering seventeen counties.

EARNINGS ANALYSIS

In 1998, the Company's earnings were $13.2 million, or $1.49 per basic share, This compares to

earnings of $12.4 million, or $1.43 per basic share, in 1997, and $11.4 million, or $1.32 per basic share, in 1996. The Company's diluted per share earnings were $1.49 in 1998, $1.42 in 1997 and $1.31 in 1996, respectively.

On a per diluted share basis, earnings increased 4.9% in 1998 versus 8.4% in 1997. Growth in operating revenues (defined as net interest income plus noninterest income) of $4.5 million, or 7.0%, was the most significant factor contributing to increased earnings in 1998. This and other factors are discussed throughout the Financial Review. A condensed earnings summary is presented in Table 1.

<TABLE>
Table 1
CONDENSED SUMMARY OF EARNINGS
(Dollars in Thousands, Except Per Share Data)(1)
<CAPTION>

	For the Years Ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Interest Income	$79,253	$75,664	$66,171
Taxable Equivalent Adjustments	1,449	1,610	1,771
Total Interest Income (FTE)	80,702	77,274	67,942
Interest Expense	31,342	29,140	25,419
Net Interest Income (FTE)	49,360	48,134	42,523
Provision for Loan Losses	2,160	1,788	1,463
Taxable Equivalent Adjustments	1,449	1,610	1,771
Net Interest Income After Provision for Loan Losses	45,751	44,736	39,289
Noninterest Income	21,751	18,591	16,316
Noninterest Expense	47,309	44,765	39,255
Income Before Income Taxes	20,193	18,562	16,350
Income Taxes	7,005	6,124	4,990
Net Income	$13,188	$12,438	$11,360
Basic Net Income Per Share	$ 1.49	$ 1.43	$ 1.32
Diluted Net Income Per Share	$ 1.49	$ 1.42	$ 1.31

(1) All share and per share data have been adjusted to reflect a 3-for-2 stock split effective June 1, 1998.

</TABLE>

Net Interest Income

Net interest income represents the Company's 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. An analysis of the Company's net interest income, including average yields and rates, is presented in Tables 2 and 3. This information is presented 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 1998, taxable-equivalent net interest income increased $1.2 million, or 2.5%. This follows an increase of $5.6 million, or 13.2% in 1997, and $6.9 million, or 19.5%, in 1996. Taxable equivalent net interest income during 1998 is attributable to growth in earning assets. The favorable impact of asset growth was partially offset by declining yields reflecting the overall decline in general interest rates.

<TABLE>
Table 2
AVERAGE BALANCES AND INTEREST RATES(Taxable Equivalent Basis - Dollars in Thousands)
<CAPTION>

	1998			1997			1996		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:									
Loans, Net of Unearned Interest(1)(2)	$ 742,737	$67,680	9.11%	$ 692,691	$64,153	9.26%	$560,986		

	1998 Average Balance	1998 Interest	1998 Rate	1997 Average Balance	1997 Interest	1997 Rate	1996 Average Balance	1996 Interest	1996 Rate
								$51,999	9.27%
Taxable Investment Securities	91,657	5,449	5.95	110,947	6,959	6.27	138,982	8,648	6.22
Tax-Exempt Investment Securities(2)	64,657	4,231	6.54	68,948	4,634	6.72	73,857	5,106	6.91
Funds Sold	62,298	3,342	5.37	28,238	1,528	5.41	41,642	2,189	5.26
Total Earning Assets	961,349	80,702	8.39	900,824	77,274	8.58	815,467	67,942	8.33
Cash & Due From Banks	50,433			48,654			50,302		
Allowance For Loan Losses	(8,673)			(8,396)			(7,374)		
Other Assets	67,753			60,028			52,263		
TOTAL ASSETS	$1,070,862			$1,001,110			$910,658		
Liabilities:									
NOW Accounts	$ 107,690	$ 1,996	1.85%	$ 104,190	$ 1,765	1.69%	$102,453	$ 1,877	1.83%
Money Market Accounts	82,521	2,468	2.99	80,435	2,407	2.99	85,256	2,523	2.96
Savings Accounts	91,382	1,952	2.14	85,503	1,718	2.01	86,437	1,813	2.10
Other Time Deposits	415,716	21,932	5.28	382,398	20,105	5.26	325,453	16,867	5.18
Total Interest Bearing Deposits	697,309	28,348	4.07	652,526	25,995	3.98	599,599	23,080	3.85
Funds Purchased	37,794	1,841	4.87	31,518	1,659	5.26	25,181	1,229	4.88
Other Short-Term Borrowings	1,190	62	5.23	5,976	315	5.27	7,016	422	6.01
Long-Term Debt	15,850	1,091	6.89	17,202	1,171	6.81	10,120	688	6.80
Total Interest Bearing Liabilities	752,143	31,342	4.17	707,222	29,140	4.12	641,916	25,419	3.96
Noninterest Bearing Deposits	197,730			184,336			170,893		
Other Liabilities	14,793			14,961			13,562		
TOTAL LIABILITIES	964,666			906,519			826,371		
Shareowners' Equity:									
Common Stock	88			87			87		
Additional Paid-In Capital	8,003			5,794			4,788		
Retained Earnings	98,105			88,710			79,412		
TOTAL SHAREOWNERS' EQUITY	106,196			94,591			84,287		
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$1,070,862			$1,001,110			$910,658		
Interest Rate Spread			4.22%			4.46%			4.37%
Net Interest Income		$49,360			$48,134			$42,523	
Net Interest Margin(3)			5.13%			5.34%			5.21%

(1) Average balances include nonaccrual loans. Interest income includes fees on loans of approximately $2,856,000, $2,913,000 and $2,241,000 in 1998, 1997, and 1996, respectively.
(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) Tax-equivalent net interest income divided by earning assets.
</TABLE>

<TABLE>
Table 3
RATE/VOLUME ANALYSIS(1)
(Taxable Equivalent Basis - Dollars in Thousands)
<CAPTION>

	1998 Changes from 1997			1997 Changes from 1996		
		Due To Average			Due To Average	
<S>	Total <C>	Volume <C>	Rate <C>	Total <C>	Volume <C>	Rate <C>
EARNING ASSETS:						
Loans, Net of Unearned Interest(2)	$3,527	$4,634	$(1,107)	$12,154	$12,209	$ (55)
Investment Securities						
Taxable	(1,510)	(1,209)	(301)	(1,689)	(1,744)	55
Tax-Exempt	(403)	(288)	(115)	(472)	(339)	(133)
Funds Sold	1,814	1,843	(29)	(661)	(705)	44
Total	3,428	4,980	(1,552)	9,332	9,421	(89)
Interest Bearing Liabilities:						
NOW Accounts	231	59	172	(111)	32	(143)
Money Market Accounts	61	62	(1)	(116)	(143)	27
Savings Accounts	234	118	116	(95)	(20)	(75)

Other Time Deposits	1,827	1,753	74	3,238	2,950	288
Funds Purchased	182	330	(148)	430	309	121
Other Short-Term Borrowings	(253)	(252)	(1)	(107)	(63)	(44)
Long-Term Debt	(80)	(92)	12	482	482	0
Total	2,202	1,978	224	3,721	3,547	174
Changes in Net Interest Income	$1,226	$3,002	$(1,776)	$ 5,611	$ 5,874	$ (263)

(1) This table shows the change in 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.
</TABLE>

For the year 1998, taxable equivalent interest income increased $3.4 million, or 4.4%, over 1997, compared to an increase of $9.3 million, or 13.7%, in 1997 over 1996. The Company's taxable equivalent yield on average earning assets of 8.39% represents a 19 basis point decrease from 1997, compared to a 25 basis point improvement in 1997 over 1996. During 1998, interest income was positively impacted by loan growth and the acquisition of First Federal-Florida. This was partially offset by lower yields on earning assets resulting from the decline in interest rates and increased competition. The loan portfolio, which is the largest and highest yielding component of earning assets, decreased from 77.9% in the fourth quarter of 1997 to 73.3% in the comparable quarter of 1998, reflecting the acquisition of $219 million in deposits from First Union.

Interest expense increased $2.2 million, or 7.6%, over 1997, compared to an increase of $3.7 million, or 14.6%, in 1997 over 1996. The higher level of interest expense in 1998 is attributable to the acquisition of First Federal-Florida. The average rate paid on interest-bearing liabilities was 4.17% in 1998, compared to 4.12% and 3.96%, in 1997 and 1996, respectively. The increase in the average rate during 1998 is a direct result of the mix of deposits acquired from First Federal-Florida and the introduction of a higher yielding money market account. Certificates of deposit represent a higher cost deposit product to the Company. Based on averages, certificates as a percent of total deposits increased to 46.4% in 1998, compared to 45.7% in 1997, and 42.2% in 1996.

The Company's interest rate spread (defined as the taxable equivalent yield on average earning assets less the average rate paid on interest bearing liabilities) decreased twenty-four basis points in 1998 and increased nine basis points in 1997. The decrease in 1998 is attributable to the lower yield on earning assets resulting from the lower rate environment. The increase in 1997 was attributable to the higher yield on earning assets, which was driven by a more favorable mix of earning assets.

The Company's net interest margin (defined as taxable equivalent interest income less interest expense divided by average earning assets) was 5.13% in 1998, compared to 5.34% in 1997 and 5.21% in 1996. In 1998, narrowing margins on the Company's incremental growth resulted in the decline in the margin to 5.13%, or 21 basis points.

A further discussion of the Company's earning assets and funding sources can be found in the section entitled "Financial Condition."

Provision for Loan Losses

The provision for loan losses was $2.2 million in 1998 versus $1.8 million in 1997 and $1.5 million in 1996. The provision approximates total net charge-offs for 1998 and 1997. The Company's credit quality measures declined slightly with a nonperforming assets ratio of .80% compared to .41% at year-end 1997, and a net charge-off ratio of .27% versus .24% in 1997.

At December 31, 1998, the allowance for loan losses totaled $8.5 million compared to $8.3 million in 1997. At year-end 1998, the allowance represented

1.11% of total loans and 182% of nonperforming loans. Management considers the allowance to be adequate based on the current level of nonperforming loans and the estimate of losses inherent in the portfolio at year-end. See the section entitled "Financial Condition" for further information regarding the allowance for loan losses. Selected loss coverage ratios are presented below:

	1998	1997	1996
Provision for Loan Losses as a Multiple of Net Charge-offs	1.1x	1.1x	1.0x
Pre-tax Income Plus Provision for Loan Losses as a Multiple of Net Charge-offs	11.0x	12.4x	11.7x

Noninterest Income

In 1998, noninterest income increased $3.2 million, or 17.0%, and represented 30.6% of operating income, compared to $2.3 million, or 13.9% and 28.6%, respectively, in 1997. The increase in the level of noninterest income is attributable to all major categories with the exception of service charges. Factors affecting noninterest income are discussed below.

Service charges on deposit accounts decreased $134,000, or 1.6%, in 1998, compared to an increase of $470,000, or 6.1%, in 1997. Service charge revenues in any one year are dependent on the number of accounts, primarily transaction accounts, and the level of activity subject to service charges. The decrease in 1998 is primarily attributable to higher compensating balances and an increase in charged-off deposit accounts. Fees were increased during the fourth quarter of 1998, and will favorably impact service charge income in 1999.

Data processing revenues increased $363,000, or 11.1%, in 1998 versus an increase of $191,000, or 6.4%, in 1997. The data processing center provides computer services to both financial and non-financial clients in North Florida and South Georgia. In recent years, revenue gains have been attributable to growth in processing for both financial and non-financial clients. In 1998, processing revenues for non-financial entities represented approximately 48% of the total processing revenues, down from 51% in 1997, reflecting growth in processing revenues for financial entities and a decline in revenues for non-financial entities. In 1998, the Company changed its method of income recognition on data processing revenues from the cash to the accrual method. This resulted in a one-time adjustment which increased revenues by $225,000.

In 1998, trust fees increased $559,000, or 46.5%, compared to $38,000, or 3.3% in 1997. Increases in both years were attributable to growth in assets under management. At year-end 1998, assets under management totaled $261.2 million, reflecting growth of $75.5 million, or 40.6%. For the comparable period in 1997, assets under management totaled $185.7 million, reflecting growth of $54.4 million or 41.4%.

Other noninterest income increased $2.3 million, or 37.3%, in 1998 versus an increase of $1.6 million, or 36.6% in 1997. The increase in 1998 was attributable to ATM fees, brokerage revenues, interchange commission fees and gains on the sale of real estate loans. The Company realized gains on the sale of real estate loans totaling approximately $1.5 million in 1998 compared to $803,000 in 1997. Interchange commission fees increased $383,000, or 61.7% from 1997. The increase in other noninterest income in 1997 was attributable to ATM fees, gains recognized on the sale of real estate loans and gains on the sale of bank assets.

Noninterest income as a percent of average assets was 2.03% in 1998 compared to 1.86% in 1997 and 1.79% in 1996.

Noninterest Expense

Noninterest expense for 1998 was $47.3 million, an increase of $2.5 million, or 5.7%, over 1997, compared with an increase of $5.5 million, or 14.0%, in 1997 over 1996. Factors impacting the Company's noninterest expense during 1998 and 1997 are discussed below.

The Company's aggregate compensation expense in 1998 totaled $24.7 million, an increase of $723,000, or 3.0%,over 1997. Salaries increased $1.5 million due to normal raises and additions to staff. In addition to acquisitions, the Company added staff to capitalize on competitive opportunities arising as a result of mergers of other commercial banks within its market. Offsetting the increase in salaries were reductions in pension expense and stock incentives. In 1997, total compensation increased $3.0 million, or 14.2%, over 1996. Salaries increased $2.3 million due to normal raises, the full-year impact of First Financial associates and a $317,000 charge associated with restructuring. Additionally, a 93% increase in the Company's stock price contributed to a $460,000, or 62.1%, increase in stock compensation covered under the Company's Associate Incentive Plan.

Occupancy expense (including furniture, fixtures & equipment) increased by $526,000, or 6.7%, in 1998, compared to $914,000, or 13.2%, in 1997. The increase in 1998 was attributable to higher cost for maintenance and repair which increased $502,000, or 18.7%. The increase in 1997 was attributable to higher depreciation and other FF&E expense. Offsetting these increases in 1997 was a reduction in maintenance and repairs.

Other noninterest expense increased $1.3 million and $1.6 million in 1998 and 1997, or 10.1% and 14.3%, respectively. The increase in 1998 was attributable to: (1) an increase in amortization expense of approximately $335,000 due to the acquisitions of First Federal-Florida and First Union offices; (2) an increase in advertising costs of $463,000 due to greater product and market development; and (3) an increase in printing and supplies costs of $143,000. The increase in 1997 was attributable to: (1) an increase in amortization expense of approximately $300,000 due to the acquisition of First Financial offices; (2) a one-time restructuring charge of $338,000 incurred by the Company to consolidate its three remaining subsidiary banks into Capital City Bank; (3) an increase in advertising expense of $180,000 due to the Company's enhanced focus on promoting products and the acquisition of First Financial; and (4) an increase in credit card processing fees, ORE expense and other miscellaneous expenses of $259,000, $130,000 and $225,000, respectively.

Net noninterest expense ratio (defined as noninterest income minus noninterest expense as a percent of average assets) was 2.39% in 1998 compared to 2.61% in 1997 and 2.52% in 1996. The Company's efficiency ratio (expressed as noninterest expenses, net of intangible amortization, as a percent of taxable equivalent operating revenues) was 64.8%, 64.8% (excluding restructuring charges), and 66.7% in 1998, 1997, and 1996, respectively.

Income Taxes

The consolidated provision for federal and state income taxes was $7.0 million in 1998 compared to $6.1 million in 1997 and $5.0 million in 1996. The increase in the tax provision over the last three years is primarily attributable to the higher level of taxable income.

The effective tax rate was 34.7% in 1998, 33.0% in 1997, and 30.5% in 1996. These rates differ from the statutory tax rates due primarily to tax-exempt income. The increase in the effective tax rate is

primarily attributable to the decreasing level of tax-exempt income relative to pre-tax income and an increase in the statutory tax rate for income greater than $10 million. Tax-exempt income (net of the adjustment for disallowed interest) as a percent of pre-tax income was 13.3% in 1998, 16.0% in 1997, and 20.1% in 1996.

FINANCIAL CONDITION

Average assets increased $69.8 million, or 7.0%, from $1.01 billion in 1997 to $1.07 billion in 1998. Average earning assets increased to $961.3 million in 1998, a $60.5 million, or 6.7%, increase over 1997. Average loans increased $50.0 million, or 7.2%, and accounted for 82.7% of the total growth in average earning assets. Loan growth in 1998 was funded primarily through deposits acquired through acquisitions and maturities in the investment portfolio.

Table 2 provides information on average balances while Table 4 highlights the changing mix of the Company's earning assets over the last three years.

Loans

Local markets were generally improved during 1998. Loan demand was steady and internal growth was spread evenly throughout the year. The First Federal-Florida acquisition completed in the first quarter of 1998 increased the number of markets served and enhanced the Company's line of mortgage products and services. Price and product competition remained strong during 1998 and there continues to be an increased demand for fixed rate, longer-term financing. Areas that reflected stronger demand were real estate, home equity and indirect automobile lending.

Although management is continually evaluating alternative sources of revenue, lending is a major component of the Company's business and is key to profitability. While management strives to grow the Company's loan portfolio, it can do so only by adhering to sound banking principles applied in a prudent and consistent manner. Management consistently strives to identify opportunities to increase loans outstanding and enhance the portfolio's overall contribution to earnings.

<TABLE>
Table 4
SOURCES OF EARNING ASSET GROWTH
(Average Balances - Dollars in Thousands)

	1997 to 1998 Change	Percentage of Total Change	Components of Total Earning Assets 1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
Loans:					
Commercial, Financial and Agricultural	$ (565)	(.9)%	6.3%	6.8%	7.1%
Real Estate - Construction	2,369	3.9	4.4	4.4	3.9
Real Estate - Mortgage	34,279	56.6	50.9	50.5	42.8
Consumer	13,963	23.1	15.7	15.2	15.0
Total Loans	50,046	82.7	77.3	76.9	68.8
Securities:					
Taxable	(19,290)	(31.9)	9.5	12.3	17.0
Tax-Exempt	(4,291)	(7.1)	6.7	7.7	9.1
Total Securities	(23,581)	(39.0)	16.2	20.0	26.1
Funds Sold	34,060	56.3	6.5	3.1	5.1
Total Earning Assets	$60,525	100.0%	100.0%	100.0%	100.0%

</TABLE>

The Company's average loan-to-deposit ratio increased from 82.8% in 1997 to 83.0% in 1998. It declined to a level of 77.7% in the fourth quarter of 1998 compared to 84.5% in the fourth quarter of 1997. This compares to an average loan-to-deposit ratio in 1996 of 72.8%. The lower average quarterly

loan-to-deposit ratio reflects the assumption of deposits from First Union.

Real estate construction and mortgage loans, combined, represented 71.3% of total loans (net of unearned interest) in 1998 versus 72.0% in 1997. See the section entitled "Risk Element Assets" for a discussion concerning loan concentrations.

The composition of the Company's loan portfolio at December 31, for each of the past five years is shown in Table 5. Table 6 arrays the Company's total loan portfolio as of December 31, 1998, based upon maturities. Demand loans and overdrafts are reported in the category of one year or less. As a percent of the total portfolio, loans with fixed interest rates have increased from 30.3% in 1997 to 35.4% in 1998.

Allowance for Loan Losses

Management attempts to maintain the allowance for loan losses at a level sufficient to provide for estimated losses inherent in the loan portfolio. The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes collection of the principal is unlikely.

Management evaluates the adequacy of the allowance for loan losses on a quarterly basis. The evaluations are based on the collectibility of loans and take into consideration such factors as growth and composition of the loan portfolio, evaluation of potential losses, past loss experience and general economic conditions. As part of these evaluations, management reviews all loans which have been classified internally or through regulatory examination and, if appropriate, allocates a specific reserve to each of these individual loans. Further, management establishes a general reserve to provide for losses inherent in the loan portfolio which are not specifically identified. The general reserve is based upon management's evaluation of the current and forecasted operating and economic environment coupled with historical experience. The allowance for loan losses is compared against the sum of the specific reserves plus the general reserve and adjustments are made, as appropriate. Table 7 analyzes the activity in the allowance over the past five years.

<TABLE>
Table 5
LOANS BY CATEGORY
(Dollars in Thousands)
<CAPTION>

	As of December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Commercial, Financial and Agricultural	$ 67,463	$ 53,888	$ 57,023	$ 46,149	$ 39,288
Real Estate - Construction	45,283	45,563	41,389	28,391	24,314
Real Estate - Mortgage	499,394	456,499	439,110	259,503	255,755
Consumer	151,527	141,776	137,153	113,736	106,656
Total Loans, Net of Unearned Interest	$763,667	$697,726	$674,675	$447,779	$426,013

</TABLE>

<TABLE>
Table 6
LOAN MATURITIES
(Dollars in Thousands)
<CAPTION>

	Maturity Periods			
	One Year Or Less	Over One Through Five Years	Over Five Years	Total
<S>	<C>	<C>	<C>	<C>
Commercial, Financial and Agricultural	$ 33,431	$ 30,576	$ 3,456	$ 67,463
Real Estate	77,034	50,655	416,988	544,677
Consumer	37,755	111,977	1,795	151,527

Total	$148,220	$193,208	$422,239	$763,667
Loans with Fixed Rates	$ 43,648	$155,605	$ 71,308	$270,561
Loans with Floating or Adjustable Rates	104,572	37,603	350,931	493,106
Total	$148,220	$193,208	$422,239	$763,667

</TABLE>

The allowance for loan losses at December 31, 1998 of $8.5 million compares to $8.3 million at year-end 1997. The allowance as a percent of total loans was 1.11% in 1998 versus 1.19% in 1997. There can be no assurance that in particular periods the Company will not sustain loan losses which are substantial in relation to the size of the allowance. When establishing the allowance, management makes various estimates regarding the value of collateral and future economic events. Actual experience may differ from these estimates. It is management's opinion that the allowance at December 31, 1998, is adequate to absorb losses from loans in the portfolio as of year-end.

Table 8 provides an allocation of the allowance for loan losses to specific loan categories for each of the past five years. The allocation of the allowance is developed using management's best estimates based upon available information such as regulatory examinations, internal loan reviews and historical data and trends. The allocation by loan category reflects a base level allocation derived primarily by analyzing the level of problem loans, specific reserves and historical charge-off data. Current and forecasted economic conditions, and other judgmental factors which cannot be easily quantified (e.g. concentrations), are not presumed to be included in the base level allocations, but instead are covered by the unallocated portion of the reserve. The Company faces a geographic concentration as well as a concentration in real estate lending. Both risks are cyclical in nature and must be considered in establishing the overall allowance for loan losses. Reserves in excess of the base level reserves are maintained in order to properly reserve for the losses inherent in the Company's portfolio due to these concentrations and anticipated periods of economic difficulties. As part of its Year 2000 contingency plan (discussed on page 42), the Company has reviewed its significant borrowers and allocated reserves to address the impact of the Year 2000 issue.

<TABLE>
Table 7
ANALYSIS OF ALLOWANCE FOR LOAN LOSSES
(Dollars in Thousands)
<CAPTION>

	For the Years Ended December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Balance at Beginning of Year	$8,322	$8,179	$6,474	$7,551	$7,594
Acquired Reserves	-	-	1,769	-	-
Charge-Offs:					
Commercial, Financial and Agricultural	95	392	466	520	575
Real Estate-Construction	15	31	-	-	-
Real Estate-Mortgage	832	120	91	139	315
Consumer	1,888	1,887	1,585	1,237	865
Total Charge-Offs	2,830	2,430	2,142	1,896	1,755
Recoveries:					
Commercial, Financial and Agricultural	48	340	200	157	104
Real Estate - Construction	142	-	3	-	-
Real Estate - Mortgage	172	55	-	-	12
Consumer	445	390	412	369	350
Total Recoveries	807	785	615	526	466
Net Charge-Offs	2,023	1,645	1,527	1,370	1,289
Provision for Loan Losses	2,160	1,788	1,463	293	1,246
Balance at End of Year	$8,459	$8,322	$8,179	$6,474	$7,551

Ratio of Net Charge-Offs Year to Average Loans Out-Standing, Net of Unearned Interest	.27%	.24%	.27%	.32%	.32%
Allowance for Loan Losses as a Percent of Loans, Net of Unearned Interest,at End of Year	1.11%	1.19%	1.22%	1.46%	1.79%
Allowance for Loan Losses as a Multiple of Net Charge-Offs	4.18x	5.06x	5.36x	4.73x	5.86x

</TABLE>

Risk Element Assets

Risk element assets consist of nonaccrual loans, renegotiated loans, other real estate, loans past due 90 days or more, potential problem loans and loan concentrations. Table 9 depicts certain categories of the Company's risk element assets as of December 31, for each of the last five years. Potential problem loans and loan concentrations are discussed within the narrative portion of this section.

The Company's nonperforming loans increased $3.0 million, or 187.5%, from a level of $1.6 million at December 31, 1997 to $4.6 million at December 31, 1998. During 1998, loans totaling approximately $7.2 million were added, while loans totaling $4.2 million were removed from nonaccruing status. Of the $7.2 million added, $3.6 million was attributable to two relationships. Of the $4.2 million removed from the nonaccrual category, $1.5 million consisted of principal reductions, $1.0 million represented loans transferred to ORE, $1.0 million consisted of loans brought current and returned to an accrual status and loans refinanced, and $700,000 were charged off. Where appropriate, management has allocated specific reserves to absorb anticipated losses. A majority of the Company's charge-offs in 1998 were in the consumer portfolio where loans are charged off based on past due status and are not recorded as nonaccruing loans.

<TABLE>
Table 8
ALLOCATION OF ALLOWANCE FOR LOAN LOSSES
(Dollars in Thousands)
<CAPTION>

	1998		1997		1996		1995		1994	
	Allow-ance Amount	Percent of Loans in Each Category To Total Loans	Allow-ance Amount	Percent of Loans in Each Category To Total Loans	Allow-ance Amount	Percent of Loans in Each Category To Total Loans	Allow-ance Amount	Percent of Loans in Each Category To Total Loans	Allow-ance Amount	Percent of Loans in Each Category To Total Loans
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial, Financial and Agricultural	$1,145	8.5%	$ 573	7.7%	$ 524	8.5%	$ 609	10.3%	$ 442	9.3%
Real Estate:										
Construction	403	5.9	329	6.5	237	6.1	152	6.3	187	5.7
Mortgage	2,293	65.3	1,790	65.3	2,841	65.1	2,484	58.0	2,938	60.0
Consumer	1,872	20.3	1,841	20.5	1,623	20.3	1,044	25.4	963	25.0
Not Allocated	2,746	-	3,789	-	2,954	-	2,185	-	3,021	-
Total	$8,459	100.0%	$8,322	100.0%	$8,179	100.0%	$6,474	100.0%	$7,551	100.0%

</TABLE>

<TABLE>
Table 9
RISK ELEMENT ASSETS
(Dollars in Thousands)
<CAPTION>

	As of December 31,				
	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Nonaccruing Loans	$4,431	$1,403	$2,704	$2,996	$4,278
Restructured	195	224	262	1,686	1,694
Total Nonperforming Loans	4,626	1,627	2,966	4,682	5,972
Other Real Estate	1,468	1,244	1,489	1,001	1,581
Total Nonperforming Assets	$6,094	$2,871	$4,455	$5,683	$7,553
Past Due 90 Days or More	$1,040	$ 972	$ 536	$ 273	$ 258

Nonperforming Loans to Loans, Net of Unearned Interest	.61%	.23%	.44%	1.05%	1.42%
Nonperforming Assets to Loans, Net of Unearned Interest, Plus Other Real Estate	.80%	.41%	.66%	1.28%	1.79%
Nonperforming Assets to Capital(1)	5.07%	2.64%	4.56%	6.49%	9.45%
Reserve to Nonperforming Loans	182.86%	511.59%	275.76%	138.27%	126.44%

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

</TABLE>

The majority of nonaccrual loans are collateralized with real estate. Management continually reviews these loans and believes specific reserve allocations are sufficient to cover the loss exposure associated with these loans.

Interest on nonaccrual loans is generally recognized only when received. Cash collected on nonaccrual loans is applied against the principal balance or recognized as interest income based upon management's expectations as to the ultimate collectibility of principal and interest in full. If interest on nonaccruing loans had been recognized on a fully accruing basis, interest income recorded would have been $354,000 higher for the year ended December 31, 1998.

Restructured loans are those with reduced interest rates or deferred payment terms due to deterioration in the financial position of the borrower.

Other real estate totaled $1.5 million at December 31, 1998 versus $1.2 million at December 31, 1997. This category includes property owned by Capital City Bank which was acquired either through foreclosure procedures or by receiving a deed in lieu of foreclosure. During 1998, the Company added properties totaling $1.9 million (including parcels of bank premises) and partially or completely liquidated properties totaling $1.6 million, resulting in a net increase in other real estate of $300,000. Management does not anticipate any significant losses associated with other real estate.

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. Potential problem loans totaled $325,000 at December 31, 1998.

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 amounts exceed 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, the Company has both geographic concentrations as well as concentrations in the types of loans funded. Further, due to the nature of the Company's markets, a significant portion of the portfolio is associated either directly or indirectly with real estate. At December 31, 1998, approximately 71.3% of the portfolio consisted of real estate loans. Residential properties comprise approximately 69.7% of the real estate portfolio.

Management is continually analyzing its loan portfolio in an effort to identify and resolve its problem assets as quickly and efficiently as possible. As of December 31, 1998, management believes it has identified and adequately reserved for such problem assets. However, management recognizes that many factors can adversely impact various segments of its markets, creating financial difficulties for certain borrowers. As such, management continues to focus its attention on promptly identifying and providing for potential

losses as they arise.

Investment Securities

In 1998, the Company's average investment portfolio decreased $23.6 million, or 13.1%, compared to a decrease of $32.9 million, or 15.5% in 1997. As a percentage of average earning assets, the investment portfolio represented 16.3% in 1998, compared to 20.0% in 1997. During the fourth quarter of 1998, the Company purchased approximately $200.0 million in investment securities as a result of the assumption of deposits from First Union, increasing the portfolio to 29.9% of earning assets.

In 1998, average taxable investments decreased $19.3 million, or 17.4%, while tax-exempt investments decreased $4.3 million, or 6.2%. Since the enactment of the Tax Reform Act of 1986, which significantly reduced the tax benefits associated with tax-exempt investments, management has monitored the level of tax-exempt investments. The tax-exempt portfolio, as a percent of average earning assets, has declined from 18.9% in 1986 to 6.5% in 1998. Management continues to purchase "bank qualified" municipal issues when it considers the yield to be attractive and the Company can do so without adversely impacting its tax position. As part of the addition to the portfolio discussed above, municipal securities, totaling approximately $28.6 million, were purchased during the fourth quarter.

The investment portfolio is a significant component of the Company's operations and, as such, it functions as a key element of liquidity and asset/liability management. Securities may be classified as held-to-maturity, available-for-sale or trading. As of December 31, 1998, all securities are classified as available-for-sale. Classifying securities as available-for-sale offers management full flexibility in managing its liquidity and interest rate sensitivity without adversely impacting its regulatory capital levels. Securities in the available-for-sale portfolio are recorded at fair value and unrealized gains and losses associated with these securities are recorded, net of tax, in the accumulated other comprehensive income component of shareowners' equity. At December 31, 1998, shareowners' equity included a net unrealized gain of $593,000, compared to $567,000 at December 31, 1997. It is neither management's intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore the Company does not maintain a trading portfolio.

The average maturity of the total portfolio at December 31, 1998 and 1997, was 2.98 and 1.93 years, respectively. See Table 10 for a breakdown of maturities by portfolio.

The weighted average taxable-equivalent yield of the investment portfolio at December 31, 1998, was 5.73% versus 6.44% in 1997. The quality of the municipal portfolio at such date is depicted in the chart below. There were no investments in obligations, other than U.S. Governments, of any one state, municipality, political subdivision or any other issuer that exceeded 10% of the Company's shareowners' equity at December 31, 1998.

Table 10 and Note 3 in Notes to Consolidated Financial Statements present a detailed analysis of the Company's investment securities as to type, maturity and yield.

MUNICIPAL PORTFOLIO QUALITY
(Dollars in Thousands)

Moody's Rating	Amortized Cost	Percentage
AAA	$58,159	63.5%
AA-1	2,684	2.9
AA-2	1,831	2.0

AA-3	2,243	2.4
AA	1,493	1.6
A-1	2,903	3.2
A-2	572	.6
A	3,197	3.5
BAA	424	.5
Not Rated(1)	18,138	19.8
Total	$91,644	100.0%

(1) Of the securities not rated by Moody's, $13.0 million are rated "A" or higher by S&P.

<TABLE>
Table 10
MATURITY DISTRIBUTION OF INVESTMENT SECURITIES
(Dollar in Thousands)
<CAPTION>

	As of December 31, 1998		
	Amortized Cost	Market Value	Weighted Average Yield(1)
<S>	<C>	<C>	<C>
U. S. GOVERNMENTS			
Due in 1 year or less	$ 26,534	$ 26,646	5.54%
Due over 1 year thru 5 years	69,026	68,947	5.37
Due over 5 years thru 10 years	-	-	-
Due over 10 years	-	-	-
TOTAL	95,560	95,593	5.42
STATE & POLITICAL SUBDIVISIONS			
Due in 1 year or less	12,842	12,924	6.35
Due over 1 year thru 5 years	44,259	45,067	6.37
Due over 5 years thru 10 years	34,543	34,712	5.68
Due over 10 years	-	-	-
TOTAL	91,644	92,703	6.11
MORTGAGE-BACKED SECURITIES(2)			
Due in 1 year or less	12	12	6.30
Due over 1 year thru 5 years	89,122	88,901	5.81
Due over 5 years thru 10 years	990	989	5.81
Due over 10 years	-	-	-
TOTAL	90,124	89,902	5.81
OTHER SECURITIES			
Due in 1 Year or less	39,468	39,427	5.45
Due over 1 year thru 5 years	30,584	30,681	5.49
Due over 5 years thru 10 years	500	510	6.29
Due over 10 years*	4,106	4,106	7.03
TOTAL	74,658	74,724	5.56
Total Investment Securities	$351,986	$352,922	5.73%

*Federal Home Loan Bank Stock and Federal Reserve Bank Stock do not have stated maturities.

(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.
</TABLE>

AVERAGE MATURITY (In Years)
AS OF DECEMBER 31, 1998

U.S. Governments	2.44
State and Political Subdivisions	3.47
Mortgage-Backed Securities	4.06
Other Securities	1.74
TOTAL	2.98

Deposits And Funds Purchased

Average total deposits increased from $836.9 million in 1997 to $895.0 million in 1997, representing an increase of $58.1 million, or 6.9%, compared with an increase of $66.4 million, or 8.6%, in 1997. In 1998, the annual average increase is attributable to the acquisition of First Federal-Florida offices and internal growth. In 1997, the increase is attributable to the acquisition of First Financial.

In the fourth quarter of 1998, deposits averaged $968.3 million, compared to $828.2 million for the same period in 1997. The Company continues to experience a notable increase in competition for deposits, in terms of both rate and product. The Company introduced CashPower, a higher yielding money market product in the fourth quarter of 1998. The new CashPower product represents 29.3% of the money market balance at year end 1998.

As of year-end 1998, deposits totaled $1.2 billion, an increase of $325 million over the year-end 1997. This increase primarily reflects growth through acquisitions (approximately $275 million) and the introduction of the CashPower account.

Table 2 provides an analysis of the Company's average deposits, by category, and average rates paid thereon for each of the last three years. Table 11 reflects the shift in the Company's 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 funds purchased, which include federal funds purchased and securities sold under agreements to repurchase, increased $6.3 million, or 19.9%. See Note 8 in the Notes to Consolidated Financial Statements for further information.

<TABLE>
Table 11
SOURCES OF DEPOSIT GROWTH
(Average Balances - Dollars in Thousands)
<CAPTION>

	1997 to 1998 Change	Percentage of Total Change	Components of Total Deposits 1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
Noninterest Bearing Deposits	$13,394	23.0%	22.1%	22.0%	22.2%
NOW Accounts	3,500	6.0	12.0	12.5	13.3
Money Market Accounts	2,086	3.6	9.2	9.6	11.1
Savings	5,879	10.1	10.2	10.2	11.2
Other Time Deposits	33,318	57.3	46.5	45.7	42.2
Total Deposits	$58,177	100.0%	100.0%	100.0%	100.0%

</TABLE>

<TABLE>
Table 12
MATURITY DISTRIBUTION OF CERTIFICATES OF DEPOSIT $100,000 OR OVER
(Dollars in Thousands)
<CAPTION>

	December 31, 1998 Time Certificates of Deposit	Percent
<S>	<C>	<C>
Three months or less	$ 42,661	41.1%
Over three through six months	22,570	21.8
Over six through twelve months	27,484	26.5
Over twelve months	11,076	10.6
Total	$103,791	100.0%

</TABLE>

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for a banking institution is the availability of funds to meet increased loan demand and/or excessive deposit withdrawals. Management monitors the Company's financial position to ensure it has ready access to sufficient liquid funds to meet normal transaction requirements, take advantage of investment opportunities and cover unforeseen liquidity demands. In addition to core deposit growth, sources of funds available to meet liquidity demands include cash received through ordinary business activities (i.e. collection of interest and fees), federal funds sold, loan and investment maturities, bank lines of credit for the Company and approved lines for the purchase of federal funds by CCB.

As of December 31, 1998, the Company had a $25.0

million credit facility under which $17 million was currently available. The facility offers the Company an unsecured, revolving line of credit for a period of three years which matures in November 2001. Upon expiration of the revolving line of credit, the outstanding balance may be converted to a term loan and repaid over a period of seven years. The term loan is to be secured by stock of a subsidiary bank equal to at least 125% of the principal balance of the term loan. The Company, at its option, may select from various loan rates including Prime, LIBOR or the lenders' Cost of Funds rate ("COF"), plus or minus increments thereof. The LIBOR or COF rates may be fixed for a period of up to six months. The Company also has the option to select fixed rates for periods of one through five years. On July 1, 1996, the Company borrowed $15.0 million in connection with the acquisition of First Financial. In 1998, the Company reduced the amount of debt to $8.0 million. The average interest rate during 1998 was 7.11%.

The Company's credit facility imposes certain limitations on the level of the Company's equity capital, and federal and state regulatory agencies have established regulations which govern the payment of dividends to a bank holding company by its bank subsidiaries. Based on the Company's current financial condition, these limitations and/or regulations do not impair the Company's ability to meet its cash obligations or limit the Company's ability to pay future dividends on its common stock at current payout rate.

At December 31, 1998, the Company had $8.0 million in long-term debt outstanding to the Federal Home Loan Bank of Atlanta. The debt consists of six loans. The interest rates are fixed and the weighted average rate at December 31, 1998 was 6.00%. Required annual principal reductions approximate $541,000, with the remaining balances due at maturity ranging from 2005 to 2018. The debt was used to match-fund selected lending activities and is secured investment securities and by first mortgage residential real estate loans which are included in the Company's loan portfolio. See Note 9 in the Notes to Consolidated Financial Statements for additional information as to the Company's long-term debt.

The Company is a party to financial instruments with off-balance-sheet risks in the normal course of business to meet the financing needs of its customers. At December 31, 1998, the Company had $243.2 million in commitments to extend credit and $2.0 million in standby letters of credit. Commitments to extend credit are agreements to lend to a customer so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company uses the same credit policies in establishing commitments and issuing letters of credit as it does 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 its ability to meet on-going obligations.

It is anticipated capital expenditures will approximate $6.0 to $7.0 million over the next twelve months. Management believes these capital expenditures can be funded internally without impairing the Company's ability to meet its on-going obligations.

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

<TABLE>
Shareowners' Equity
(Dollars in Thousands)
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Common Stock	$ 88	$ 87	$ 87
Additional Paid-in Capital	8,524	6,508	4,905
Retained Earnings	102,495	93,288	84,426
Subtotal	111,107	99,883	89,418
Accumulated Other Comprehensive Income, Net of Tax	593	567	82
Total Shareowners' Equity	$111,700	$100,450	$89,500

</TABLE>

The Company continues to maintain a strong capital position. The ratio of shareowners' equity to total assets at year-end was 8.40%, 9.95% and 8.76%, in 1998, 1997 and 1996, respectively. The lower capital ratio in 1998 compared to 1997 reflects the acquisitions of First Federal-Florida and First Union offices. Both acquisitions were accounted for as a purchase.

The Company is 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 1 capital. Capital City Bank Group, Inc., exceeded these capital guidelines, with a total risk-based capital ratio of 10.18% and a Tier 1 ratio of 9.24%, compared to 15.10% and 13.86%, respectively, in 1997.

In addition, a tangible leverage ratio is now being used in connection with the risk-based capital standards and is defined as Tier 1 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, 1998, the Company had a leverage ratio of 6.24% compared to 9.19% in 1997. See Note 13 in the Notes to Consolidated Financial Statements for additional information as to the Company's capital adequacy.

Dividends declared and paid totaled $.45 per share in 1998. During the fourth quarter of 1998 the quarterly dividend was raised nine percent from $.11 per share to $.12 per share. The Company declared dividends of $.41 per share in 1997 and $.37 per share in 1996. The dividend payout ratio was 30.2%, 28.8%, and 28.0% for 1998, 1997 and 1996, respectively. Dividends declared per share in 1998 represented a 9.76% increase over 1997.

At December 31, 1998, the Company's common stock had a book value of $12.62 per share compared to $11.45 in 1997. Beginning in 1994, book value has been impacted by the net unrealized gains and losses on investment securities available-for-sale. At December 31, 1998, the net unrealized gain was $593,000. At December 31, 1997, the Company had a net unrealized gain of $567,000 and thus the net impact on equity for the year was an increase in book value of $26,000.

The Company began a stock repurchase plan in 1989, which remains in effect and provides for the repurchase of up to 900,000 shares. As of December 31, 1998, the Company had repurchased 790,740 shares under the plan. No shares were repurchased during 1998.

The Company offers an Associate Incentive Plan under which certain associates are eligible to earn shares of CCBG stock based upon achieving established performance goals. The Company issued 48,508 shares

in 1998 under this plan.

The Company also offers stock purchase plans to its associates and directors. In 1998, 30,314 shares were issued under these plans.

The Board of Directors approved a Dividend Reinvestment and Optional Stock Purchase Plan for the Company in December, 1996. Shares for this plan were purchased in the open market. In 1997, 14,052 shares were issued under this plan. In 1998, no shares were issued under this plan.

The Company offers a 401(k) Plan which enables associates to defer a portion of their salary on a pre-tax basis. The plan covers substantially all of the Company associates who meet the minimum age requirement. The Plan is designed to enable participants to elect to have an amount withheld from their compensation in any plan year and placed in the 401(k) Plan trust account. Matching contributions from the Company can be made up to 6% of the participant's compensation. During 1998, no contributions were made by the Company. The participants may choose to invest their contributions into seven investment funds, including CCBG common stock.

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 change 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 the Company's ability to react to changing interest rates and are discussed in further detail in the section entitled "Earnings Analysis."

Year 2000 Compliance

Introduction

The YEAR 2000 issue creates challenges with respect to the automated systems used by financial institutions and other companies. Many programs and systems are not able to recognize the year 2000, or that the new millennium is a leap year. The problem is not limited to computer systems. YEAR 2000 issues will potentially affect every system that has an embedded microchip containing this flaw.

The YEAR 2000 challenge impacts the Company as many of its transactions are date sensitive. The Company also is affected by the ability of its vendors, suppliers, customers and other third parties to be YEAR 2000 compliant.

State of Readiness

The Company is committed to addressing the YEAR 2000 challenges in a prompt and responsible manner and has dedicated significant resources to do so. An assessment of the Company's automated systems and third party operations was completed and a plan has been implemented. The Company's YEAR 2000 compliance plan ("Y2K Plan") has nine phases. These phases are (1) project management, (2) awareness, (3) assessment, (4) testing and implementation, (5) renovation, (6) customer awareness, (7) risk assessment, (8) contingency planning and (9) verification. The Company has substantially completed phases one through four, six and seven, although appropriate follow-up activities are continuing to occur. The Company will continue the

testing and implementation phases of the Y2K Plan throughout the remainder of the year.

1. Project Management. The Company has assigned primary responsibility for the YEAR 2000 project to the President of Capital City Services Company, a wholly-owned subsidiary of Capital City Bank Group, Inc. Also, the Company has hired an outside consultant to assist in project administration. Monthly updates are provided to senior management and quarterly updates are provided to the Board of Directors in order to assist them in overseeing the Company's readiness.

2. Awareness. The Company has defined the YEAR 2000 issues and gained executive level support for allocation of the resources necessary to renovate and/or upgrade all systems. A YEAR 2000 team has been established and meets regularly. The strategy developed for YEAR 2000 compliance covers in-house systems, service bureaus for outsourced systems, vendors, auditors, customers and suppliers.

3. Assessment. The Company has completed this phase of the Y2K plan. Information Technology ("IT") and non-IT systems have been assessed and mission critical applications that could potentially be affected have been identified. Mission critical is defined as anything that may have a material adverse effect on the Company if not YEAR 2000 compliant.

4. Testing and implementation. The Company's testing of mission critical systems was approximately 45% complete by December 31, 1998 and will be completed by March 1999. Throughout 1999, the Company will continue to test IT and non-IT systems and applications already implemented for YEAR 2000 compliance. As systems test successfully for YEAR 2000 compliance, they will be certified as compliant and accepted for implementation.

5. Renovation. The Company is upgrading and replacing IT and non-IT systems where appropriate and all such replacements should be substantially complete by March 31, 1999.

6. Customer Awareness. The Company has incorporated into its web site information regarding YEAR 2000. Pamphlets and brochures have been developed to increase customer awareness of the YEAR 2000 issues and to inform customers of the Company's strategy for compliance.

7. Risk Assessment. Lending officers have been trained on YEAR 2000 issues and have documented YEAR 2000 readiness of borrowers. Significant borrowers were mailed a questionnaire and have been assigned a YEAR 2000 risk rating by the Company. Appropriate response to current and future credit requests will take their YEAR 2000 status into consideration. A similar assessment was conducted of deposit customers relative to liquidity risk. Investment and funding strategies have been planned to ameliorate any potential risk in this area. Continuation of these and additional activities are planned for the remainder of 1999.

8. Contingency Planning. The Company is in the process of completing a Business Resumption/Contingency Plan. This plan will incorporate procedures for core business processes, in the event disruption of business occurs.

9. Verification. The verification process will occur subsequent to the actual century date change. This will involve verifying a successful transition of all systems and applications, and all critical dates and functions to the year 2000.

Estimated Costs to Address the Company's YEAR 2000 Issues

Costs directly related to YEAR 2000 issues are estimated to be $750,000 from 1998 to 2000, of which

65% has been spent as of year end 1998. Approximately 75% of the total spending represents costs to modify existing systems. Costs incurred by the Company prior to 1998 were immaterial. This estimate assumes that the Company will not incur significant YEAR 2000 related costs on behalf of its vendors, suppliers, customers and other third parties.

Risks of the Company's YEAR 2000 Issues

The YEAR 2000 presents certain risks to the Company and its operations. Some risks are present because the Company purchased technology applications from other parties who face YEAR 2000 challenges and additional risks that are inherent in the business of banking. Management has identified the following potential risks which could have a material adverse effect on the Company's business.

1. The Company's subsidiary bank may experience a liquidity problem if there are a significant amount of deposits withdrawn by customers who have uncertainties associated with the YEAR 2000. The Company has implemented a contingency plan to ensure there are appropriate levels of funding available.

2. The Company's operations could be materially affected by the failure of third parties who provide mission critical IT and non-IT systems. The Company has identified its mission critical third parties and will monitor their Y2K Plan progress. In response to this concern, the Company has identified and contacted the third parties who provide mission critical applications. The Company has received YEAR 2000 compliance assurances from third parties who provide mission critical applications and will continue to monitor and test their efforts for YEAR 2000 compliance.

3. The Company's ability to operate effectively in the YEAR 2000 could be adversely affected by the ability to communicate and to access utilities. The Company is in the process of incorporating a contingency plan for addressing this situation.

4. The Company's subsidiary bank lends significant amounts to businesses and contractors in our market area. If the businesses are adversely affected by the YEAR 2000 issues, their ability to repay loans could be impaired and increased credit risk could affect the Company's financial performance. As part of the Company's Y2K Plan, the Company has identified its significant borrowers, and has documented their YEAR 2000 readiness and risk to the Company.

5. Sanctions could be imposed against the Company if it does not meet deadlines or follow timetables established by the federal and state governmental agencies which regulate the Company and its subsidiaries. The Company has incorporated the regulatory guidelines for YEAR 2000 into its Y2K Plan.

Contingency Plan

Contingency plans for YEAR 2000 related interruptions are being developed and will include, but not be limited to, the development of emergency backup and recovery procedures, remediation of existing systems parallel with installation of new systems, replacing electronic applications with manual processes, and identification of alternate suppliers. All plans are expected to be completed by June 30, 1999.

Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board "FASB" issued Statement of Financial Accounting Standards "SFAS" No. 133 "Accounting for Derivative Instruments of Hedging Activities". The statement establishes accounting and reporting standards for derivative instruments (including

certain derivative instruments imbedded in other contracts). The statement is effective for fiscal years beginning after June 15, 1999. The adoption of this standard is not expected to have a material impact on reported results of operations of the Company.

Effective February 1998, the Company adopted SFAS No. 132 "Employers Disclosure about Pensions and Other Post-Retirement Benefits". Statement 132 standardizes the disclosure requirements for pension and other post-retirement benefits and requires additional information on changes in the benefit obligations and fair values of plan assets. The Statement suggests combined formats for presentation of pension and other post-retirement benefit disclosures. The adoption of this standard did not have a material impact on reported results of operations of the Company.

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". Statement 130 provides new accounting and reporting standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. The adoption of this standard did not have a material impact on reported results of operations of the Company.

In February 1997, the FASB issued SFAS No. 128, "Earnings Per Share". SFAS 128 provides new accounting and reporting standards for reporting basic and diluted earnings per share. The adoption of this standard on January 1, 1997 did not have a material impact on the reported results of operations of the Company.

In February 1997, the FASB issued SFAS No. 129, "Disclosure of Information About Capital Structure". SFAS 129 provides new accounting and reporting standards for disclosing information about an entity's capital structure. The adoption of this standard on January 1, 1997 did not have a material impact on the reported results of operation of the Company.

In June 1996, the FASB issued SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 125 provides new accounting and reporting standards for sales, securitizations, and servicing of receivables and other financial assets, for certain secured borrowing and collateral transactions, and for extinguishment of liabilities. The adoption of this standard on January 1, 1997, did not have a material impact on the financial condition or results of operations of the Company.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Overview

Market risk management arises from changes in interest rates, exchange rates, commodity prices and equity prices. The Company has risk management policies to monitor and limit exposure to market risk. Capital City Bank Group does not actively participate in exchange rates, commodities or equities. In asset and liability management activities, policies are in place that are designed to minimize structural interest rate risk.

Interest Rate Risk Management

The normal course of business activity exposes Capital City Bank Group to interest rate risk. Fluctuations in interest rate risk may result in changes in the fair market value of the Company's financial instruments, cash flows and net interest income. Capital City Bank Group's asset/liability management process manages the Company's interest rate risk.

The financial assets and liabilities of the Company

are classified as other-than-trading. An analysis of the other-than-trading financial components, including the fair values, are presented in Table 13. This table presents the Company's consolidated interest rate sensitivity position as of year-end 1998 based upon certain assumptions as set forth in the Notes to the Table. The objective of interest rate sensitivity analysis is to measure the impact on the Company's net interest income due to fluctuations in interest rates. The asset and liability values presented in Table 13 may not necessarily be indicative of the Company's interest rate sensitivity over an extended period of time.

The Company is currently liability sensitive which generally indicates that in a period of rising interest rates the net interest margin will be adversely impacted as the velocity and/or volume of liabilities being repriced exceeds assets. However, as general interest rates rise or fall, other factors such as current market conditions and competition may impact how the Company responds to changing rates and thus impact the magnitude of change in net interest income.

<TABLE>
Table 13
FINANCIAL ASSETS AND LIABILITITES MARKET RISK ANALYSIS(1)
(Dollars in Thousands)
Other Than Trading Portfolio
<CAPTION>

	December 31,							
	1999	2000	2001	2002	2003	Beyond	Total	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Loans								
Fixed Rate	$ 35,139	$ 23,921	$ 43,884	$ 43,473	$ 44,327	$ 71,308	$ 262,052	$ 265,541
Average Interest Rate	9.00%	10.12%	9.62%	9.17%	8.78%	7.35%	8.75%	
Floating Rate(2)	388,384	43,862	21,462	14,384	13,117	20,406	501,615	508,294
Average Interest Rate	8.55%	7.86%	8.27%	8.63%	8.20%	8.09%	8.45%	
Investment Securities(3)								
Fixed Rate	95,346	49,936	25,100	36,660	18,458	115,413	340,913	340,913
Average Interest Rate	5.77%	5.56%	6.11%	6.63%	5.70%	5.71%	5.83%	
Floating Rate	-	10,770	729	-	-	510	12,009	12,009
Average Interest Rate	-	6.39%	5.71%	-	-	6.29%	6.34%	
Other Earning Assets								
Fixed Rates	-	-	-	-	-	-	-	-
Average Interest Rates	-	-	-	-	-	-	-	
Floating Rates	53,500	-	-	-	-	10,151	63,651	63,651
Average Interest Rates	5.20%	-	-	-	-	4.15	5.03%	
Total Financial Assets	$572,369	$128,489	$ 91,175	$ 94,517	$ 75,902	$217,788	$1,180,240	$1,190,408
Average Interest Rates	7.80%	7.26%	8.31%	8.10%	7.93%	6.40%	7.55%	
Deposits(4)								
Fixed Rate Deposits	$421,729	$ 71,290	$ 10,913	$ 5,902	$ 2,827	$ 177	$ 512,838	$515,197
Average Interest Rates	5.05%	5.43%	5.22%	5.26%	4.99%	5.93%	5.12%	
Floating Rate Deposits	374,608	-	-	-	-	-	374,608	374,608
Average Interest Rates	2.31%	-	-	-	-	-	2.31%	
Other Interest Bearing Liabilities								
Fixed Rate Debt	541	559	382	394	407	6,046	8,329	8,918
Average Interest Rate	5.79%	5.79%	6.02%	6.02%	6.01%	6.01%	5.98%	
Floating Rate Debt	33,199	-	-	-	-	-	33,199	35,549
Average Interest Rate	4.33%	-	-	-	-	-	4.33%	
Total Financial Liabilities	$830,077	$ 71,849	$ 11,295	$ 6,296	$ 3,234	$ 6,223	$ 928,974	$ 934,272
Average interest Rate	3.79%	5.43%	5.25%	5.31%	5.12%	6.01%	3.96%	

(1) Based upon expected cash flows, unless otherwise indicated.

(2) Based upon a combination of expected maturities and repricing opportunities.

(3) Based upon contractual maturity, except for callable and floating rate securities, which are based on expected maturity and weighted average life, respectively.

(4) Savings, NOW and money market accounts can be repriced at any time, therefore, all such balances are included as floating rates deposits in 1999. Other time deposits balances are classified according to maturity.
</TABLE>

Item 8. Financial Statements and Supplementary Data

<TABLE>
Table 14
QUARTERLY FINANCIAL DATA (UNAUDITED)
(Dollars in Thousands, Except Per Share Data)(1)
<CAPTION>

	1998				1997			
	Fourth	Third	Second	First	Fourth	Third	Second	First
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Summary of Operations:								
Interest Income	$ 20,477	$ 19,483	$ 19,933	$ 19,360	$ 19,008	$ 19,362	$ 18,865	$ 18,429
Interest Expense	8,235	7,686	7,831	7,590	7,302	7,402	7,360	7,076
Net Interest Income	12,242	11,797	12,102	11,770	11,706	11,960	11,505	11,353
Provision for Loan Loss	558	558	558	486	437	449	446	456
Net interest Income After Provision for Loan Loss	11,684	11,239	11,544	11,284	11,269	11,511	11,059	10,897
Noninterest Income	6,062	5,059	5,644	4,986	4,895	4,394	4,852	4,450
Noninterest Expense	12,503	11,271	11,966	11,569	12,012	10,974	10,978	10,801
Income Before Provision for Income Taxes	5,243	5,027	5,222	4,701	4,152	4,931	4,933	4,546
Provision for Income Taxes	1,871	1,759	1,775	1,600	1,299	1,664	1,657	1,504
Net Income	$ 3,372	$ 3,268	$ 3,447	$ 3,101	$ 2,853	$ 3,267	$ 3,276	$ 3,042
Net Interest Income (FTE)	$ 12,637	$ 12,147	$ 12,445	$ 12,131	$ 12,059	$ 12,366	$ 11,929	$ 11,780
Per Common Share:								
Net Income Basic	$ .38	$ .37	$ .39	$ .35	$ .33	$ .37	$ .38	$ .35
Net Income Diluted	.38	.37	.39	.35	.32	.37	.38	.35
Dividends Declared	.12	.11	.11	.11	.11	.10	.10	.10
Book Value	12.62	12.38	12.08	11.77	11.45	11.23	10.91	10.55
Market Price(2):								
High	31.00	33.13	32.67	32.67	27.33	23.50	21.50	21.33
Low	24.13	19.00	29.75	29.25	23.00	20.83	19.33	14.00
Close	27.63	29.13	31.38	31.67	27.00	23.17	20.83	20.17
Selected Average Balances:								
Total Assets	$1,146,673	$1,052,301	$1,046,842	$1,038,806	$1,001,661	$1,003,170	$999,888	$999,837
Earning Assets	1,025,916	946,601	938,970	933,052	898,383	905,722	902,970	896,130
Loans, Net of Unearned	752,312	745,257	741,914	731,204	700,158	704,222	687,280	678,730
Total Deposits	968,301	875,938	872,087	862,875	828,239	838,732	842,847	839,959
Total Shareowners' Equity	101,227	107,545	104,580	102,393	98,920	96,448	92,375	90,621
Common Equivalent Shares	8,849	8,848	8,830	8,812	8,757	8,745	8,694	8,688
Ratios:								
ROA	1.27%	1.23%	1.32%	1.21%	1.13%	1.29%	1.31%	1.23%
ROE	12.09%	12.06%	13.22%	12.28%	11.45%	13.44%	14.22%	13.61%
Net Interest Margin (FTE)	4.89%	5.10%	5.31%	5.27%	5.33%	5.42%	5.30%	5.32%

(1) All share and per share data have been adjusted to reflect the 3-for-2 stock split effective June 1, 1998.

(2) Prior to February 3, 1997, there was not an established trading market for the common stock of Capital City Bank Group, Inc.
</TABLE>

CONSOLIDATED FINANCIAL STATEMENTS

49 Report of Independent Certified Public Accountants

50 Consolidated Statements of Income

51 Consolidated Statements of Financial Condition

52 Consolidated Statements of Changes in Shareowners' Equity

53 Consolidated Statements of Cash Flows

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareowners and Board of Directors of Capital City Bank Group, Inc.

We have audited the accompanying consolidated statements of financial condition of Capital City Bank Group, Inc. (a Florida Corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareowners' equity and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial position of Capital City Bank Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Jacksonville, Florida
February 11, 1999

<TABLE>
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Data)(1)
<CAPTION>

	For the Years Ended December 31,		
	1998	1997	1996
<C>	<C>	<C>	<C>
INTEREST INCOME			
Interest and Fees on Loans	$67,565	$64,001	$51,857
Investment Securities:			
U.S. Treasury	1,736	1,943	3,089
U.S. Government Agencies/Corp.	3,189	4,666	5,227
States and Political Subdivisions	2,896	3,176	3,477
Other Securities	524	350	332
Funds Sold	3,343	1,528	2,189
Total Interest Income	79,253	75,664	66,171
INTEREST EXPENSE			
Deposits	28,348	25,995	23,080
Short-Term Borrowings	1,903	1,974	1,651
Long-Term Debt	1,091	1,171	688
Total Interest Expense	31,342	29,140	25,419
Net Interest Income	47,911	46,524	40,752
Provision for Loan Losses	2,160	1,788	1,463
Net Interest Income After Provision for Loan Losses	45,751	44,736	39,289
NONINTEREST INCOME			
Service Charges on Deposit Accounts	8,006	8,140	7,670
Data Processing	3,523	3,160	2,969
Income from Fiduciary Activities	1,761	1,202	1,164
Securities Transactions	94	(6)	50
Other	8,367	6,095	4,463
Total Noninterest Income	21,751	18,591	16,316

NONINTEREST EXPENSE			
Salaries and Employee Benefits	24,745	24,022	21,036
Occupancy, Net	3,350	3,074	2,681
Furniture and Equipment	5,037	4,787	4,266
Other	14,177	12,882	11,272
Total Noninterest Expense	47,309	44,765	39,255
Income Before Income Taxes	20,193	18,562	16,350
Income Taxes	7,005	6,124	4,990
NET INCOME	$13,188	$12,438	$11,360
BASIC NET INCOME PER SHARE	$ 1.49	$ 1.43	$ 1.32
DILUTED NET INCOME PER SHARE	$ 1.49	$ 1.42	$ 1.31
Basic Average Common Shares Outstanding	8,837	8,722	8,599
Diluted Average Common Shares Outstanding	8,858	8,754	8,639

(1) All share and per share data have been adjusted to reflect the 3-for-2 stock split effective June 1, 1998.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.
</TABLE>

<TABLE>
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in Thousands, Except Per Share Data)(1)
<CAPTION>

	As of December 31, 1998	1997
<S>	<C>	<C>
ASSETS		
Cash and Due From Banks	$ 65,000	$ 61,270
Funds Sold	63,651	52,519
Investment Securities, Available-for-Sale	352,922	148,514
Loans, Net of Unearned Interest	763,667	697,726
Allowance for Loan Losses	(8,459)	(8,322)
Loans, Net	755,208	689,404
Premises and Equipment	35,026	31,613
Intangibles	28,763	7,703
Other Assets	28,835	18,650
Total Assets	$1,329,405	$1,009,673
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 272,838	$ 191,797
Interest Bearing Deposits	887,446	643,015
Total Deposits	1,160,284	834,812
Short-Term Borrowings	25,199	46,114
Long-Term Debt	16,329	15,896
Other Liabilities	15,893	12,401
Total Liabilities	1,217,705	909,223
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; 8,854,354 and 8,776,085 shares issued and outstanding	88	87
Additional Paid-In Capital	8,524	6,508
Retained Earnings	102,495	93,288
Accumulated Other Comprehensive Income, Net of Tax	593	567
Total Shareowners' Equity	111,700	100,450
Total Liabilities and Shareowners' Equity	$1,329,405	$1,009,673

(1) All share and per share data have been adjusted to reflect the 3-for-2 stock split effective June 1, 1998.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.
</TABLE>

<TABLE>

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY
(Dollars in Thousands, Except per Share Data)(1)
<CAPTION>

<S>	Common Stock <C>	Additional Paid-In Capital <C>	Retained Earnings <C>	Accumulated Other Comprehensive Income, Net of Taxes <C>	Total <C>
Balance, December 31, 1995	$ 87	$3,855	$ 76,248	$ 968	$ 81,158
Net Income			11,360		11,360
Cash Dividends($.37 per share)			(3,182)		(3,182)
Issuance of Common Stock		1,050			1,050
Net Change in Unrealized Gain (Loss) On Marketable Securities				(886)	(886)
Balance, December 31, 1996	87	4,905	84,426	82	89,500
Net Income			12,438		12,438
Cash Dividends ($.41 per share)			(3,576)		(3,576)
Issuance of Common Stock		1,603			1,603
Net Change in Unrealized Gain (Loss) On Marketable Securities				485	485
Balance, December 31, 1997	87	6,508	93,288	567	100,450
Net Income			13,188		13,188
Cash Dividends($.45 per share)			(3,981)		(3,981)
Issuance of Common Stock	1	2,016			2,017
Net Change in Unrealized Gain (Loss) On Marketable Securities				26	26
Balance, December 31, 1998	$ 88	$8,524	$102,495	$ 593	$111,700

(1) All share and per share data have been adjusted to reflect the 3-for-2 stock split effective June 1, 1998.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.
</TABLE>

<TABLE>
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Thousands)
<CAPTION>

<C>	For the Years Ended December 31, 1998 <C>	1997 <C>	1996 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	$ 13,188	$ 12,438	$ 11,360
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses	2,160	1,788	1,463
Depreciation	3,350	3,206	2,808
Net Securities Amortization	727	662	958
Amortization of Intangible Assets	1,191	856	570
(Gain) on Sale of Investment Securities	(95)	(275)	(40)
Non-Cash Compensation	869	563	589
Deferred Income Taxes	137	213	1,043
Net (Increase) Decrease in Other Assets	(10,761)	(1,460)	1,385
Net Increase (Decrease) in Other Liabilities	2,982	1,226	4,198
Net Cash Provided by Operating Activities	13,748	19,217	24,334
CASH FLOWS FROM INVESTING ACTIVITES:			
Proceeds from Payments/Maturities of Investment Securities Available-for-Sale	72,599	62,746	75,252
Purchase of Investment Securities Available-for-Sale	(107,597)	(2,925)	(54,356)
Net Increase in Loans	(23,312)	(27,175)	(36,752)
Net Cash Received From (Used In) Acquisitions	36,726	-	(16,167)
Purchase of Premises & Equipment	(4,190)	(1,921)	(2,550)
Sales of Premises & Equipment	407	1,379	1,570
Net Cash Provided By (Used in) Investing Activities	(25,367)	32,104	(33,003)
CASH FLOWS FROM FINANCING ACTIVITES:			
Net Increase (Decrease) in Deposits	49,795	(31,884)	(37,988)
Net Increase (Decrease) in Short-Term Borrowings	(20,914)	10,156	21,670
Borrowing from Long-Term Debt	5,823	-	17,180
Repayment of Long-Term Debt	(5,390)	(2,176)	(1,090)
Dividends Paid	(3,981)	(3,576)	(5,721)
Issuance of Common Stock	1,148	1,040	461
Net Cash Provided By (Used in) Financing Activities	26,481	(26,438)	(5,488)
Net Increase (Decrease) in Cash			

and Cash Equivalents	14,862	24,883	(14,157)
Cash and Cash Equivalents at Beginning of Year	113,789	88,906	103,063
Cash and Cash Equivalents at End of Year	$128,651	$113,789	$ 88,906
Supplemental Disclosures:			
Interest Paid on Deposits	$ 27,541	$ 27,844	$ 25,959
Interest Paid on Debt	$ 2,995	$ 3,145	$ 2,339
Taxes Paid	$ 7,287	$ 6,309	$ 3,722
Loans Transferred To Other Real Estate	$ 1,930	$ 2,687	$ 2,192

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.
</TABLE>

Notes to Consolidated Financial Statements

Note 1
SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Capital City Bank Group, Inc., and its subsidiaries (the "Company"), all of which are wholly-owned. All material intercompany transactions and accounts have been eliminated.

The Company follows generally accepted accounting principles and reporting practices applicable to the banking industry. Prior year financial statements and other information have been reclassified to conform to the current year presentation and to reflect a three-for-two stock split effective June 1, 1998. The principles which materially affect the financial position, results of operations and cash flows are summarized below.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates; however, in the opinion of management, such variances would not be material.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods and all items have an initial maturity of ninety days or less.

Investment Securities

Investment securities available-for-sale are carried at fair value and represent securities that are available to meet liquidity and/or other needs of the Company. Gains and losses are recognized and reported separately in the Consolidated Statements of Income upon realization or when impairment of values is deemed to be other than temporary. Gains or losses are recognized using the specific identification method. Unrealized holding gains and losses for securities available-for-sale are excluded from the Consolidated Statements of Income and reported net of taxes in the accumulated other comprehensive income component of shareowners' equity until realized.

Loans

Loans are stated at the principal amount outstanding, net of unearned income. Interest income is generally accrued based on outstanding balances. Fees charged to originate loans and loan origination costs are deferred and amortized over the life of the loan as a yield adjustment.

Allowance for Loan Losses

The reserve is that amount considered adequate to absorb losses inherent in the portfolio based on management's evaluations of the size and current risk characteristics of the loan portfolio. Such evaluations consider the balance of impaired loans (which are defined as all nonperforming loans except residential mortgages and groups of small homogeneous loans), prior loan loss experience as well as the impact of current economic conditions. Specific provision for loan losses is made for impaired loans based on a comparison of the recorded carrying value in the loan to either the present value of the loan's expected cash flow, the loan's estimated market price or the estimated fair value of the underlying collateral. Specific and general provisions for loan losses are also made based on other considerations.

Loans are placed on a nonaccrual status when management believes the borrower's financial condition, after giving consideration to economic conditions and collection efforts, is such that collection of interest is doubtful. Generally, loans are placed on nonaccrual status when interest becomes past due 90 days or more, or management deems the ultimate collection of principal and interest is in doubt.

Long-Lived Assets

Premises and equipment are stated at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives for each type of asset. Additions and major facilities are capitalized and depreciated in the same manner. Repairs and maintenance are charged to operating expense as incurred.

Intangible assets consist primarily of goodwill and core deposit assets that were recognized in connection with the various acquisitions. All intangible assets are being amortized on the straight-line method over various periods ranging from five to 25 years with the majority being written off over an average life of approximately 15 years. The amortization of all intangible assets was approximately $1.2 million in 1998, $856,000 in 1997 and $570,000 in 1996.

The Company adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights" on January 1, 1996 and SFAS No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" on January 1, 1997. The adoption of SFAS Nos. 122 and 125 did not have a significant impact on the financial condition or results of operations of the Company.

Long-lived assets are evaluated regularly for other-than-temporary impairment. If circumstances suggest that their value may be impaired and the write-down would be material, an assessment of recoverability is performed prior to any write-down of the asset.

Comprehensive Income

Effective January 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". Statement 130 provides new accounting and reporting standards for reporting and displaying comprehensive income and its components in a full set of general-purpose financial statements. The adoption of this standard did not have a material impact on reported results of operations of the Company.

Income Taxes

The Company files consolidated federal and state income tax returns. In general, the parent company and its subsidiaries compute their tax provisions as separate entities prior to recognition of any tax expense benefits which may accrue from filing a consolidated return.

Deferred income tax assets and liabilities result from temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years.

Note 2
ACQUISITIONS

On December 4 1998, the Company completed its purchase and assumption transaction with First Union National Bank ("First Union") and acquired eight of First Union's branch offices which included deposits. The Company paid a premium of approximately $16.9 million, and assumed approximately $219 million in deposits and acquired certain real estate. The premium is being amortized over ten years.

On January 31, 1998, the Company completed its purchase and assumption transaction with First Federal Savings & Loan Association of Lakeland, Florida ("First Federal-Florida") and acquired five of First Federal-Florida's offices which included loans and deposits. The Company paid a deposit premium of $3.6 million, or 6.33%, and assumed $55 million in deposits and purchased loans equal to $44 million. Four of the five offices were merged into existing offices of Capital City Bank. The deposit premium is being amortized over fifteen years.

Effective July 1, 1996, the Company acquired all of the outstanding shares of First Financial Bancorp, Inc.("First Financial"), parent company of First Federal Bank, for $20 million in cash. At the time of the acquisition, First Financial had approximately $244 million in assets, $192 million in loans, $205 million in deposits, $15 million in equity and operated five offices in North Florida. The acquisition was accounted for under the purchase method of accounting. Accordingly, the Company's consolidated results of operations only reflect First Financial's operations for the periods subsequent to June 30, 1996.

The purchase price of First Financial has been allocated to the underlying assets and liabilities based on the estimated fair values as of the acquisition date. The Company recorded approximately $7.5 million of intangibles, primarily goodwill related to this acquisition. These assets are being amortized over periods not exceeding 15 years for financial reporting purposes. A significant portion of the amortization of the intangible assets is not deductible for tax purposes.

The following table sets forth the unaudited pro forma summary results of operations for the years ended December 31, 1996 and 1995, assuming the acquisition of First Financial, including the related debt financing, had been consummated as of January 1, 1995. The pro forma results are not necessarily indicative of the results that would have been achieved had the acquisition occurred on January 1, 1995, or that may occur in the future.

(Dollars in Thousands)	1996	1995
Net Interest Income	$43,951	$39,457
Net Income	11,444	9,858
Net Income Per Share(1)	3.99	3.46

(1) All share and share data have been adjusted to reflect the 3-for-2 stock split effective June 1, 1998.

<TABLE>

Note 3

INVESTMENT SECURITIES

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

<CAPTION>

1998				
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasury	$ 28,606	$ 203	$ -	$ 28,809
U.S. Government Agencies and Corporations	66,954	139	309	66,784
States and Political Subdivisions	91,644	1,083	24	92,703
Mortgage-Backed Securities	90,124	196	418	89,902
Other Securities	74,658	159	93	74,724
Total Investment Securities	$351,986	$1,780	$844	$352,922

1997				
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
U.S. Treasury	$ 24,345	$ 42	$ 4	$ 24,383
U.S. Government Agencies and Corporations	32,036	55	60	32,031
States and Political Subdivisions	63,661	593	10	64,244
Mortgage-Backed Securities	22,644	326	48	22,922
Other Securities	4,933	1	-	4,934
Total Investment Securities	$147,619	$1,017	$122	$148,514

</TABLE>

The total proceeds from the sale of investment securities and the gross realized gains and losses from the sale of such securities for each of the last three years is as follows:
(Dollars in Thousands)

Year	Total Proceeds	Gross Realized Gains	Gross Realized Losses
1998	$36,291	$112	$18
1997	$32,014	$ 6	$12
1996	$40,864	$ 80	$30

Total proceeds include principal reductions in mortgage-backed securities and proceeds from securities which were called of $27,236,000, $29,091,000, and $37,359,000 in 1998, 1997, and 1996, respectively.

As of December 31, 1998, the Company's investment securities had the following maturity distribution based on contractual maturities:

(Dollars in Thousands)	Amortized Cost	Market Value
Due in one year or less	$ 78,844	$ 78,997
Due after one through five years	143,869	144,695
Due after five through ten years	35,043	35,222
Over ten years	4,106	4,106
Mortgage-Backed Securities	90,124	89,902
Total Investment Securities	$351,986	$352,922

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

Securities with an amortized cost of $66,934,000 and $53,398,000 at December 31, 1998, and 1997, respectively, were pledged to secure public deposits and for other purposes.

Note 4
LOANS

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

(Dollars in Thousands)	1998	1997
Commercial, Financial and Agricultural	$ 67,463	$ 53,888
Real Estate - Construction	45,283	45,563
Real Estate - Mortgage	499,394	456,499
Consumer	151,527	141,776

Total Loans, Net of Unearned Interest	$763,667	$697,726

Nonaccruing loans amounted to $4,431,000 and $1,403,000 at December 31, 1998 and 1997, respectively. Restructured loans amounted to $195,000 and $224,000 at December 31, 1998 and 1997, respectively. If such nonaccruing and restructured loans had been on a fully accruing basis, interest income would have been $354,000 higher in 1998 and $67,000 higher in 1997.

Note 5
ALLOWANCE FOR LOAN LOSSES

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

(Dollars in Thousands)	1998	1997	1996
Balance, Beginning of Year	$8,322	$8,179	$6,474
Acquired Reserves	-	-	1,769
Provision for Loan Losses	2,160	1,788	1,463
Recoveries on Loans Previously Charged-Off	807	785	615
Loans Charged-Off	(2,830)	(2,430)	(2,142)
Balance, End of Year	$8,459	$8,322	$8,179

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

	1998		1997	
		Valuation		Valuation
(Dollars in Thousands)	Balance	Allowance	Balance	Allowance
With Related Credit Allowance	$ 2,433	$ 427	$ 21	$ 10
Without Related Credit Allowance	1,347	-	949	-
Average Recorded Investment for the Period	4,985	-	2,894	-

The Company recognizes income on impaired loans primarily on the cash basis. Any change in the present value of expected cash flows is recognized through the allowance for loan losses. For the years ended December 31, 1998, 1997 and 1996, the Company recognized $84,000, $140,000, and $26,000, in interest income on impaired loans, of which $31,000, $138,000, and $25,000 and was collected in cash, respectively.

Note 6
PREMISES AND EQUIPMENT

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

(Dollars in Thousands)	1998	1997
Land	$ 8,958	$ 8,279
Buildings	30,431	24,042
Fixtures and Equipment	26,085	24,062
Total	65,474	56,383
Accumulated Depreciation	(30,448)	(24,770)
Premises and Equipment, Net	$35,026	$31,613

Note 7
DEPOSITS

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

(Dollars in Thousands)	1998	1997
NOW Accounts	$144,018	$113,163
Money Market Accounts	121,383	79,010
Savings Accounts	109,207	80,476
Other Time Deposits	512,838	370,366
Total	$887,446	$643,015

Time deposits in denominations of $100,000 or more totaled $103,791,000 and $51,646,000 at December 31, 1998 and 1997, respectively.

At December 31, 1998, the scheduled maturities of

other time deposits were as follows:

1999	$421,729
2000	71,290
2001	10,913
2002	5,902
2003 and thereafter	3,004
	$512,838

The average balances maintained on deposit with the Federal Reserve Bank for the years ended December 31, 1998 and 1997, were $26,552,000 and $27,007,000, respectively.

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

(Dollars in Thousands)	1998	1997	1996
NOW Accounts	$ 1,996	$ 1,765	$ 1,877
Money Market Accounts	2,468	2,407	2,523
Savings Accounts	1,952	1,718	1,813
Other Time Deposits	21,932	20,105	16,867
Total	$28,348	$25,995	$23,080

Note 8
<TABLE>
SHORT-TERM BORROWINGS
Short-term borrowings included the following at December 31:
<CAPTION>

(Dollars in Thousands)	Federal Funds Purchased	Securities Sold Under Repurchase Agreements	Other Short-Term Borrowings
<S>	<C>	<C>	<C>
1998			
Balance	$ 6,120	$17,042	$ 2,037
Maximum indebtedness at any month end	$29,255	$18,770	$ 2,037
Daily average indebtedness outstanding	22,159	15,635	1,190
Average rate paid for the year	5.19%	4.43%	5.23%
Average rate paid on period-end borrowings	3.79%	6.15%	3.88%
1997			
Balance	$29,190	$15,432	$ 1,492
Maximum indebtedness at any month end	29,660	18,930	7,043
Daily average indebtedness outstanding	17,542	13,976	5,976
Average rate paid for the year	5.34%	5.17%	5.27%
Average rate paid on period-end borrowings	4.24%	4.88%	5.36%

</TABLE>

<TABLE>
Note 9
LONG-TERM DEBT
<CAPTION>
Long-term debt included the following at December 31:

(Dollars in Thousands)	1998	1997
<C>	<C>	<C>
Federal Home Loan Bank Note		
Due on December 19, 2005, fixed rate of 6.04%	$ 1,652	$ 1,762
Due on December 13, 2006, fixed rate of 6.20%	1,068	1,134
Due on March 14, 2013, fixed rate of 6.13%	975	-
Due on September 20, 2013, fixed rate of 5.64%	1,387	-
Due on December 17, 2018, fixed rate of 6.33%	2,000	-
Due on December 24, 2018, fixed rate of 5.34%	875	-
IBM Note Payable		
Due on December 31, 2000, fixed rate of 3.77%	372	-
Revolving credit note,		
Due on November 16, 2001, rates ranging from 6.23% - 7.22%	8,000	13,000
Total outstanding	$16,329	$15,896

The contractual maturites of long-term debt for the five years succeeding December 31, 1998, are as follows:

1999	$ 5,041
2000	3,559
2001	882
2002	394
2003 and thereafter	6,453
	$16,329

The Federal Home Loan Bank advances are collateralized with U.S. Treasury Securities and 1-4

family mortgages. Interest on the Federal Home Loan Bank advances is paid on a monthly basis.

The IBM note payable is being paid over 36 monthly installments which includes principal and interest.

Upon expiration of the revolving credit, the outstanding balance may be converted to a term loan and repaid over a period of seven years. The Company, at its option, may select from various loan rates including the following: Prime, LIBOR, or the lender's cost of funds rate, plus or minus increments thereof. The LIBOR or cost of funds rates may be fixed for a period up to six months. The revolving credit is unsecured, but upon conversion is to be collateralized by common stock of the subsidiary bank equal to 125% of the principal balance of the loan. The existing loan agreement places certain restrictions on the amount of capital which must be maintained by the Company. At December 31, 1998, the Company was in compliance with all of the terms of the agreement and had $17 million available under a $25 million line of credit facility.

Note 10
INCOME TAXES

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

(Dollars in Thousands)	1998	1997	1996
Current:			
Federal	$6,090	$5,054	$3,494
State	778	857	453
Deferred:			
Federal	121	182	891
State	16	31	152
Total	$7,005	$6,124	$4,990

The net deferred tax asset and the temporary differences comprising that balance at December 31, 1998 and 1997, are as follows:

(Dollars in Thousands)	1998	1997
Deferred Tax Asset attributable to:		
Allowance for Loan Losses	$2,594	$2,514
Stock Incentive Plan	491	764
Interest on Nonperforming Loans	144	-
Other	76	158
Total Deferred Tax Asset	$3,305	$3,436
Deferred Tax Liability attributable to:		
Employee Benefits	$1,298	$1,055
Premises and Equipment	817	883
Deferred Loan Fees	336	392
Unrealized Gains on Investment Securities	343	328
Acquired Deposits	127	177
Securities Accretion	89	94
Other	84	143
Total Deferred Tax Liability	3,094	3,072
Net Deferred Tax Asset	$ 212	$ 364

Income taxes provided were less than the tax expense computed by applying the statutory federal income tax rates to income. The primary differences are as follows:

(Dollars in Thousands)	1998	1997	1996
Statutory Rate	35%	35%	35%
Computed Tax Expense	$7,068	$6,497	$5,722
Increases (Decreases)			
Resulting From:			
Tax-Exempt Interest Income	(942)	(1,037)	(1,100)
State Income Taxes, Net of Federal Income Tax Benefit	471	327	293
Other	408	337	75
Actual Tax Expense	$7,005	$6,124	$4,990

Note 11
ASSOCIATE BENEFITS

The Company sponsors a noncontributory pension plan covering substantially all of its associates.

Benefits under this plan generally are based on the associate's years of service and compensation during the years immediately preceding retirement. The Company's general funding policy is to contribute amounts deductible for federal income tax purposes.

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

</TABLE>
<TABLE>
<CAPTION>

(Dollars in Thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Change in Benefit Obligation:			
Benefit Obligation at Beginning of Year	$21,159	$17,551	$14,565
Service Cost	1,678	1,517	1,241
Interest Cost	1,478	1,331	1,156
Plan Participants' Contributions	-	-	-
Amendments	-	-	-
Actuarial Loss	1,180	1,342	83
Remeasurement Loss	169	324	981
Acquisition	-	-	569
Benefits Paid	(3,185)	(671)	(897)
Expenses Paid	(268)	(235)	(147)
Benefit Obligation at End of Year	$22,212	$21,159	$17,551
Change in Plan Assets:			
Fair Value of Plan Assets at Beginning of Year	$25,826	$20,041	$16,733
Actual Return on Plan Assets	5,382	4,918	2,718
Acquisition	-	-	-
Employer Contribution	1,494	1,773	1,634
Plan Participants' Contributions	-	-	-
Benefits Paid	(3,185)	(671)	(897)
Expenses Paid	(267)	(235)	(147)
Fair Value of Plan Assets at End of Year	$29,248	$25,826	$20,041
Funded Status	$ 7,036	$ 4,667	$ 2,490
Unrecognized Net Actuarial (Gain) Loss	(2,919)	(957)	852
Unrecognized Prior Service Cost	(704)	(940)	(1,176)
Prepaid Benefit Cost	$ 3,413	$ 2,770	$ 2,166
Weighted-Average Assumptions:			
Discount Rate	6.50%	7.00%	7.50%
Expected Return on Plan Assets	8.25%	8.25%	8.25%
Rate of Compensation Increase	5.50%	5.50%	5.50%
Components of Net Periodic Benefit Costs:			
Service Cost	$ 1,678	$ 1,517	$ 1,241
Interest Cost	1,478	1,331	1,156
Expected Return on Plan Assets	(2,103)	(1,630)	(1,307)
Amortization of Prior Service Cost	164	164	164
Transition Asset Recognition	(236)	(236)	(236)
Recognized Net Actuarial (Gain) Loss	(131)	24	130
Net Periodic Benefit Cost	$ 850	$ 1,170	$ 1,148

</TABLE>

The Company has a Supplemental Employee Retirement Plan covering selected executives. Benefits under this plan generally are based on the associate's years of service and compensation during the years immediately preceding retirement. The Company recognized expense during 1998, 1997 and 1996 of $193,000, $201,000 and $145,000 respectively, and a minimum liability adjusted to $0, $19,148 and $69,653 at December 31, 1998, 1997 and 1996 respectively.

The Company has an Associate Incentive Plan under which shares of the Company's stock are issued as incentive awards to selected participants. Seven hundred fifty thousand shares of common stock are reserved for issuance under this plan. The expense recorded related to this plan was approximately $735,000, $1,210,000, and $740,000 in 1998, 1997 and 1996, respectively. The Company issued 48,508 shares under the plan in 1998.

The Company has an Associate Stock Purchase Plan under which associates may elect to make a monthly contribution towards the purchase of Company stock

on a semi-annual basis. Four hundred fifty thousand shares of common stock are reserved for issuance under the Stock Purchase Plan. The Company issued 30,314 shares under the plan in 1998.

The Company has a Director Stock Purchase Plan. One hundred fifty thousand shares have been reserved for issuance. In 1998, the Company issued 14,052 shares under this plan.

The Company has a 401(k) Plan which enables associates to defer a portion of their salary on a pre-tax basis. The plan covers substantially all associates of the Company who meet minimum age requirements. The plan is designed to enable participants to elect to have an amount from 1% to 15% of their compensation withheld in any plan year placed in the 401(k) Plan trust account. Matching contributions from the Company can be made up to 6% of the participant's compensation at the discretion of the Company. During 1998, no contributions were made by the Company. The participant may choose to invest their contributions into seven investment funds available to CCBG participants, including the Company's common stock.

The Company has a Dividend Reinvestment and Optional Stock Purchase Plan. Seven hundred fifty thousand shares have been reserved for issuance. The Company did not issue any shares under this plan in 1998.

Note 12
<TABLE>
EARNINGS PER SHARE
<CAPTION>
The following table sets forth the computation of basic and diluted earnings per share:

(Dollars in Thousands, Except Per share Data)(1)

<S>	1998 <C>	1997 <C>	1996 <C>
Numerator:			
Net Income	$ 13,188	$12,438	$11,360
Preferred Stock Dividends	-	-	-
Numerator for Basic Earnings Per Share Income to Common Shareowners'	13,188	12,438	11,360
Effect of Dilutive securities:			
Preferred stock dividends	-	-	-
Numerator for Diluted Earnings Per Share Income Available to Common Shareowners' After Assumed Conversions	$ 13,188	$12,438	$11,360
Denominator:			
Denominator for Basic Earnings Per Share Weighted-Average Shares	8,836,828	8,721,551	8,599,197
Effects of Dilutive Securities:			
Associate Stock Incentive Plan	21,237	32,736	39,314
Dilutive Potential Common Shares	21,237	32,736	39,314
Denominator for Diluted Earnings Per Share Adjusted Weighted-Average Shares and Assumed Conversions	8,858,065	8,754,287	8,638,511
Basic Earnings Per Share	$ 1.49	$ $1.43	$ $1.32
Diluted Earnings per Share	$ 1.49	$ $1.42	$ $1.31

(1) All share and per share data have been adjusted to reflect the 3-for-2 stock split effective June 1, 1998.
</TABLE>

The Company adopted SFAS No. 128, "Earnings Per Share" on December 31, 1997. The adoption of the SFAS No. 128 did not have a significant impact on the reported results of operation.

Note 13
CAPITAL

The Company is subject to various regulatory capital requirements which involve quantitative measures of

the Company's assets, liabilities and certain off-balance sheet items. The Company's capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require that the Company maintain amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighed assets, and of Tier I capital to average assets. As of December 31, 1998, the Company meets all capital adequacy requirements to which it is subject.

A summary of actual, required, and capital levels necessary to be considered well-capitalized for Capital City Bank Group, Inc. ("CCBG, Inc.") consolidated and its banking subsidiary, Capital City Bank ("CCB") as of December 31, 1998 and December 31, 1997 are shown below:

<TABLE>
<CAPTION>
(Dollars in Thousands)

	Actual		Required For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998:						
Tier I Capital:						
CCBG, Inc.	$ 82,937	9.24%	$35,915	4.00%	$53,872	6.00%
CCB	87,355	9.73%	35,929	4.00	53,894	6.00
Total Capital:						
CCBG, Inc.	91,396	10.18%	71,830	8.00	89,787	10.00
CCB	95,814	10.67%	71,859	8.00	89,823	10.00
Tier I Leverage:						
CCBG, Inc.		7.23%		3.00		5.00
CCB		7.62%		3.00		5.00
As of December 31, 1997:						
Tier I Capital:						
CCBG, Inc.	$ 92,748	13.86%	$26,772	4.00%	$40,157	6.00%
CCB	101,386	15.18%	26,707	4.00	40,078	6.00
Total Capital:						
CCBG, Inc.	101,070	15.10%	53,543	8.00	66,929	10.00
CCB	109,708	16.43%	53,416	8.00	66,796	10.00
Tier I Leverage:						
CCBG, Inc.		9.19%		3.00		5.00
CCB		10.05%		3.00		5.00

</TABLE>

Note 14
DIVIDEND RESTRICTIONS

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

The approval of the appropriate regulatory authority is required if the total of all dividends declared by a subsidiary bank in any calendar year exceeds the bank's net profits (as defined) for that year combined with its retained net profits for the preceding two calendar years. In 1999, the bank subsidiaries may declare dividends without regulatory approval of $14.6 million plus an additional amount equal to the net profits of the Company's subsidiary banks for 1999 up to the date of any such dividend declaration.

Note 15
RELATED PARTY INFORMATION

The Chairman of the Board of Capital City Bank Group, Inc., is chairman of the law firm which serves as general counsel to the Company and its subsidiaries. Fees paid by the Company and its subsidiaries for these services, in aggregate,

approximated $340,000, $295,000 and $347,000 during 1998, 1997, and 1996, respectively.

Under a lease agreement expiring in 2024, a bank subsidiary leases land from a partnership in which several directors and officers have an interest. The lease agreement provides for annual lease payments of approximately $65,000, to be adjusted for inflation in future years.

At December 31, 1998 and 1997, certain officers and directors were indebted to the Company's bank subsidiaries in the aggregate amount of $8,831,000 and $13,556,000, respectively. During 1998, $9,554,000 in new loans were made and repayments totaled $14,279,000. These loans were made on similar terms as loans to other individuals of comparable creditworthiness.

Note 16
SUPPLEMENTARY INFORMATION

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

(Dollars in Thousands)	1998	1997	1996
Noninterest Income:			
Merchant Fee Income	$1,182	$1,123	$ 976
Interchange Commission Fees	1,004	621*	639*
Gains on the Sale of Real Estate Loans	1,510	803	194*
Noninterest Expense:			
Associate Insurance	1,326	1,250	1,163
Payroll Taxes	1,386	1,253	1,112
Maintenance and Repairs	2,652	2,179	2,227
Professional Fees	1,224	1,216	1,172
Printing & Supplies	1,654	1,511	1,547
Commission/Service Fees	1,336	1,078	819*
Telephone	1,114	899*	813*

*Less than 1% of the appropriate threshold.

Note 17
FINANCIAL INSTRUMENTS AND CONCENTRATIONS OF CREDIT RISKS

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

The Company's maximum exposure to credit loss under standby letters of credit and commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in establishing commitments and issuing letters of credit as it does for on-balance-sheet instruments. As of December 31, 1998, the amounts associated with the Company's off-balance-sheet obligations were as follows:

(Dollars in Thousands)	Amount
Commitments to Extend Credit(1)	$243,162
Standby Letters of Credit	$ 1,986

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

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

future cash requirements.

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

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

Note 18
FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

Investment Securities - Fair values for investment securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using market prices for similar securities.

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

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

Long-Term Debt - The carrying value of the Company's long-term debt approximates fair value as the current rate approximates the market rate.

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

The Company's financial instruments which have estimated fair values differing from their respective carrying values are presented below:

(Dollars in Thousands)	1998 Carrying Value	1998 Estimated Fair Value	1997 Carrying Value	1997 Estimated Fair Value
	At December 31,			
Financial Assets:				
Loans, Net of Allowance for Loan Losses	$ 755,208	$ 773,835	$689,404	$696,081
Financial Liabilities:				
Deposits	1,160,284	1,162,643	834,812	836,996

Certain financial instruments and all nonfinancial instruments are excluded from the disclosure requirements. The disclosures also do not include certain intangible assets such as customer relationships, deposit base intangibles and goodwill. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Note 19
PARENT COMPANY FINANCIAL INFORMATION
The operating results of the parent company for the three years ended December 31, are shown below:

<TABLE>
Parent Company Statements of Income
<CAPTION>

(Dollars in Thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
OPERATING INCOME			
Income Received from Subsidiary Banks:			
Dividends	$ 6,825	$ 6,600	$ 9,600
Overhead Fees	3,975	3,845	3,106
Total Operating Income	10,800	10,445	12,706
OPERATING EXPENSE			
Salaries and Employee Benefits	2,171	2,445	2,353
Interest on Debt	832	988	523
Professional Fees	527	617	332
Advertising	709	597	430
Restructuring Charge	-	338	-
Legal Fees	115	126	85
Other	619	515	471
Total Operating Expense	4,973	5,626	4,194
Income Before Income Taxes and Equity in Undistributed Earnings of Subsidiary Banks	5,827	4,819	8,512
Income Tax Benefit	(376)	(675)	(380)
Income Before Equity in Undistributed Earnings of Subsidiary Banks	6,203	5,494	8,892
Equity in Undistributed Earnings of Subsidiary Banks	6,985	6,944	2,468
Net Income	$13,188	$12,438	$11,360

</TABLE>

<TABLE>
The following are condensed statements of financial condition of the parent company at December 31:
Parent Company Statements of Financial Condition
<CAPTION>

(Dollars in Thousands)	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and Due From Group Banks	$ 4,217	$ 4,167
Investment in Subsidiary Bank	116,118	109,799
Other Assets	480	967
Total Assets	$120,815	$114,933
LIABILITIES		
Long-Term Debt	$ 8,000	$ 13,000
Other Liabilities	1,115	1,483
Total Liabilities	9,115	14,483
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; 8,854,354 and 8,776,085 shares issued and outstanding	88	87
Additional Paid-in Capital	8,524	6,508
Retained Earnings	102,495	93,288
Accumulated Other Comprehensive		

Income, Net of Tax	593	567
Total Shareowners' Equity	111,700	100,450
Total Liabilities and Shareowners' Equity	$120,815	$114,933

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

Parent Company Statements of Cash Flows

	1998	1997	1996
Cash Flows From Operating Activities:			
Net Income	$13,188	$12,438	$11,360
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in undistributed earnings of Subsidiary Bank	(6,985)	(6,944)	(2,468)
Non-Cash Compensation	868	563	589
Amortization of Goodwill	25	25	29
(Increase) Decrease in Other Assets	1,155	(295)	(477)
Net Increase in Other Liabilities	(368)	294	137
Net Cash Provided by Operating Activities	7,883	6,081	9,170
Cash From Financing Activities:			
Borrowings of Long-Term Debt	-	-	15,000
Acquisition of First Financial	-	-	(20,666)
Repayment of Long-Term Debt	(5,000)	(2,000)	-
Payment of Dividends	(3,981)	(3,576)	(5,721)
Issuance of Common Stock, Net	1,148	1,040	461
Net Cash Used in Financing Activities	(7,833)	(4,536)	(10,926)
Net Increase in Cash	50	1,545	(1,756)
Cash at Beginning of Period	4,167	2,622	4,378
Cash at End of Period	$ 4,217	$4,167	$ 2,622

Note 20

CORPORATE REORGANIZATION

On October 18, 1997, the Company consolidated its three remaining bank affiliates, Levy County State Bank, Farmers & Merchants Bank of Trenton and Branford State Bank into Capital City Bank. The consolidation enabled the Company to present a consistent image to a broader market and to better serve its clients through the use of a common name with multiple, convenient locations. The Company's operating results for 1997 included pre-tax charges of $655,000, which were attributable to the corporate reorganization.

Note 21

COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standard Board issued SFAS No. 130, "Reporting Comprehensive Income", which requires that certain transactions and other economic events that bypass the income statement must be displayed as other comprehensive income. The Company's comprehensive income consists of net income and changes in unrealized gains (losses) on securities available-for-sale, net of income taxes.

Comprehensive income for 1998, 1997 and 1996 was calculated as follows:

(Dollars in Thousands)	1998	1997	1996
Unrealized Gains and Losses (Net) Recognized in Other Comprehensive Income:			
Before Income Tax (Benefit)	$ 40	$ 743	$(1,357)
Income Tax (Benefit)	(14)	(258)	(471)
Net of Income Tax (Benefit)	26	485	(886)
Amounts Reported in Net Income:			
Gain (Loss) in Sale of Securities	94	(6)	50
Net Amortization (Accretion)	727	662	958
Reclassification Adjustment	821	656	1,008
Income Tax Expense	285	228	350
Reclassification Adjustment, Net of Tax	94	(6)	50
Amounts Reported in Other Comprehensive Income:			
Unrealized Gain (Loss) Arising During Period,			

Net of Tax	562	913	(228)
Reclassification Adjustment, Net of Tax	(536)	(428)	(658)
Net Unrealized Gains (Loss) Recognized in Other Comprehensive Income	26	485	(886)
Net Income	13,188	12,438	11,360
Total Comprehensive Income	$13,214	$12,923	$10,474

</TABLE>

Note 22
SUBSEQUENT EVENT

On February 12, 1999, the Company entered into a definitive agreement to acquire Grady Holding Company and its subsidiary, First National Bank of Grady County in Cairo, Georgia. First National Bank of Grady County is a $114 million asset institution with offices in Cairo and Whigham, Georgia. The company will issue 21.50 shares for each of the 60,910 shares of First National Bank of Grady County. The closing is scheduled for the second quarter of 1999 and the transaction will be accounted for as a pooling-of-interests.

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

Not applicable.

Part III

Item 10. Directors and Executive Officers of the Registrant

Incorporated herein by reference to the sections entitled "Election of Directors" and "Executive Officers, Compensation and Other Information" in the Registrant's Proxy Statement dated April 2, 1999, to be filed on or about April 2, 1999.

Item 11. Executive Compensation

Incorporated herein by refernce to the section entitled "Executive Officers, Compensation and Other Information" and the subsection entitled "Director Compensation" under the section entitled "Meetings and Committees of the Board of Directors" in the Registrant's Proxy Statement dated April 2, 1999, to be filed on or about April 2, 1999.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Incorporated herein by reference to the section entitled "Shareownership of Management and Prinicpal Shareowners" in the Registrant's Proxy dated April 2, 1999, to be filed on or about April 2, 1999.

Item 13. Certain Relationships and Related Transactions

Incorporated herein by reference to the subsection entitled "Compensation Committee Interlocks and Insider Participation" under the section entitled "Meetings and Committees of the Board of Directors" and the subsection entitled "Transactions With Management and Related Parties" under the section entitled "Executive Officers, Compensation and Other Information" in the Registrant's Proxy Statement dated April 2, 1999, to be filed on or about April 2, 1999.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

14(a)(1) List of Financial Statements

Report of Independent Certified Public Accountants

Consolidated Statements of Income for each of the three years in the period ended December 31, 1998

Consolidated Statements of Financial Condition for the years ended December 31, 1998 and 1997

Consolidated Statements of Changes in Shareowners' Equity for each of the three years in the period ended December 31, 1998

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 1998

Notes to Consolidated Financial Statements

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

14(a)(3) Exhibits

2(a) Agreement and Plan of Merger, dated as of December 10, 1995, by and among Capital City Bank Group, Inc.; a Florida corporation to be formed as a direct wholly-owned subsidiary of the Company; and First Financial Bancorp, Inc., is incorporated herein by reference to the Registrant's Form 10-K dated March 29, 1996.

2(b) Merger Agreement and Plan of Merger, dated October 18, 1997, by and among Capital City Bank, Levy County State Bank, Farmers & Merchant Bank of Trenton and Branford State Bank, is incorporated herein by refernce to the Registrant's Form 10-K dated March 27, 1998.

3(a) Articles of Incorporation, as amended, of Capital City Bank Group, Inc., are incorporated herein by reference to Exhibit B of the Registrant's 1996 Proxy Statement dated April 12, 1996.

3(b) By-Laws, as amended, of Capital City Bank Group, Inc., are incorporated herein by reference to Exhibit 3(b) of the Company's Form 10-Q fro the period ended September 30, 1997 (File No. 0-13358).

10(b) Promissory Note and Pledge and Security Agreement evidencing a line of credit by and between Registrant and SunTrust, dated November 18, 1995, is incorporated herein by refernce to the Registrant's Form 10-K/A dated April 9, 1996.

10(c) Capital City Bank Group, Inc. 1996 Associate Incentive Plan, as amended, is incorporated herein by reference to Exhibit 10 of the Registrant's Form S-8 Registration Statement, as filed with the Commission on December 23, 1996 (File No. 333-18543).

10(d) Capital City Bank Group, Inc. 1996 Director Stock Purchase Plan, as amended, is incorporated by reference to the Registrant's Form S-8 filed on December 23, 1996 (Registration No. 333-18557).

10(e) Capital City Bank Group, Inc. 1996 Dividend Reinvestment and Optional Stock Purchase Plan is incorporated herein by reference to the Registrant's Form S-3 filed on January 30, 1997 (Registration No. 333-20683).

21 A listing of Capital City Bank Group's subsidiaries is filed herewith.

23(a) Consent of Independent Certified Public Accountants

27 Financial Data Schedule

14(b) REPORTS ON FORM 8-K

On March 26, 1999, the Company filed a Form 8-K to report on February 11, 1999, the Company entered into a definitive agreement to acquire Grady Holding Company and its subsidiary, First National Bank of Grady County headquarted in Cairo, Georgia. First National Bank of Grady County is a $114 million asset institution with offices in Cairo and Whigham, Georgia. The Company will issue 21.50 shares for each of the 60,190 shares of First National Bank of Grady County. The closing is scheduled for the second quarter of 1999 and the transaction will be accounted for as a pooling-of-interests.

On December 21, 1998, the Company filed a Form 8-K to report on December 4, 1998, it completed its purchase of eight First Union National Bank offices and assumed approximately $219 million in deposits.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed on March 25, 1999 by the following persons in the capacities indicated.

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

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

Directors:

/s/ DuBose Ausley
DuBose Ausley

/s/ Thomas A. Barron
Thomas A. Barron

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

/s/ John K. Humphress
John K. Humphress

/s/ Lina S. Knox
Lina S. Knox

/s/ Payne H. Midyette, Jr.
Payne H. Midyette, Jr.

/s/ Godfrey Smith
Godfrey Smith

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

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