

CAPITAL CITY BANK GROUP INC  
Form 10-Q  
May 03, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended March 31, 2017**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-13358**

(Exact name of registrant as specified in its charter)

**Florida**

**59-2273542**

Edgar Filing: CAPITAL CITY BANK GROUP INC - Form 10-Q

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**217 North Monroe Street, Tallahassee, Florida**  
(Address of principal executive office)

**32301**  
(Zip Code)

**(850) 402-7821**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of The Exchange Act.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
(Do not check if smaller reporting company)      Emerging growth company

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

At April 30, 2017, 16,954,074 shares of the Registrant's Common Stock, \$.01 par value, were outstanding.

**CAPITAL CITY BANK GROUP, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE PERIOD ENDED MARCH 31, 2017**

**TABLE OF CONTENTS**

<b>PART I – Financial Information</b>	<b>Page</b>
Item 1. Consolidated Financial Statements (Unaudited)	
Consolidated Statements of Financial Condition – March 31, 2017 and December 31, 2016	4
Consolidated Statements of Income – Three Months Ended March 31, 2017 and 2016	5
Consolidated Statements of Comprehensive Income – Three Months Ended March 31, 2017 and 2016	6
Consolidated Statements of Changes in Shareowners’ Equity – Three Months Ended March 31, 2017 and 2016	7
Consolidated Statements of Cash Flows – Three Months Ended March 31, 2017 and 2016	8
Notes to Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	27
Item 3. Quantitative and Qualitative Disclosure About Market Risk	43
Item 4. Controls and Procedures	43
 <b>PART II – Other Information</b>	
Item 1. Legal Proceedings	43
Item 1A. Risk Factors	43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	43
Item 3. Defaults Upon Senior Securities	43
Item 4. Mine Safety Disclosure	43
Item 5. Other Information	43
Item 6. Exhibits	43
<b>Signatures</b>	<b>45</b>



## INTRODUCTORY NOTE

### Caution Concerning Forward-Looking Statements

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

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

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q and the following sections of our Annual Report on Form 10-K for the year ended December 31, 2016 (the “2016 Form 10-K”): (a) “Introductory Note” in Part I, Item 1. “Business”; (b) “Risk Factors” in Part I, Item 1A, as updated in our subsequent quarterly reports filed on Form 10-Q; and (c) “Introduction” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in Part II, Item 7, as well as:

- our ability to successfully manage interest rate risk, liquidity risk, and other risks inherent to our industry;
- legislative or regulatory changes, including the Dodd-Frank Act, Basel III, and the ability to repay and qualified mortgage standards;
- the effects of security breaches and computer viruses that may affect our computer systems or fraud related to debit card products;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our loan loss provision, deferred tax asset valuation and pension plan;
- the frequency and magnitude of foreclosure of our loans;
- the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- our ability to declare and pay dividends, the payment of which is now subject to our compliance with heightened capital requirements;

- changes in the securities and real estate markets;
- changes in monetary and fiscal policies of the U.S. Government;
- inflation, interest rate, market and monetary fluctuations;
- the effects of harsh weather conditions, including hurricanes, and man-made disasters;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
- increased competition and its effect on pricing;
- technological changes;
- negative publicity and the impact on our reputation;
- changes in consumer spending and saving habits;
- growth and profitability of our noninterest income;
- changes in accounting principles, policies, practices or guidelines;
- the limited trading activity of our common stock;
- the concentration of ownership of our common stock;
- anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- other risks described from time to time in our filings with the Securities and Exchange Commission; and
- our ability to manage the risks involved in the foregoing.

However, other factors besides those listed in *Item 1A Risk Factors* or discussed in this Form 10-Q also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

**PART I. FINANCIAL INFORMATION****Item 1.**

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

<i>(Dollars in Thousands)</i>	<b>(Unaudited)</b> <b>March 31,</b> <b>2017</b>	<b>December 31,</b> <b>2016</b>
<b>ASSETS</b>		
Cash and Due From Banks	\$ 47,650	\$ 48,268
Federal Funds Sold and Interest Bearing Deposits	290,897	247,779
Total Cash and Cash Equivalents	338,547	296,047
Investment Securities, Available for Sale, at fair value	541,102	522,734
Investment Securities, Held to Maturity, at amortized cost (fair value of \$157,885 and \$176,746)	158,515	177,365
Total Investment Securities	699,617	700,099
Loans Held For Sale	7,498	10,886
Loans, Net of Unearned Income	1,584,959	1,561,289
Allowance for Loan Losses	(13,335)	(13,431)
Loans, Net	1,571,624	1,547,858
Premises and Equipment, Net	93,755	95,476
Goodwill	84,811	84,811
Other Real Estate Owned	9,501	10,638
Other Assets	90,178	99,382
Total Assets	\$ 2,895,531	\$ 2,845,197
<b>LIABILITIES</b>		
Deposits:		
Noninterest Bearing Deposits	\$ 836,011	\$ 791,182
Interest Bearing Deposits	1,623,294	1,621,104
Total Deposits	2,459,305	2,412,286
Short-Term Borrowings	7,603	12,749
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	16,460	14,881
Other Liabilities	81,217	77,226
Total Liabilities	2,617,472	2,570,029
<b>SHAREOWNERS' EQUITY</b>		
Preferred Stock, \$.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	-	-
Common Stock, \$.01 par value; 90,000,000 shares authorized; 16,954,049 and 16,844,698 shares	170	168

Edgar Filing: CAPITAL CITY BANK GROUP INC - Form 10-Q

issued and outstanding at March 31, 2017 and December 31, 2016,  
respectively

Additional Paid-In Capital	34,859	34,188
Retained Earnings	268,934	267,037
Accumulated Other Comprehensive Loss, Net of Tax	(25,904)	(26,225)
Total Shareowners' Equity	278,059	275,168
Total Liabilities and Shareowners' Equity	\$ 2,895,531	\$ 2,845,197

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



**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)

<i>(Dollars in Thousands, Except Per Share Data)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>INTEREST INCOME</b>		
Loans, including Fees	\$ 18,005	\$ 18,045
Investment Securities:		
Taxable Securities	1,783	1,420
Tax Exempt Securities	259	217
Federal Funds Sold and Interest Bearing Deposits	493	362
Total Interest Income	20,540	20,044
 <b>INTEREST EXPENSE</b>		
Deposits	281	221
Short-Term Borrowings	45	10
Subordinated Notes Payable	379	387
Other Long-Term Borrowings	99	216
Total Interest Expense	804	834
 <b>NET INTEREST INCOME</b>	 19,736	 19,210
Provision for Loan Losses	310	452
Net Interest Income After Provision For Loan Losses	19,426	18,758
 <b>NONINTEREST INCOME</b>		
Deposit Fees	5,090	5,400
Bank Card Fees	2,803	2,853
Wealth Management Fees	1,842	1,792
Mortgage Banking Fees	1,308	1,030
Other	1,675	1,602
Total Noninterest Income	12,718	12,677
 <b>NONINTEREST EXPENSE</b>		
Compensation	16,496	16,241
Occupancy, net	4,381	4,459
Other Real Estate Owned, net	583	1,425
Other	6,462	6,805
Total Noninterest Expense	27,922	28,930
 <b>INCOME BEFORE INCOME TAXES</b>	 4,222	 2,505
Income Tax Expense	1,478	858
 <b>NET INCOME</b>	 \$ 2,744	 \$ 1,647
 <b>BASIC NET INCOME PER SHARE</b>	 \$ 0.16	 \$ 0.10
<b>DILUTED NET INCOME PER SHARE</b>	<b>\$ 0.16</b>	<b>\$ 0.10</b>
 Average Basic Shares Outstanding	 16,919	 17,202

Average Diluted Shares Outstanding	16,944	17,235
------------------------------------	--------	--------

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

**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>NET INCOME</b>	\$ 2,744	\$ 1,647
<b>Other comprehensive income, before tax:</b>		
Change in net unrealized gain/loss on securities available for sale	505	1,784
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	20	19
Total Investment Securities	525	1,803
<b>Other comprehensive income, before tax</b>	525	1,803
Deferred tax benefit related to other comprehensive income	(204)	(695)
<b>Other comprehensive income, net of tax</b>	321	1,108
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$ 3,065</b>	<b>\$ 2,755</b>

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

**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' EQUITY**  
**(Unaudited)**

	Shares	Common	Additional	Retained	Accumulated Other Comprehensive Loss, Net of Taxes	Total
	Outstanding	Stock	Paid-In Capital	Earnings		
<i>(Dollars In Thousands, Except Share Data)</i>						
<b>Balance, January 1, 2016</b>	17,156,919	\$ 172	\$ 38,256	\$ 258,181	\$ (22,257)	\$ 274,352
Net Income	-	-	-	1,647	-	1,647
Other Comprehensive Income, Net of Tax	-	-	-	-	1,108	1,108
Cash Dividends (\$0.0400 per share)	-	-	-	(689)	-	(689)
Repurchase of Common Stock	(3,600)	-	(50)	-	-	(50)
Stock Based Compensation	-	-	247	-	-	247
Impact of Transactions Under Compensation Plans, net	68,335	-	218	-	-	218
<b>Balance, March 31, 2016</b>	17,221,654	\$ 172	\$ 38,671	\$ 259,139	\$ (21,149)	\$ 276,833
<b>Balance, January 1, 2017</b>	16,844,698	\$ 168	\$ 34,188	\$ 267,037	\$ (26,225)	\$ 275,168
Net Income	-	-	-	2,744	-	2,744
Other Comprehensive Income, Net of Tax	-	-	-	-	321	321
Cash Dividends (\$0.0500 per share)	-	-	-	(847)	-	(847)
Stock Based Compensation	-	-	408	-	-	408
Impact of Transactions Under Compensation Plans, net	109,351	2	263	-	-	265
<b>Balance, March 31, 2017</b>	16,954,049	\$ 170	\$ 34,859	\$ 268,934	\$ (25,904)	\$ 278,059

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

**CAPITAL CITY BANK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 2,744	\$ 1,647
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Loan Losses	310	452
Depreciation	1,735	1,705
Amortization of Premiums, Discounts, and Fees, net	1,575	1,569
Net Decrease in Loans Held-for-Sale	3,388	1,157
Stock Compensation	408	247
Deferred Income Taxes	1,174	693
Loss on Sales and Write-Downs of Other Real Estate Owned	490	1,076
Loss on Disposal of Premises and Equipment	6	2
Net Decrease (Increase) in Other Assets	7,920	(2,063)
Net Increase in Other Liabilities	4,168	2,765
Net Cash Provided By Operating Activities	23,918	9,250
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Securities Held to Maturity:		
Purchases	(10,738)	(5,064)
Payments, Maturities, and Calls	29,338	5,631
Securities Available for Sale:		
Purchases	(50,022)	(39,499)
Payments, Maturities, and Calls	30,732	28,566
Purchases of Loans Held for Investment	(18,513)	-
Net Increase in Loans	(6,099)	(16,574)
Proceeds From Sales of Other Real Estate Owned	2,114	1,965
Purchases of Premises and Equipment	(923)	(917)
Net Cash Used In Investing Activities	(24,111)	(25,892)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Increase (Decrease) in Deposits	47,019	(11,441)
Net (Decrease) Increase in Short-Term Borrowings	(2,146)	1,427
Repayment of Other Long-Term Borrowings	(1,421)	(766)
Dividends Paid	(847)	(689)
Payments to Repurchase Common Stock	-	(50)
Issuance of Common Stock Under Compensation Plans	88	78
Net Cash Provided By (Used In) Financing Activities	42,693	(11,441)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>42,500</b>	<b>(28,083)</b>
Cash and Cash Equivalents at Beginning of Period	296,047	378,905
Cash and Cash Equivalents at End of Period	\$ 338,547	\$ 350,822

**Supplemental Cash Flow Disclosures:**

Interest Paid	\$	808	\$	829
Income Taxes Paid	\$	691	\$	50

**Noncash Investing and Financing Activities:**

Loans and Premises Transferred to Other Real Estate Owned	\$	1,541	\$	1,201
Transfer of Current Portion of Long-Term Borrowings	\$	-	\$	437

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

**CAPITAL CITY BANK GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations.* Capital City Bank Group, Inc. (“CCBG” or the “Company”) provides a full range of banking and banking-related services to individual and corporate clients through its subsidiary, Capital City Bank, with banking offices located in Florida, Georgia, and Alabama. The Company is subject to competition from other financial institutions, is subject to regulation by certain government agencies and undergoes periodic examinations by those regulatory authorities.

*Basis of Presentation.* The consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of CCBG and its wholly-owned subsidiary, Capital City Bank (“CCB” or the “Bank” and together with the Company). All material inter-company transactions and accounts have been eliminated. Certain previously reported amounts have been reclassified to conform to the current year’s presentation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The consolidated statement of financial condition at December 31, 2016 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2016.

**NOTE 2 – INVESTMENT SECURITIES**

*Investment Portfolio Composition.* The amortized cost and related market value of investment securities available-for-sale and held-to-maturity were as follows:

<b>March 31, 2017</b>				<b>December 31, 2016</b>			
<b>Amortized</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Market</b>	<b>Amortized</b>	<b>Unrealized</b>	<b>Unrealized</b>	<b>Market</b>
<b>Cost</b>	<b>Gains</b>	<b>Losses</b>	<b>Value</b>	<b>Cost</b>	<b>Gain</b>	<b>Losses</b>	<b>Value</b>

**Available for Sale**

U.S. Government Treasury	\$288,661	\$ 106	\$ 778	\$287,989	\$286,867	\$ 262	\$ 851	\$286,278
U.S. Government Agency	143,066	660	293	143,433	131,489	495	344	131,640
States and Political Subdivisions	99,685	126	111	99,700	95,197	23	381	94,839
Mortgage-Backed Securities	1,275	117	-	1,392	1,312	118	-	1,430
Equity Securities <sup>(1)</sup>	8,588	-	-	8,588	8,547	-	-	8,547
Total	\$541,275	\$ 1,009	\$ 1,182	\$541,102	\$523,412	\$ 898	\$ 1,576	\$522,734

**Held to Maturity**

U.S. Government Treasury	\$ 93,335	\$ 26	\$ 98	\$ 93,263	\$119,131	\$ 107	\$ 81	\$119,157
States and Political Subdivisions	7,610	17	4	7,623	8,175	1	38	8,138
Mortgage-Backed Securities	57,570	58	629	56,999	50,059	29	637	49,451
Total	\$158,515	\$ 101	\$ 731	\$157,885	\$177,365	\$ 137	\$ 756	\$176,746

Total Investment Securities      \$699,790    \$ 1,110    \$ 1,913    \$698,987    \$700,777    \$ 1,035    \$ 2,332    \$699,480

<sup>(1)</sup> Includes Federal Home Loan Bank, Federal Reserve Bank, and FNBB, Inc. stock recorded at cost of \$3.3 million, \$4.8 million, and \$0.5 million, respectively, at March 31, 2017 and \$3.3 million, \$4.8 million, and \$0.5 million, respectively, at December 31, 2016.

Securities with an amortized cost of \$332.4 million and \$332.7 million at March 31, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and for other purposes.



The Bank, as a member of the Federal Home Loan Bank of Atlanta (“FHLB”), is required to own capital stock in the FHLB based generally upon the balances of residential and commercial real estate loans, and FHLB advances. FHLB stock which is included in equity securities is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted market value; however, redemption of this stock has historically been at par value.

As a member of the Federal Reserve Bank of Atlanta, the Bank is required to maintain stock in the Federal Reserve Bank of Atlanta based on a specified ratio relative to the Bank’s capital. Federal Reserve Bank stock is carried at cost and may be sold back to the Federal Reserve Bank at its carrying value.

*Maturity Distribution.* As of March 31, 2017, the Company's investment securities had the following maturity distribution based on contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities and certain amortizing U.S. government agency securities are shown separately because they are not due at a certain maturity date.

<i>(Dollars in Thousands)</i>	<b>Available for Sale</b>		<b>Held to Maturity</b>	
	<b>Amortized Cost</b>	<b>Market Value</b>	<b>Amortized Cost</b>	<b>Market Value</b>
Due in one year or less	\$ 185,316	\$ 185,386	\$ 35,468	\$ 35,485
Due after one through five years	242,632	241,724	65,477	65,401
Mortgage-Backed Securities	1,275	1,392	57,570	56,999
U.S. Government Agency	103,464	104,012	-	-
Equity Securities	8,588	8,588	-	-
Total	\$ 541,275	\$ 541,102	\$ 158,515	\$ 157,885

*Unrealized Losses on Investment Securities.* The following table summarizes the investment securities with unrealized losses aggregated by major security type and length of time in a continuous unrealized loss position:

<i>(Dollars in Thousands)</i>	<b>Less Than 12 Months</b>		<b>Greater Than 12 Months</b>		<b>Total</b>	
	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Market Value</b>	<b>Unrealized Losses</b>	<b>Market Value</b>	<b>Unrealized Losses</b>
<b>March 31, 2017</b>						
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 133,781	\$ 778	\$ -	\$ -	\$ 133,781	\$ 778
U.S. Government Agency States and Political Subdivisions	\$ 52,628	\$ 278	\$ 3,871	\$ 15	\$ 56,499	\$ 293
Mortgage-Backed Securities	48,786	109	542	2	49,328	111
Total	-	-	3	-	3	-
	235,195	1,165	4,416	17	239,611	1,182
<b>Held to Maturity</b>						
U.S. Government Treasury	47,679	98	-	-	47,679	98
States and Political Subdivisions	2,545	4	-	-	2,545	4
Mortgage-Backed Securities	35,437	592	3,404	37	38,841	629
Total	\$ 85,661	\$ 694	\$ 3,404	\$ 37	\$ 89,065	\$ 731
<b>December 31, 2016</b>						
<b>Available for Sale</b>						
U.S. Government Treasury	\$ 116,704	\$ 851	\$ -	\$ -	\$ 116,704	\$ 851
U.S. Government Agency States and Political Subdivisions	48,520	310	6,699	34	55,219	344
Mortgage-Backed Securities	81,521	380	294	1	81,815	381
Total	3	-	-	-	3	-
	246,748	1,541	6,993	35	253,741	1,576
<b>Held to Maturity</b>						
U.S. Government Treasury	35,210	81	-	-	35,210	81
States and Political Subdivisions	7,491	38	-	-	7,491	38
Mortgage-Backed Securities	36,710	599	4,010	38	40,720	637
Total	\$ 79,411	\$ 718	\$ 4,010	\$ 38	\$ 83,421	\$ 756

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, the Company considers, (i) whether it has decided to sell the security, (ii) whether it is more likely than not that the Company will have to sell the security before its market value recovers, and (iii) whether the present value of expected cash flows is sufficient to recover the entire amortized cost basis. When assessing a security's expected cash flows, the Company considers, among other things, (i) the length of time and the extent to which the fair value has been less than cost and (ii) the financial condition and near-term prospects of the issuer. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by rating agencies have occurred, regulatory issues, and analysts' reports.

At March 31, 2017, there were 287 positions (combined Available-for-Sale and Held-to-Maturity) with an unrealized loss totaling \$1.9 million. Included were 116 positions comprised of Ginnie Mae mortgage-backed securities (51), US Treasuries (39), and SBA securities (26) with an unrealized loss totaling \$1.6 million. Each of these positions carries the full faith and credit guarantee of the US Government. SBA securities float monthly or quarterly to the prime rate and are uncapped. Of these 116 positions, there were 11 GNMA positions and seven SBA positions in an unrealized loss position for longer than 12 months, with unrealized losses of \$37,000 and \$15,000, respectively. There were 22 agency positions with an unrealized loss of \$0.2 million. The remaining 149 positions in an unrealized loss position were municipal bonds that were pre-refunded, or rated "AA-" or better, with unrealized losses of \$0.1 million. Of these 149 positions, two were in an unrealized loss position greater than 12 months, with an unrealized loss of \$2,000. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the present ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2017.

**NOTE 3 – LOANS, NET**

*Loan Portfolio Composition.* The composition of the loan portfolio was as follows:

<i>(Dollars in Thousands)</i>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Commercial, Financial and Agricultural	\$ 214,595	\$ 216,404
Real Estate – Construction	59,938	58,443
Real Estate – Commercial Mortgage	503,868	503,978
Real Estate – Residential <sup>(1)</sup>	304,992	281,509
Real Estate – Home Equity	231,300	236,512
Consumer	270,266	264,443
Loans, Net of Unearned Income	\$ 1,584,959	\$ 1,561,289

<sup>(1)</sup> *Includes loans in process with outstanding balances of \$10.5 million and \$9.6 million at March 31, 2017 and December 31, 2016, respectively.*

Net deferred costs included in loans were \$0.6 million at March 31, 2017 and \$0.5 million at December 31, 2016.

The Company has pledged a blanket floating lien on all 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity loans to support available borrowing capacity at the FHLB of Atlanta and has pledged a blanket floating lien on all consumer loans, commercial loans, and construction loans to support available borrowing capacity at the Federal Reserve Bank of Atlanta.

*Nonaccrual Loans.* Loans are generally placed on nonaccrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current or when future payments are reasonably assured.

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days and still on accrual by class of loans.

Edgar Filing: CAPITAL CITY BANK GROUP INC - Form 10-Q

<i>(Dollars in Thousands)</i>	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Nonaccrual</b>	<b>90 + Days</b>	<b>Nonaccrual</b>	<b>90 + Days</b>
Commercial, Financial and Agricultural \$	538	\$ -	\$ 468	\$ -
Real Estate – Construction	363	-	311	-
Real Estate – Commercial Mortgage	3,970	-	3,410	-
Real Estate – Residential	1,724	-	2,330	-
Real Estate – Home Equity	1,587	-	1,774	-
Consumer	116	-	240	-
Total Nonaccrual Loans	\$ 8,298	\$ -	\$ 8,533	\$ -

*Loan Portfolio Aging.* A loan is defined as a past due loan when one full payment is past due or a contractual maturity is over 30 days past due (“DPD”).

The following table presents the aging of the recorded investment in past due loans by class of loans.

<i>(Dollars in Thousands)</i>	<b>30-59 DPD</b>	<b>60-89 DPD</b>	<b>90 + DPD</b>	<b>Total Past Due</b>	<b>Total Current</b>	<b>Total Loans</b>
<b>March 31, 2017</b>						
Commercial, Financial and Agricultural	\$ 205	\$ 32	\$ -	\$ 237	\$ 213,820	\$ 214,595
Real Estate – Construction	-	-	-	-	59,575	59,938
Real Estate – Commercial Mortgage	69	177	-	246	499,652	503,868
Real Estate – Residential	1,094	67	-	1,161	302,107	304,992
Real Estate – Home Equity	263	15	-	278	229,435	231,300
Consumer	1,123	218	-	1,341	268,809	270,266
Total Past Due Loans	\$ 2,754	\$ 509	\$ -	\$ 3,263	\$ 1,573,398	\$ 1,584,959
<b>December 31, 2016</b>						
Commercial, Financial and Agricultural	\$ 209	\$ 48	\$ -	\$ 257	\$ 215,679	\$ 216,404
Real Estate – Construction	949	282	-	1,231	56,901	58,443
Real Estate – Commercial Mortgage	835	1	-	836	499,732	503,978
Real Estate – Residential	1,199	490	-	1,689	277,490	281,509
Real Estate – Home Equity	577	51	-	628	234,110	236,512
Consumer	1,516	281	-	1,797	262,406	264,443
Total Past Due Loans	\$ 5,285	\$ 1,153	\$ -	\$ 6,438	\$ 1,546,318	\$ 1,561,289

*Allowance for Loan Losses.* The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management’s best estimate of incurred losses within the existing portfolio of loans. Loans are charged-off to the allowance when losses are deemed to be probable and reasonably quantifiable.

The following table details the activity in the allowance for loan losses by portfolio class. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

<i>(Dollars in Thousands)</i>	<b>Commercial, Financial, Agricultural</b>	<b>Real Estate Construction</b>	<b>Real Estate Mortgage</b>	<b>Real Estate Residential</b>	<b>Real Estate Home Equity</b>	<b>Consumer</b>	<b>Total</b>
<b>Three Months Ended March 31, 2017</b>							

Edgar Filing: CAPITAL CITY BANK GROUP INC - Form 10-Q

Beginning Balance	\$ 1,198	\$ 168	\$ 4,315	\$ 3,445	\$ 2,297	\$ 2,008	\$ 13,431
Provision for Loan Losses	(36)	(68)	(187)	(166)	288	479	310
Charge-Offs	(93)	-	(71)	(116)	(92)	(624)	(996)
Recoveries	81	-	23	213	29	244	590
Net Charge-Offs	(12)	-	(48)	97	(63)	(380)	(406)
Ending Balance	\$ 1,150	\$ 100	\$ 4,080	\$ 3,376	\$ 2,522	\$ 2,107	\$ 13,335

**Three Months Ended**

**March 31, 2016**

Beginning Balance	\$ 905	\$ 101	\$ 4,498	\$ 4,409	\$ 2,473	\$ 1,567	\$ 13,953
Provision for Loan Losses	(24)	-	44	(30)	118	344	452
Charge-Offs	(37)	-	(274)	(478)	(215)	(439)	(1,443)
Recoveries	39	-	81	236	59	236	651
Net Charge-Offs	2	-	(193)	(242)	(156)	(203)	(792)
Ending Balance	\$ 883	\$ 101	\$ 4,349	\$ 4,137	\$ 2,435	\$ 1,708	\$ 13,613

The following table details the amount of the allowance for loan losses by portfolio class disaggregated on the basis of the Company's impairment methodology.

	<b>Commercial, Financial, Agricultural</b>	<b>Real Estate Construction</b>	<b>Real Estate Commercial Mortgage</b>	<b>Real Estate Residential</b>	<b>Real Estate Home Equity</b>	<b>Consumer</b>	<b>Total</b>
<i>(Dollars in Thousands)</i>							
<b>March 31, 2017</b>							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	\$ 94	\$ 2	\$ 2,027	\$ 1,486	\$ 445	\$ 4	\$ 4,058
Loans Collectively							
Evaluated for Impairment	1,056	98	2,053	1,890	2,077	2,103	9,277
Ending Balance	\$ 1,150	\$ 100	\$ 4,080	\$ 3,376	\$ 2,522	\$ 2,107	\$ 13,335
<b>December 31, 2016</b>							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	\$ 80	\$ -	\$ 2,038	\$ 1,561	\$ 335	\$ 6	\$ 4,020
Loans Collectively							
Evaluated for Impairment	1,118	168	2,277	1,884	1,962	2,002	9,411
Ending Balance	\$ 1,198	\$ 168	\$ 4,315	\$ 3,445	\$ 2,297	\$ 2,008	\$ 13,431
<b>March 31, 2016</b>							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	\$ 72	\$ -	\$ 1,936	\$ 1,954	\$ 389	\$ 4	\$ 4,355
Loans Collectively							
Evaluated for Impairment	811	101	2,413	2,183	2,046	1,704	9,258
Ending Balance	\$ 883	\$ 101	\$ 4,349	\$ 4,137	\$ 2,435	\$ 1,708	\$ 13,613



The Company's recorded investment in loans related to each balance in the allowance for loan losses by portfolio class and disaggregated on the basis of the Company's impairment methodology was as follows:

<i>(Dollars in Thousands)</i>	<b>Commercial, Financial,</b>	<b>Real Estate</b>	<b>Real Estate</b>	<b>Real Estate</b>	<b>Real Estate</b>	<b>Consumer</b>	<b>Total</b>
	<b>Agricultural</b>	<b>Construction</b>	<b>Commercial Mortgage</b>	<b>Real Estate Residential</b>	<b>Real Estate Home Equity</b>		
<b>March 31, 2017</b>							
Individually Evaluated for Impairment	\$ 1,238	\$ 362	\$ 23,061	\$ 14,699	\$ 3,514	\$ 145	\$ 43,019
Collectively Evaluated for Impairment	213,357	59,576	480,807	290,293	227,786	270,121	1,541,940
<b>Total</b>	<b>\$ 214,595</b>	<b>\$ 59,938</b>	<b>\$ 503,868</b>	<b>\$ 304,992</b>	<b>\$ 231,300</b>	<b>\$ 270,266</b>	<b>\$ 1,584,959</b>
<b>December 31, 2016</b>							
Individually Evaluated for Impairment	\$ 1,042	\$ 247	\$ 23,855	\$ 15,596	\$ 3,375	\$ 174	\$ 44,289
Collectively Evaluated for Impairment	215,362	58,196	480,123	265,913	233,137	264,269	1,517,000
<b>Total</b>	<b>\$ 216,404</b>	<b>\$ 58,443</b>	<b>\$ 503,978</b>	<b>\$ 281,509</b>	<b>\$ 236,512</b>	<b>\$ 264,443</b>	<b>\$ 1,561,289</b>
<b>March 31, 2016</b>							
Individually Evaluated for Impairment	\$ 812	\$ -	\$ 20,798	\$ 18,221	\$ 3,211	\$ 206	\$ 43,248
Collectively Evaluated for Impairment	182,869	42,537	482,461	277,849	230,917	246,954	1,463,587
<b>Total</b>	<b>\$ 183,681</b>	<b>\$ 42,537</b>	<b>\$ 503,259</b>	<b>\$ 296,070</b>	<b>\$ 234,128</b>	<b>\$ 247,160</b>	<b>\$ 1,506,835</b>

*Impaired Loans.* Loans are deemed to be impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due (principal and interest payments), according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

The following table presents loans individually evaluated for impairment by class of loans.

<i>(Dollars in Thousands)</i>	<b>Unpaid Principal Balance</b>	<b>Recorded Investment With No Allowance</b>	<b>Recorded Investment With Allowance</b>	<b>Related Allowance</b>
<b>March 31, 2017</b>				
Commercial, Financial and Agricultural	\$ 1,238	\$ 355	\$ 883	\$ 94
Real Estate – Construction	362	298	64	2
Real Estate – Commercial Mortgage	23,061	8,189	14,872	2,027
Real Estate – Residential	14,699	2,609	12,090	1,486
Real Estate – Home Equity	3,514	1,549	1,965	445
Consumer	145	54	91	4
Total	\$ 43,019	\$ 13,054	\$ 29,965	\$ 4,058
<b>December 31, 2016</b>				
Commercial, Financial and Agricultural	\$ 1,042	\$ 565	\$ 477	\$ 80
Real Estate – Construction	247	-	247	-
Real Estate – Commercial Mortgage	23,855	8,954	14,901	2,038
Real Estate – Residential	15,596	2,509	13,087	1,561
Real Estate – Home Equity	3,375	1,871	1,504	335
Consumer	174	65	109	6
Total	\$ 44,289	\$ 13,964	\$ 30,325	\$ 4,020

The following table summarizes the average recorded investment and interest income recognized by class of impaired loans.

	<b>Three Months Ended March 31,</b>			
	<b>2017</b>		<b>2016</b>	
<i>(Dollars in Thousands)</i>	<b>Average Recorded Investment</b>	<b>Total Interest Income</b>	<b>Average Recorded Investment</b>	<b>Total Interest Income</b>
Commercial, Financial and Agricultural	\$ 1,140	\$ 12	\$ 823	\$ 13
Real Estate – Construction	305	-	49	-
Real Estate – Commercial Mortgage	23,458	223	20,822	239
Real Estate – Residential	15,147	180	18,395	209
Real Estate – Home Equity	3,445	27	3,178	27
Consumer	159	2	234	2
<b>Total</b>	<b>\$ 43,654</b>	<b>\$ 444</b>	<b>\$ 43,501</b>	<b>\$ 490</b>

*Credit Risk Management.* The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures designed to maximize loan income within an acceptable level of risk. Management and the Board of Directors review and approve these policies and procedures on a regular basis (at least annually).

Reporting systems are used to monitor loan originations, loan quality, concentrations of credit, loan delinquencies and nonperforming loans and potential problem loans. Management and the Credit Risk Oversight Committee periodically review our lines of business to monitor asset quality trends and the appropriateness of credit policies. In addition, total borrower exposure limits are established and concentration risk is monitored. As part of this process, the overall composition of the portfolio is reviewed to gauge diversification of risk, client concentrations, industry group, loan type, geographic area, or other relevant classifications of loans. Specific segments of the loan portfolio are monitored and reported to the Board on a quarterly basis and have strategic plans in place to supplement Board approved credit policies governing exposure limits and underwriting standards. Detailed below are the types of loans within the Company's loan portfolio and risk characteristics unique to each.

Commercial, Financial, and Agricultural – Loans in this category are primarily made based on identified cash flows of the borrower with consideration given to underlying collateral and personal or other guarantees. Lending policy establishes debt service coverage ratio limits that require a borrower's cash flow to be sufficient to cover principal and interest payments on all new and existing debt. The majority of these loans are secured by the assets being financed or other business assets such as accounts receivable, inventory, or equipment. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy guidelines.

Real Estate Construction – Loans in this category consist of short-term construction loans, revolving and non-revolving credit lines and construction/permanent loans made to individuals and investors to finance the acquisition,

development, construction or rehabilitation of real property. These loans are primarily made based on identified cash flows of the borrower or project and generally secured by the property being financed, including 1-4 family residential properties and commercial properties that are either owner-occupied or investment in nature. These properties may include either vacant or improved property. Construction loans are generally based upon estimates of costs and value associated with the completed project. Collateral values are determined based upon third party appraisals and evaluations. Loan to value ratios at origination are governed by established policy guidelines. The disbursement of funds for construction loans is made in relation to the progress of the project and as such these loans are closely monitored by on-site inspections.

Real Estate Commercial Mortgage – Loans in this category consists of commercial mortgage loans secured by property that is either owner-occupied or investment in nature. These loans are primarily made based on identified cash flows of the borrower or project with consideration given to underlying real estate collateral and personal guarantees. Lending policy establishes debt service coverage ratios and loan to value ratios specific to the property type. Collateral values are determined based upon third party appraisals and evaluations.

Real Estate Residential – Residential mortgage loans held in the Company's loan portfolio are made to borrowers that demonstrate the ability to make scheduled payments with full consideration to underwriting factors such as current income, employment status, current assets, and other financial resources, credit history, and the value of the collateral. Collateral consists of mortgage liens on 1-4 family residential properties. Collateral values are determined based upon third party appraisals and evaluations. The Company does not originate sub-prime loans.

Real Estate Home Equity – Home equity loans and lines are made to qualified individuals for legitimate purposes generally secured by senior or junior mortgage liens on owner-occupied 1-4 family homes or vacation homes. Borrower qualifications include favorable credit history combined with supportive income and debt ratio requirements and combined loan to value ratios within established policy guidelines. Collateral values are determined based upon third party appraisals and evaluations.

Consumer Loans – This loan portfolio includes personal installment loans, direct and indirect automobile financing, and overdraft lines of credit. The majority of the consumer loan portfolio consists of indirect and direct automobile loans. Lending policy establishes maximum debt to income ratios, minimum credit scores, and includes guidelines for verification of applicants' income and receipt of credit reports.

*Credit Quality Indicators.* As part of the ongoing monitoring of the Company's loan portfolio quality, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment performance, credit documentation, and current economic/market trends, among other factors. Risk ratings are assigned to each loan and revised as needed through established monitoring procedures for individual loan relationships over a predetermined amount and review of smaller balance homogenous loan pools. The Company uses the definitions noted below for categorizing and managing its criticized loans. Loans categorized as "Pass" do not meet the criteria set forth for the Special Mention, Substandard, or Doubtful categories and are not considered criticized.

Special Mention – Loans in this category are presently protected from loss, but weaknesses are apparent which, if not corrected, could cause future problems. Loans in this category may not meet required underwriting criteria and have no mitigating factors. More than the ordinary amount of attention is warranted for these loans.

Substandard – Loans in this category exhibit well-defined weaknesses that would typically bring normal repayment into jeopardy. These loans are no longer adequately protected due to well-defined weaknesses that affect the repayment capacity of the borrower. The possibility of loss is much more evident and above average supervision is required for these loans.

Doubtful – Loans in this category have all the weaknesses inherent in a loan categorized as Substandard, with the characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the risk category of loans by segment.

<i>(Dollars in Thousands)</i>	<b>Commercial, Financial, Agriculture</b>	<b>Real Estate</b>	<b>Consumer</b>	<b>Total Criticized Loans</b>
<b>March 31, 2017</b>				
Special Mention	\$ 4,189	\$ 18,940	\$ 187	\$ 23,316
Substandard	1,393	39,224	361	40,978
Doubtful	-	-	-	-
Total Criticized Loans	\$ 5,582	\$ 58,164	\$ 548	\$ 64,294
<b>December 31, 2016</b>				
Special Mention	\$ 3,300	\$ 23,183	\$ 216	\$ 26,699
Substandard	1,158	39,800	549	41,507
Doubtful	-	-	-	-
Total Criticized Loans	\$ 4,458	\$ 62,983	\$ 765	\$ 68,206

*Troubled Debt Restructurings ("TDRs").* TDRs are loans in which the borrower is experiencing financial difficulty and the Company has granted an economic concession to the borrower that it would not otherwise consider. In these instances, as part of a work-out alternative, the Company will make concessions including the extension of the loan term, a principal moratorium, a reduction in the interest rate, or a combination thereof. The impact of the TDR modifications and defaults are factored into the allowance for loan losses on a loan-by-loan basis as all TDRs are, by definition, impaired loans. Thus, specific reserves are established based upon the results of either a discounted cash flow analysis or the underlying collateral value, if the loan is deemed to be collateral dependent. A TDR classification can be removed if the borrower's financial condition improves such that the borrower is no longer in financial difficulty, the loan has not had any forgiveness of principal or interest, and the loan is subsequently refinanced or restructured at market terms and qualifies as a new loan.

The following table presents loans classified as TDRs.

<i>(Dollars in Thousands)</i>	<b>March 31, 2017</b>		<b>December 31, 2016</b>	
	<b>Accruing</b>	<b>Nonaccruing</b>	<b>Accruing</b>	<b>Nonaccruing</b>
Commercial, Financial and Agricultural	\$ 870	\$ -	\$ 772	\$ 40
Real Estate – Construction	-	65	-	-
Real Estate – Commercial Mortgage	19,296	1,948	20,673	1,259
Real Estate – Residential	13,648	420	13,969	444
Real Estate – Home Equity	2,597	78	2,647	-
Consumer	144	-	172	-
<b>Total TDRs</b>	<b>\$ 36,555</b>	<b>\$ 2,511</b>	<b>\$ 38,233</b>	<b>\$ 1,743</b>

Loans classified as TDRs during the periods indicated are presented in the table below. The modifications made during the reporting period involved either an extension of the loan term, an interest rate adjustment, or a principal moratorium, and the financial impact of these modifications was not material.

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31, 2017</b>			<b>Three Months Ended March 31, 2016</b>		
	<b>Number of Contracts</b>	<b>Pre-Modified Recorded Investment</b>	<b>Post-Modified Recorded Investment</b>	<b>Number of Contracts</b>	<b>Pre-Modified Recorded Investment</b>	<b>Post-Modified Recorded Investment</b>
Commercial, Financial and Agricultural	-	\$ -	\$ -	-	\$ -	\$ -
Real Estate – Construction	1	64	65	-	-	-
Real Estate – Commercial Mortgage	-	-	-	1	332	332
Real Estate – Residential	-	-	-	5	499	500
Real Estate – Home Equity	1	56	55	4	188	189
Consumer	-	-	-	-	-	-
<b>Total TDRs</b>	<b>2</b>	<b>\$ 120</b>	<b>\$ 120</b>	<b>10</b>	<b>\$ 1,019</b>	<b>\$ 1,021</b>

The following table provides information on TDR defaults for loans that had been modified within the previous 12 months for the periods indicated.

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Number of Contracts	Post-Modified Recorded Investment	Number of Contracts	Post-Modified Recorded Investment
<i>(Dollars in Thousands)</i>				
Commercial, Financial and Agricultural	-	\$ -	-	\$ -
Real Estate – Construction	-	-	-	-
Real Estate – Commercial Mortgage	-	-	-	-
Real Estate – Residential	-	-	-	-
Real Estate – Home Equity	-	-	1	3
Consumer	-	-	1	35
Total TDRs	-	\$ -	2	\$ 38

(1) *Recorded investment reflects charge-offs and additional funds advanced at time of restructure, if applicable.*

The following table provides information on how TDRs were modified during the periods indicated.

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Number of Contracts	Recorded Investment <sup>(1)</sup>	Number of Contracts	Recorded Investment <sup>(1)</sup>
<i>(Dollars in Thousands)</i>				
Extended amortization	-	\$ -	-	\$ -
Interest rate adjustment	2	120	-	-
Extended amortization and interest rate adjustment	-	-	10	1,021
Other	-	-	-	-
Total TDRs	2	\$ 120	10	\$ 1,021

(1) *Recorded investment reflects charge-offs and additional funds advanced at time of restructure, if applicable.*

#### NOTE 4 – OTHER REAL ESTATE OWNED

The following table presents other real estate owned activity for the periods indicated.



<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Beginning Balance	\$ 10,638	\$ 19,290
Additions	1,541	1,201
Valuation Write-downs	(494)	(835)
Sales	(2,111)	(2,206)
Other	(73)	-
Ending Balance	\$ 9,501	\$ 17,450

Net expenses applicable to other real estate owned include the following:

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Gains from the Sale of Properties	\$ (106)	\$ (129)
Losses from the Sale of Properties	102	369
Rental Income from Properties	(32)	-
Property Carrying Costs	125	350
Valuation Adjustments	494	835
Total	\$ 583	\$ 1,425

As of March 31, 2017 the Company had \$1.2 million of loans secured by residential real estate in the process of foreclosure.

## NOTE 5 - EMPLOYEE BENEFIT PLANS

The Company has a defined benefit pension plan covering substantially all full-time and eligible part-time associates and a Supplemental Executive Retirement Plan (“SERP”) covering its executive officers.

The components of the net periodic benefit cost for the Company's qualified benefit pension plan were as follows:

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Service Cost	\$ 1,688	\$ 1,613
Interest Cost	1,437	1,397
Expected Return on Plan Assets	(2,006)	(1,934)
Prior Service Cost Amortization	56	69
Net Loss Amortization	953	801
Net Periodic Benefit Cost	\$ 2,128	\$ 1,946
Discount Rate	4.21%	4.52%
Long-term Rate of Return on Assets	7.25%	7.50%

The components of the net periodic benefit cost for the Company's SERP were as follows:

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
Interest Cost	\$ 48	\$ 40
Net Loss Amortization	149	190
Net Periodic Benefit Cost	\$ 197	\$ 230
Discount Rate	3.92%	4.13%

## NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

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

<i>(Dollars in Thousands)</i>	<b>March 31, 2017</b>			<b>December 31, 2016</b>		
	<b>Fixed</b>	<b>Variable</b>	<b>Total</b>	<b>Fixed</b>	<b>Variable</b>	<b>Total</b>
Commitments to Extend Credit <sup>(1)</sup>	\$ 72,917	\$ 346,911	\$ 419,828	\$ 69,993	\$ 332,420	\$ 402,413
Standby Letters of Credit	5,053	-	5,053	4,768	-	4,768
Total	\$ 77,970	\$ 346,911	\$ 424,881	\$ 74,761	\$ 332,420	\$ 407,181

<sup>(1)</sup> *Commitments include unfunded loans, revolving lines of credit, and other unused commitments.*

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

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

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

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

*Indemnification Obligation.* The Company is a member of the Visa U.S.A. network. Visa U.S.A member banks are required to indemnify it for potential future settlement of certain litigation (the "Covered Litigation") that relates to several antitrust lawsuits challenging the practices of Visa and MasterCard International. In 2008, the Company, as a member of the Visa U.S.A. network, obtained Class B shares of Visa, Inc. upon its initial public offering. Since its initial public offering, Visa, Inc. has funded a litigation reserve for the Covered Litigation resulting in a reduction in the Class B shares held by the Company. During the first quarter of 2011, the Company sold its remaining Class B shares resulting in a \$3.2 million pre-tax gain. Associated with this sale, the Company entered into a swap contract with the purchaser of the shares that requires a payment to the counterparty in the event that Visa, Inc. makes subsequent revisions to the conversion ratio for its Class B shares. Fixed charges included in the swap liability are payable quarterly until the litigation reserve is fully liquidated and at which time the aforementioned swap contract will be terminated. Quarterly fixed payments approximate \$83,000. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

## **NOTE 7 – FAIR VALUE MEASUREMENTS**

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to

unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from, or corroborated, by market data by correlation or other means.
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

#### **Assets and Liabilities Measured at Fair Value on a Recurring Basis**

*Securities Available for Sale.* U.S. Treasury securities are reported at fair value utilizing Level 1 inputs. Other securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, credit information and the bond's terms and conditions, among other things.

In general, the Company does not purchase securities that have a complicated structure. The Company's entire portfolio consists of traditional investments, nearly all of which are U.S. Treasury obligations, federal agency bullet or mortgage pass-through securities, or general obligation or revenue based municipal bonds. Pricing for such instruments is easily obtained. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third-party sources or derived using internal models.

*Fair Value Swap.* The Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents the amount due and payable to the counterparty based upon the revised share conversion rate, if any, during the period. At March 31, 2017, there were no amounts payable.

A summary of fair values for assets and liabilities consisted of the following:

<i>(Dollars in Thousands)</i>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>	<b>Total Fair Value</b>
<b>March 31, 2017</b>				
Securities Available for Sale:				
U.S. Government Treasury	\$ 287,989	\$ -	\$ -	\$ 287,989
U.S. Government Agency States and Political Subdivisions	-	143,433 99,700	-	143,433 99,700
Mortgage-Backed Securities	-	1,392	-	1,392
Equity Securities	-	8,588	-	8,588
<b>December 31, 2016</b>				
Securities Available for Sale:				
U.S. Government Treasury	\$ 286,278	\$ -	\$ -	\$ 286,278
U.S. Government Agency States and Political Subdivisions	-	131,640 94,839	-	131,640 94,839
Mortgage-Backed Securities	-	1,430	-	1,430
Equity Securities	-	8,547	-	8,547

#### **Assets Measured at Fair Value on a Non-Recurring Basis**

Certain assets are measured at fair value on a non-recurring basis (i.e., the assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances). An example would be assets exhibiting evidence of impairment. The following is a description of valuation methodologies used for assets measured on a non-recurring basis.

*Impaired Loans.* Impairment for collateral dependent loans is measured using the fair value of the collateral less selling costs. The fair value of collateral is determined by an independent valuation or professional appraisal in

conformance with banking regulations. Collateral values are estimated using Level 3 inputs due to the volatility in the real estate market, and the judgment and estimation involved in the real estate appraisal process. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. Valuation techniques are consistent with those techniques applied in prior periods. Impaired collateral dependent loans had a carrying value of \$8.6 million with a valuation allowance of \$1.1 million at March 31, 2017 and \$6.3 million and \$0.6 million, respectively, at December 31, 2016.

*Loans Held for Sale.* These loans are carried at the lower of cost or fair value and are adjusted to fair value on a non-recurring basis. Fair value is based on observable markets rates for comparable loan products, which is considered a Level 2 fair value measurement.

*Other Real Estate Owned.* During the first three months of 2017, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset less estimated cost to sell. The fair value of the foreclosed asset is determined by an independent valuation or professional appraisal in conformance with banking regulations. On an ongoing basis, we obtain updated appraisals on foreclosed assets and realize valuation adjustments as necessary. The fair value of foreclosed assets is estimated using Level 3 inputs due to the judgment and estimation involved in the real estate valuation process.

#### **Assets and Liabilities Disclosed at Fair Value**

The Company is required to disclose the estimated fair value of financial instruments, both assets and liabilities, for which it is practical to estimate fair value and the following is a description of valuation methodologies used for those assets and liabilities.

*Cash and Short-Term Investments.* The carrying amount of cash and short-term investments is used to approximate fair value, given the short time frame to maturity and as such assets do not present unanticipated credit concerns.

*Securities Held to Maturity.* Securities held to maturity are valued in accordance with the methodology previously noted in this footnote under the caption “Assets and Liabilities Measured at Fair Value on a Recurring Basis – Securities Available for Sale”.

*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 that reflect the credit, interest rate, and liquidity risks inherent in each loan category. The calculated present values are then reduced by an allocation of the allowance for loan losses against each respective loan category.

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

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

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



A summary of estimated fair values of significant financial instruments consisted of the following:

<i>(Dollars in Thousands)</i>	<b>Carrying Value</b>	<b>March 31, 2017</b>		
		<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
<b>ASSETS:</b>				
Cash	\$ 47,650	\$ 47,650	\$ -	\$ -
Short-Term Investments	290,897	290,897	-	-
Investment Securities, Available for Sale	541,102	287,889	253,113	-
Investment Securities, Held to Maturity	158,515	93,263	64,622	-
Loans Held for Sale	7,498	-	7,498	-
Loans, Net of Allowance for Loan Losses	1,571,624	-	-	1,564,508
<b>LIABILITIES:</b>				
Deposits	\$ 2,459,305	\$ -	\$ 2,311,870	\$ -
Short-Term Borrowings	7,603	-	7,640	-
Subordinated Notes Payable	52,887	-	41,493	-
Long-Term Borrowings	16,460	-	16,683	-

<i>(Dollars in Thousands)</i>	<b>Carrying Value</b>	<b>December 31, 2016</b>		
		<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
<b>ASSETS:</b>				
Cash	\$ 48,268	\$ 48,268	\$ -	\$ -
Short-Term Investments	247,779	247,779	-	-
Investment Securities, Available for Sale	522,734	286,278	236,456	-
Investment Securities, Held to Maturity	177,365	119,157	57,589	-
Loans Held for Sale	10,886	-	10,886	-
Loans, Net of Allowance for Loan Losses	1,547,858	-	-	1,543,576
<b>LIABILITIES:</b>				
Deposits	\$ 2,412,286	\$ -	\$ 2,272,572	\$ -
Short-Term Borrowings	12,749	-	12,802	-
Subordinated Notes Payable	52,887	-	42,024	-
Long-Term Borrowings	14,881	-	15,122	-

All non-financial instruments are excluded from the above table. The disclosures also do not include goodwill. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

**NOTE 8 – OTHER COMPREHENSIVE INCOME**

The amounts allocated to other comprehensive income are presented in the table below. Reclassification adjustments related to securities held for sale are included in net gain/loss on securities transactions in the accompanying consolidated statements of comprehensive income. For the periods presented, reclassifications adjustments related to securities held for sale was not material.

<i>(Dollars in Thousands)</i>	<b>Before Tax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>Net of Tax Amount</b>
<b>March 31, 2017</b>			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	\$ 505	\$ (196)	\$ 309
Amortization of losses on securities transferred from available for sale to held to maturity	20	(8)	12
Total Other Comprehensive Loss	\$ 525	\$ (204)	\$ 321
<b>March 31, 2016</b>			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	\$ 1,784	\$ (688)	\$ 1,096
Amortization of losses on securities transferred from available for sale to held to maturity	19	(7)	12
Total Other Comprehensive Income	\$ 1,803	\$ (695)	\$ 1,108

Accumulated other comprehensive loss was comprised of the following components:

<i>(Dollars in Thousands)</i>	<b>Securities Available for Sale</b>	<b>Retirement Plans</b>	<b>Accumulated Other Comprehensive Loss</b>
<b>Balance as of January 1, 2017</b>	\$ (583)	\$ (25,642)	\$ (26,225)
Other comprehensive income during the period	321	-	321
<b>Balance as of March 31, 2017</b>	\$ (262)	\$ (25,642)	\$ (25,904)
<b>Balance as of January 1, 2016</b>	\$ (127)	\$ (22,130)	\$ (22,257)
Other comprehensive income during the period	1,108	-	1,108
<b>Balance as of March 31, 2016</b>	\$ 981	\$ (22,130)	\$ (21,149)

**NOTE 9 – ACCOUNTING STANDARDS UPDATES**

*ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)."* ASU 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the entity satisfies a performance obligation. A significant portion of the Company's revenue is comprised of net interest income on financial instruments, which is explicitly excluded from the scope of ASU 2014-09. In addition to interest income, the Company has various noninterest income revenue streams that the Company is in the process of assessing. The Company has formed a revenue recognition working group and to date has completed its preliminary scoping and walk-through of noninterest income revenue streams. Amongst non-interest income revenue streams, mortgage banking fees are not in the scope of the standard. Management is in the process of completing its detailed contract review for the remaining revenue streams. ASU 2014-09 is effective for the Company on January 1, 2018 and must be retrospectively applied. The Company expects to adopt the standard with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be significant.

ASU 2016-09, “*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.*” Under ASU 2016-09 all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. ASU 2016-09 was implemented by the Company in the first quarter of 2017 and did not have a significant impact on its financial statements.

ASU 2017-03, “*Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update).*” ASU 2017-03 incorporates into the FASB Accounting Standards Codification recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements upon adopting the revenue, leases and credit losses standards. ASU 2017-03 was implemented by the Company in the first quarter of 2017 and did not have a significant impact on its financial statements.

ASU 2017-04, “*Intangibles – Goodwill and Other (Topic 350).*” ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for the Company on January 1, 2020 and is not expected to have a significant impact on its financial statements.

ASU 2017-05, “*Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Asset.*” ASU 2017-05 clarifies the scope of Subtopic 610-20 and adds guidance for partial sales of nonfinancial assets, including partial sales of real estate. Historically, U.S. GAAP contained several different accounting models to evaluate whether the transfer of certain assets qualified for sale treatment. ASU 2017-05 reduces the number of potential accounting models that might apply and clarifies which model does apply in various circumstances. ASU 2017-05 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

ASU 2017-07, “*Compensation – Retirement Benefits (Topic 715).*” ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost

component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. ASU 2017-07 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

*ASU 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20)."* ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

#### **NOTE 10 – RELATED PARTY TRANSACTIONS**

In March 2017, the Company entered into an agreement with Mettler Limited Partnership, a related party of Thomas A. Barron, President of Capital City Bank and a director of the Company, to acquire a \$1,000,000 loan participation interest in a loan originated by Capital City Bank. This transaction was reviewed and approved in accordance with the Company's Related Party Transaction Policy.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes. The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2017 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, is referred to as "CCBG," "Company," "we," "us," or "our."

**CAUTION CONCERNING FORWARD-LOOKING STATEMENTS**

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

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and *Item 1A. Risk Factors* of our 2016 Report on Form 10-K, as updated in our subsequent quarterly reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this report.

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

**BUSINESS OVERVIEW**

We are a financial holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 60 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

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

A detailed discussion regarding the economic conditions in our markets and our long-term strategic objectives is included as part of the MD&A section of our 2016 Form 10-K.

### NON-GAAP FINANCIAL MEASURE

We present a tangible common equity ratio that removes the effect of goodwill resulting from merger and acquisition activity. We believe this measure is useful to investors because it allows investors to more easily compare our capital adequacy to other companies in the industry. The GAAP to non-GAAP reconciliation is provided below.

	2017		2016			
	First	Fourth	Third	Second	First	Fourth
<i>(Dollars in Thousands)</i>						
Shareowners' Equity (GAAP)	\$ 278,059	\$ 275,168	\$ 276,624	\$ 274,824	\$ 276,833	\$ 274,352
Less: Goodwill (GAAP)	84,811	84,811	84,811	84,811	84,811	84,811
Tangible Shareowners' Equity (non-GAAP)	A 193,248	190,357	191,813	190,013	192,022	189,541
Total Assets (GAAP)	2,895,531	2,845,197	2,753,154	2,767,636	2,792,186	2,797,860
Less: Goodwill (GAAP)	84,811	84,811	84,811	84,811	84,811	84,811
Tangible Assets (non-GAAP)	B \$2,810,720	\$2,760,386	\$2,668,343	\$2,682,825	\$2,707,375	\$2,713,049
<b>Tangible Common Equity Ratio</b>	A/B 6.88%	6.90%	7.19%	7.08%	7.09%	6.99%

**SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

<i>(Dollars in Thousands, Except Per Share Data)</i>	<b>2017</b>		<b>2016</b>				
	First	Fourth	Third	Second	First	Fourth	T
<b>Summary of Operations:</b>							
Interest Income	\$ 20,540	\$ 20,832	\$ 20,104	\$ 20,174	\$ 20,044	\$ 20,602	\$
Interest Expense	804	773	784	798	834	808	
Net Interest Income	19,736	20,059	19,320	19,376	19,210	19,794	
Provision for Loan Losses	310	464	-	(97)	452	513	
Net Interest Income After Provision for Loan Losses	19,426	19,595	19,320	19,473	18,758	19,281	
Noninterest Income <sup>(2)(3)</sup>	12,718	12,778	13,011	15,215	12,677	13,221	
Noninterest Expense	27,922	27,560	28,022	28,702	28,930	28,280	
Income Before Income Taxes	4,222	4,813	4,309	5,986	2,505	4,222	
Income Tax Expense	1,478	1,517	1,436	2,056	858	1,620	
Net Income	2,744	3,296	2,873	3,930	1,647	2,602	
Net Interest Income (FTE)	\$ 20,006	\$ 20,335	\$ 19,603	\$ 19,617	\$ 19,421	\$ 20,006	\$
<b>Per Common Share:</b>							
Net Income Basic	\$ 0.16	\$ 0.20	\$ 0.18	\$ 0.22	\$ 0.10	\$ 0.16	\$
Net Income Diluted	0.16	0.20	0.17	0.22	0.10	0.16	
Cash Dividends Declared	0.05	0.05	0.04	0.04	0.04	0.04	
Diluted Book Value	16.38	16.23	16.39	16.31	16.04	15.93	
Market Price:							
High	21.79	23.15	15.35	15.96	15.88	16.05	
Low	19.22	14.29	13.32	13.16	12.83	13.56	
Close	21.39	20.48	14.77	13.92	14.59	15.35	
<b>Selected Average Balances:</b>							
Loans, Net	\$1,585,561	\$1,573,264	\$1,555,889	\$1,531,777	\$1,507,508	\$1,492,521	\$1,4
Earning Assets	2,529,207	2,423,388	2,417,943	2,447,777	2,440,718	2,353,729	2,3
Total Assets	2,845,140	2,743,463	2,734,465	2,767,854	2,763,746	2,678,214	2,6
Deposits	2,407,278	2,306,917	2,288,741	2,276,553	2,258,600	2,174,718	2,1
Shareowners' Equity	278,489	278,943	277,407	279,532	277,464	275,893	2
Common Equivalent Average Shares:							
Basic	16,919	16,809	16,804	17,144	17,202	17,145	
Diluted	16,944	16,913	16,871	17,196	17,235	17,214	
<b>Performance Ratios:</b>							
Return on Average Assets	0.39%	0.48%	0.42%	0.57%	0.24%	0.39%	
Return on Average Equity	4.00	4.70	4.12	5.65	2.39	3.74	
Net Interest Margin (FTE)	3.21	3.34	3.23	3.22	3.20	3.37	
Noninterest Income as % of Operating Revenue	39.19	38.91	40.24	43.99	39.76	40.05	
Efficiency Ratio	85.33	83.23	85.92	82.40	90.13	85.11	
<b>Asset Quality:</b>							



Edgar Filing: CAPITAL CITY BANK GROUP INC - Form 10-Q

Allowance for Loan Losses	\$	13,335	\$	13,431	13,744	\$	13,677	\$	13,613	\$	13,953	\$
Allowance for Loan Losses to Loans		0.84%		0.86%	0.88%		0.89%		0.90%		0.93%	
Nonperforming Assets (“NPAs”)		17,799		19,171	21,352		22,836		26,499		29,595	
NPAs to Total Assets		0.61		0.67	0.78		0.83		0.95		1.06	
NPAs to Loans plus OREO		1.11		1.21	1.35		1.48		1.73		1.94	
Allowance to Non-Performing Loans		160.70		157.40	159.56		166.50		150.44		135.40	
Net Charge-Offs to Average Loans		0.10		0.20	(0.02)		(0.04)		0.21		0.34	

**Capital Ratios:**

Tier 1 Capital		15.68%		15.51%	15.48%		15.63%		16.39%		16.42%	
Total Capital		16.44		16.28	16.28		16.44		17.20		17.25	
Common Equity Tier 1		12.77		12.61	12.55		12.65		12.82		12.84	
Leverage		9.95		10.23	10.12		9.98		10.34		10.65	
Tangible Common Equity <sup>(1)</sup>		6.88		6.90	7.19		7.08		7.09		6.99	

<sup>(1)</sup>Non-GAAP financial measure. See non-GAAP reconciliation on page 27.

<sup>(2)</sup>Includes \$2.5 million gain on retirement of trust preferred securities in second quarter, 2016.

<sup>(3)</sup>Includes \$1.7 million in bank-owned life insurance proceeds in second quarter, 2015.

## FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

### Results of Operations

- Net income of \$2.7 million, or \$0.16 per diluted share, for the first quarter of 2017 compared to net income of \$3.3 million, or \$0.20 per diluted share, for the fourth quarter of 2016, and net income of \$1.6 million, or \$0.10 per diluted share for the first quarter of 2016.
- Tax equivalent net interest income for the first quarter of 2017 was \$20.0 million compared to \$20.3 million for the fourth quarter of 2016 and \$19.4 million for the first quarter of 2016. The decline in tax equivalent net interest income compared to the fourth quarter of 2016 was attributable two less calendar days and interest recoveries recognized during the fourth quarter, partially offset by higher income from overnight funds. The increase in tax equivalent net interest income compared to the first quarter of 2016 reflects growth in the investment portfolio and higher income from overnight funds.
- Provision for loan losses was \$0.3 million for the first quarter of 2017 compared to \$0.4 million for the fourth quarter of 2016 and \$0.5 million for the first quarter of 2016. The lower level of provision reflected continued favorable problem loan migration and lower net loan charge-offs, partially offset by growth in the loan portfolio.
- Noninterest income for the first quarter of 2017 totaled \$12.7 million, a decrease of \$0.1 million, or 0.5%, from the fourth quarter of 2016 and comparable to the first quarter of 2016.
- Noninterest expense for the first quarter of 2017 totaled \$27.9 million, an increase of \$0.4 million, or 1.3%, over the fourth quarter of 2016 and a decrease of \$1.0 million, or 3.5%, from the first quarter of 2016. The increase over the fourth quarter of 2016 was primarily attributable to higher other real estate owned (“OREO”) expense, processing expense, and telephone expense. The decline from the first quarter of 2016 primarily reflects lower OREO expense, legal fees, and FDIC insurance.

### Financial Condition

- Average earning assets totaled \$2.529 billion for the first quarter of 2017, an increase of \$105.8 million, or 4.4%, over the fourth quarter of 2016, and an increase of \$88.5 million, or 3.6%, over the first quarter of 2016. The increase in earning assets over the fourth quarter of 2016 was attributable to a higher level of public fund deposits. Compared to the first quarter of 2016, average earnings assets increased as deposit growth funded both the loan and investment portfolios, resulting in a more favorable earning asset mix.
- Average loans increased by \$12.3 million, or 0.8%, over the fourth quarter of 2016 and \$78.1 million, or 5.2%, over the first quarter of 2016. The increase compared to the fourth quarter of 2016 reflects growth in all loan types except institutional, home equity, and direct consumer loans. Growth over the first quarter of 2016 was experienced in all loan products, with the exception of residential mortgages and direct consumer loans.
- Nonperforming assets totaled \$17.8 million as of March 31, 2017, a decrease of \$1.4 million from December 31, 2016 and \$8.7 million from March 31, 2016. Nonperforming assets represented 0.61% of total assets as of March 31, 2017 compared to 0.67% as of December 31, 2016 and 0.95% at March 31, 2016.
- As of March 31, 2017, we were well-capitalized with a risk based capital ratio of 16.44% and a tangible common equity ratio of 6.88% compared to 16.28% and 6.90%, respectively, as of December 31, 2016, and 17.20% and 7.09%, respectively, as of March 31, 2016. The reduction in the risk based capital ratio compared to the first quarter of 2016 reflects the partial redemption of TRUPs and the repurchase of our common stock during 2016. All of our regulatory capital ratios exceed the threshold to be well-capitalized under the Basel III capital standards.

## RESULTS OF OPERATIONS

### Net Income

For the first quarter of 2017, we realized net income of \$2.7 million, or \$0.16 per diluted share, compared to net income of \$3.3 million, or \$0.20 per diluted share for the fourth quarter of 2016, and net income of \$1.6 million, or \$0.10 per diluted share, for the first quarter of 2016.

Compared to the fourth quarter of 2016, performance reflected lower net interest income of \$0.3 million, a \$0.1 million decrease in noninterest income, and higher noninterest expense of \$0.4 million, partially offset by a \$0.1 million decrease in the loan loss provision and lower income taxes of \$0.1 million

Compared to the first quarter of 2016, the increase in earnings was due to higher net interest income of \$0.5 million, a \$0.1 million decrease in the loan loss provision, and lower noninterest expense of \$1.0 million, partially offset by higher income taxes of \$0.5 million.

A condensed earnings summary of each major component of our financial performance is provided below:

<i>(Dollars in Thousands, except per share data)</i>	<b>Three Months Ended</b>		
	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Interest Income	\$ 20,540	\$ 20,832	\$ 20,044
Taxable Equivalent Adjustments	270	276	211
Total Interest Income (FTE)	20,810	21,108	20,255
Interest Expense	804	773	834
Net Interest Income (FTE)	20,006	20,335	19,421
Provision for Loan Losses	310	464	452
Taxable Equivalent Adjustments	270	276	211
Net Interest Income After provision for Loan Losses	19,426	19,595	18,758
Noninterest Income	12,718	12,778	12,677
Noninterest Expense	27,922	27,560	28,930
Income Before Income Taxes	4,222	4,813	2,505
Income Tax Expense	1,478	1,517	858
Net Income	\$ 2,744	\$ 3,296	\$ 1,647
Basic Net Income Per Share	\$ 0.16	\$ 0.20	\$ 0.10
Diluted Net Income Per Share	\$ 0.16	\$ 0.20	\$ 0.10

### **Net Interest Income**

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets less interest expense paid on interest-bearing liabilities. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and investments. We provide an analysis of our net interest income including average yields and rates in Table I on page 42.

Tax equivalent net interest income was \$20.0 million for the first quarter of 2017. This compared to \$20.3 million for the fourth quarter of 2016 and \$19.4 million for the first quarter of 2016. The decline in tax equivalent net interest income compared to the fourth quarter of 2016 was attributable to two fewer calendar days and interest recoveries recognized during the fourth quarter, partially offset by higher income from overnight funds. The increase in tax equivalent net interest income compared to the first quarter of 2016 reflects growth in the investment portfolio and higher income from overnight funds.

Although the Federal Open Market Committee (FOMC) increased the federal funds target rate 25 basis points to 100 basis points in March 2017, aggressive lending competition in all markets continues to impact pricing for loans. Some of this pressure has been alleviated by our adjustable rate loans tied to the prime rate. We continue to review our various loan strategies, with the goal of enhancing performance, subject to our overall risk appetite. In addition, we have maintained a disciplined approach to deposit pricing, reflected in our cost of funds being unchanged quarter-over-quarter.

Our net interest margin for the first quarter of 2017 was 3.21%, a decline of 13 basis points from the fourth quarter of 2016 and an increase of one basis point from the first quarter of 2016. The decrease in the margin compared to the fourth quarter of 2016 was due to a shift in earning assets, primarily due to a higher composition of overnight funds driven by the influx of seasonal public deposits. The increase in the margin compared to the first quarter of 2016 was primarily due to a positive shift in earning assets, as overnight funds were utilized to fund growth in the loan and investment portfolios.

We continue to maintain short-duration portfolios on both sides of the balance sheet and believe we are well positioned to respond to changing market conditions. Over time, this strategy has historically produced fairly consistent outcomes and a net interest margin that is significantly above peer comparisons.

**Provision for Loan Losses**

The provision for loan losses for the first quarter of 2017 was \$0.3 million compared to \$0.4 million for the fourth quarter of 2016 and \$0.5 million for the first quarter of 2016. The lower level of provision reflected continued favorable problem loan migration and lower net loan charge-offs, partially offset by growth in the loan portfolio. Net loan charge-offs for the first quarter of 2017 totaled \$0.4 million, or 0.10% (annualized), of average loans compared to \$0.8 million, or 0.20% (annualized), for the fourth quarter of 2016 and \$0.8 million, or 0.21% (annualized), for the first quarter of 2016. As of March 31, 2017, the allowance for loan losses of \$13.3 million was 0.84% of outstanding loans (net of overdrafts) and provided coverage of 161% of nonperforming loans compared to 0.86% and 157%, respectively, as of December 31, 2016 and 0.90% and 150%, respectively, as of March 31, 2016.

Charge-off activity for the respective periods is set forth below:

<i>(Dollars in Thousands, except per share data)</i>	<b>March 31, 2017</b>	<b>Three Months Ended December 31, 2016</b>	<b>March 31, 2016</b>
<b>CHARGE-OFFS</b>			
Commercial, Financial and Agricultural	\$ 93	\$ 377	\$ 37
Real Estate - Construction	-	-	-
Real Estate - Commercial Mortgage	71	70	274
Real Estate - Residential	116	120	478
Real Estate - Home Equity	92	38	215
Consumer	624	771	439
Total Charge-offs	\$ 996	\$ 1,376	\$ 1,443
<b>RECOVERIES</b>			
Commercial, Financial and Agricultural	\$ 81	\$ 50	\$ 39
Real Estate - Construction	-	-	-
Real Estate - Commercial Mortgage	23	45	81
Real Estate - Residential	213	277	236
Real Estate - Home Equity	29	32	59
Consumer	244	195	236
Total Recoveries	\$ 590	\$ 599	\$ 651
Net Charge-offs	\$ 406	\$ 777	\$ 792
Net Charge-offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Income	0.10%	0.20%	0.21%

**Noninterest Income**

Noninterest income for the first quarter of 2017 totaled \$12.7 million, a decrease of \$0.1 million, or 0.5%, from the fourth quarter of 2016 and comparable to the first quarter of 2016. The decrease from the fourth quarter of 2016 was primarily attributable to lower deposit fees of \$0.1 million and mortgage banking fees of \$0.1 million, partially offset by higher wealth management fees of \$0.1 million.

The table below reflects the major components of noninterest income.

<i>(Dollars in Thousands)</i>	<b>March 31, 2017</b>	<b>Three Months Ended December 31, 2016</b>	<b>March 31, 2016</b>
Deposit Fees	\$ 5,090	\$ 5,238	\$ 5,400
Bank Card Fees	2,803	2,754	2,853
Wealth Management Fees	1,842	1,773	1,792
Mortgage Banking Fees	1,308	1,392	1,030
Other	1,675	1,621	1,602
<b>Total Noninterest Income</b>	<b>\$ 12,718</b>	<b>\$ 12,778</b>	<b>\$ 12,677</b>

Significant components of noninterest income are discussed in more detail below.

*Deposit Fees.* Deposit fees for the first quarter of 2017 totaled \$5.1 million, a decrease of \$0.1 million, or 2.8%, from the fourth quarter of 2016 and a decrease of \$0.3 million, or 5.7%, from the first quarter of 2016. The decrease from the fourth quarter of 2016 was attributable to a lower level of overdraft fees, which are seasonally low during the first quarter as our clients receive tax refunds. Compared to the prior year period, the decrease was attributable to a lower level of overdraft fees reflecting lower utilization of our overdraft service.

*Wealth Management Fees.* Wealth management fees, which include both trust fees (i.e., managed accounts, trusts/estates, and retirement plans) and retail brokerage fees (i.e., investment and insurance products) totaled \$1.8 million for the first quarter of 2017, an increase of \$0.1 million, or 3.9%, over the fourth quarter of 2016 and \$0.1 million, or 2.8%, over the first quarter of 2016. The increase over the fourth quarter of 2016 was driven by higher retail brokerage fees reflective of growth in accounts. The increase over the first quarter of 2016 was primarily attributable to higher trust fees reflective of an increase in assets under management. As of March 31, 2017, total assets under management were approximately \$1.289 billion compared to \$1.192 billion as of December 31, 2016 and \$1.159 billion as of March 31, 2016.

*Mortgage Banking Fees.* Mortgage banking fees totaled \$1.3 million for the first quarter of 2017, a decrease of \$0.1 million, or 6.0%, from the fourth quarter of 2016 and an increase of \$0.3 million, or 27.0%, over the first quarter of 2016. The decrease compared to the fourth quarter of 2016 reflects a seasonal slowdown in loan production for the first quarter. The increase compared to the first quarter of 2016 was attributable to higher new loan production reflective of improving market share in our Gainesville market as well increased activity in our smaller markets.

*Other.* Other income totaled \$1.7 million for the first quarter of 2017, an increase of \$0.1 million, or 3.3%, over the fourth quarter of 2016 and an increase of \$0.1 million, or 4.6%, over the first quarter of 2016. The increase over the fourth quarter of 2016 reflects higher revenue from vendor signing bonuses and the improvement over the first quarter of 2016 reflected higher fee income from non-client check cashing services.

## **Noninterest Expense**

Noninterest expense for the first quarter of 2017 totaled \$27.9 million, an increase of \$0.4 million, or 1.3%, over the fourth quarter of 2016 attributable to higher other expense of \$0.7 million (OREO expense \$0.2 million, processing expense \$0.3 million, and telephone expense \$0.2 million), partially offset by lower compensation expense of \$0.2 million and occupancy expense of \$0.1 million. Compared to the first quarter of 2016, noninterest expense decreased by \$1.0 million, or 3.5% attributable to lower other expense of \$1.2 million (OREO expense \$0.8 million, legal fees \$0.2 million, and FDIC insurance \$0.2 million), partially offset by higher compensation expense of \$0.2 million. Expense management is an important part of our culture and strategic focus and we continue to review and evaluate opportunities to optimize our operations, reduce operating costs and manage our discretionary expenses.





The table below reflects the major components of noninterest expense.

<i>(Dollars in Thousands)</i>	<b>Three Months Ended</b>		
	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Salaries	\$ 11,764	\$ 12,048	\$ 11,934
Associate Benefits	4,732	4,651	4,307
Total Compensation	16,496	16,699	16,241
Premises	2,204	2,195	2,307
Equipment	2,177	2,324	2,152
Total Occupancy	4,381	4,519	4,459
Legal Fees	485	523	699
Professional Fees	904	776	862
Processing Services	1,645	1,374	1,702
Advertising	467	391	340
Travel and Entertainment	174	236	196
Printing and Supplies	176	156	203
Telephone	829	658	470
Postage	216	206	261
Insurance - Other	402	403	628
Other Real Estate Owned, net	583	343	1,425
Miscellaneous	1,164	1,276	1,444
Total Other	7,045	6,342	8,230
<b>Total Noninterest Expense</b>	<b>\$ 27,922</b>	<b>\$ 27,560</b>	<b>\$ 28,930</b>

Significant components of noninterest expense are discussed in more detail below.

*Compensation.* Compensation expense totaled \$16.5 million for the first quarter of 2017, a decrease of \$0.2 million, or 1.2%, from the fourth quarter of 2016 primarily due to a decrease in salary expense, reflective of lower incentive-based compensation of \$0.6 million, partially offset by higher payroll and unemployment taxes of \$0.4 million. The decrease in incentive-based compensation reflected a fourth quarter adjustment to incentive accruals to reflect expected incentive pay-outs and the increase in payroll and unemployment taxes reflected the reset of those taxes. Compared to the first quarter of 2016, total compensation expense increased \$0.3 million, or 1.6%, attributable to higher associate benefit expense of \$0.4 million, partially offset by lower salaries of \$0.2 million. The increase in associate benefit expense reflected higher stock compensation of \$0.2 million and pension plan expense of \$0.2 million. Higher expected pay-outs drove the increase in stock compensation and a reduction in the discount rate for plan liabilities drove the increase in pension expense. The reduction in salaries reflects a lower associate headcount.

*Occupancy.* Occupancy expense (including premises and equipment) totaled \$4.4 million for the first quarter of 2017, a decrease of \$0.1 million, or 3.1%, from the fourth quarter of 2016 attributable to lower equipment maintenance costs, primarily due to a vendor refund received in the first quarter of 2017, and to a lesser extent lower equipment

depreciation expense. Compared to the first quarter of 2016, occupancy expense decreased \$0.1 million, or 1.7%, attributable to lower expenses for utilities, building insurance, and property taxes reflective of a reduction in the number of banking offices.

*Other.* Other noninterest expense increased \$0.7 million, or 11.1%, over the fourth quarter of 2016 and decreased \$1.2 million, or 14.4%, from the first quarter of 2016. The increase compared to the fourth quarter of 2016 was driven by higher processing expense of \$0.3 million, telephone expense of \$0.2 million and OREO expense of \$0.2 million. Processing expense for the fourth quarter of 2016 was favorably impacted by our annual Visa processing volume rebate. The increase in telephone expense reflects the running of dual circuits as our new telephone system is implemented with estimated completion during the second quarter of 2017. The increase in OREO expense reflected a \$0.4 million recovery of carrying costs in the fourth quarter of 2016 related to a property resolution. Compared to the first quarter of 2016, the decrease reflects lower OREO expense of \$0.8 million, legal fees of \$0.2 million, FDIC insurance premiums of \$0.2 million, and miscellaneous expense of \$0.3 million, partially offset by higher telephone expense of \$0.3 million. Lower valuation adjustments and losses from sale of properties and to a lesser extent property carrying costs contributed to the reduction in OREO expense. Legal fees decreased as a result of lower support needed for problem loan resolutions. Lower FDIC assessment factors drove the reduction in FDIC insurance premiums. Lower debit card losses drove the decline in miscellaneous expense. The increase in telephone expense was attributable to the same factors noted above.

Our operating efficiency ratio (expressed as noninterest expense as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 85.33% for the first quarter of 2017 compared to 83.23% for the fourth quarter of 2016 and 90.13% for the first quarter of 2016. The variance in the efficiency ratio from quarter to quarter reflected the change in expense levels as noted above.

## **Income Taxes**

We realized income tax expense of \$1.5 million (35% effective rate) for the first quarter of 2017 compared to \$1.5 million (32% effective rate) for the fourth quarter of 2016 and \$0.9 million (34% effective rate) for the first quarter of 2016. The lower rate for the fourth quarter of 2016 reflected a favorable adjustment due to a lower projected marginal tax rate for 2016. Absent any other future discrete events, we anticipate our effective income tax rate will remain within the range of 34%-35%.

## **FINANCIAL CONDITION**

Average assets totaled approximately \$2.845 billion for the first quarter of 2017, an increase of \$101.7 million, or 3.7%, over the fourth quarter of 2016, and an increase of \$81.4 million, or 3.0%, over the first quarter of 2016. Average earning assets were \$2.529 billion for the first quarter of 2017, an increase of \$105.8 million, or 4.4%, over the fourth quarter of 2016, and an increase of \$88.5 million, or 3.6%, over the first quarter of 2016. The change in average earning assets over the fourth quarter of 2016 reflects a higher level of public fund deposits. Compared to the first quarter of 2016, average earning assets increased as broad based deposit growth funded growth in both the loan and investment portfolios.

## **Investment Securities**

In the first quarter of 2017, our average investment portfolio decreased \$6.1 million, or 0.9%, from the fourth quarter of 2016 and increased \$51.4 million, or 8.0%, over the first quarter of 2016. Securities in our investment portfolio represented 27.6% of our average earning assets in the first quarter of 2017, compared to 29.1% in the fourth quarter of 2016, and 26.5% in the first quarter of 2016. The decrease in the average balance of our investment portfolio compared to the fourth quarter of 2016 was primarily attributable to decreases in U.S. Treasuries, partially offset by increases in SBA agency bonds and Ginnie Mae mortgage-backed securities. The increase compared to the first quarter of 2016 was primarily attributable to an increase in SBA agency bonds and Ginnie Mae mortgage-backed securities. For the remainder of 2017, we will continue to closely monitor liquidity levels, as well as look for new investment products that are prudent relative to our risk profile and overall investment strategy. Liquidity levels, including anticipated cash flow from the investment portfolio, will determine the extent to which investment cash flow will be reinvested into securities.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. Two types of classifications are approved for investment securities which are Available-for-Sale (“AFS”) and Held-to-Maturity (“HTM”). During the first quarter of 2017, we purchased securities under both the AFS and HTM designations. As of March 31, 2017, \$541.1 million, or 77.3%, of our investment portfolio was classified as AFS, and \$158.5 million, or 22.7%, classified as HTM.

We determine the classification of a security at the time of acquisition based on how the purchase will affect our asset/liability strategy and future business plans and opportunities. We consider multiple factors in determining classification, including regulatory capital requirements, volatility in earnings or other comprehensive income, and liquidity needs. Securities in the AFS portfolio are recorded at fair value with unrealized gains and losses associated with these securities recorded net of tax, in the accumulated other comprehensive income component of shareowners’ equity. Securities that are HTM are acquired or owned with the intent of holding them to maturity (final payment date). HTM investments are measured at amortized cost. We do not trade, nor do we presently intend to begin trading investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio.

As of March 31, 2017, the investment portfolio had a net unrealized loss in the AFS portfolio of \$0.2 million compared to an unrealized loss of \$0.7 million and an unrealized net pre-tax gain of \$1.9 million as of December 31, 2016 and March 31, 2016, respectively. As of March 31, 2017, there were 287 positions (combined AFS and HTM) with unrealized losses totaling \$1.9 million. Included were 116 positions comprised of Ginnie Mae mortgage-backed securities (51), U.S. Treasuries (39), and SBA securities (26) with an unrealized loss totaling \$1.6 million. Each of these positions carries the full faith and credit guarantee of the U.S. Government. SBA securities float monthly or quarterly to the prime rate and are uncapped. Of these 116 positions, there were 11 GNMA positions and seven SBA positions in an unrealized loss position for longer than 12 months, with unrealized losses of \$37,000 and \$15,000, respectively. There were 22 agency positions with an unrealized loss of \$0.2 million. The remaining 149 positions in an unrealized loss position were municipal bonds that were pre-refunded, or rated “AA-“or better, with unrealized losses of \$0.1 million. Of these 149 positions, two were in an unrealized loss position greater than 12 months, with an unrealized loss of \$2,000. None of these positions with unrealized losses are considered impaired, and all are expected to mature at par.

The average maturity of our total portfolio as of March 31, 2017 was 1.89 years compared to 1.85 years and 1.79 years as of December 31, 2016 and March 31, 2016, respectively. The average life of the total portfolio as of March 31, 2017 was slightly longer compared to both prior periods primarily due to purchases with two to four year average lives.

## Loans

Average loans increased \$12.3 million, or 0.8% when compared to the fourth quarter of 2016, and have grown \$78.1 million, or 5.2% when compared to the first quarter of 2016. The increase compared to the fourth quarter of 2016 reflected growth in all loan types except institutional, home equity and direct consumer loans. Growth over the first quarter of 2016 was experienced in all loan products, with the exception of residential mortgages and direct consumer loans. During the first quarter of 2017, we purchased an \$18.3 million pool of adjustable rate residential loans.

Without compromising our credit standards or taking on inordinate interest rate risk, we continue to make minor modifications on some of our lending programs to try to mitigate the impact that consumer and business deleveraging is having on our loan portfolio. These programs, coupled with economic improvements in our anchor markets, have helped to increase overall production.

## Nonperforming Assets

Nonperforming assets (nonaccrual loans and OREO) totaled \$17.8 million as of March 31, 2017, a decrease of \$1.4 million, or 7%, from December 31, 2016 and \$8.7 million, or 33%, from March 31, 2016. Nonaccrual loans totaled \$8.3 million as of March 31, 2017, a \$0.2 million decrease from December 31, 2016 and a \$0.8 million decrease from March 31, 2016. Nonaccrual loan additions totaled \$2.9 million in the first quarter of 2017 compared to \$3.9 million and \$3.7 million, respectively, for the fourth and first quarters of 2016. The balance of OREO totaled \$9.5 million as of March 31, 2017, a decrease of \$1.1 million and \$7.9 million from December 31, 2016 and March 31, 2016, respectively. For the first quarter of 2017, we added properties totaling \$1.5 million, sold properties totaling \$2.1 million, and recorded valuation adjustments totaling \$0.6 million. Nonperforming assets represented 0.61% of total assets as of March 31, 2017 compared to 0.67% as of December 31, 2016 and 0.95% as of March 31, 2016.

<i>(Dollars in Thousands)</i>	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Nonaccruing Loans:			
Commercial, Financial and Agricultural	\$ 538	\$ 468	\$ 83
Real Estate - Construction	363	311	-
Real Estate - Commercial Mortgage	3,970	3,410	3,942
Real Estate - Residential	1,724	2,330	3,490
Real Estate - Home Equity	1,587	1,774	1,323

Edgar Filing: CAPITAL CITY BANK GROUP INC - Form 10-Q

Consumer	116	240	211
Total Nonperforming Loans (“NPLs” <sup>(1)</sup> )	\$ 8,298	\$ 8,533	\$ 9,049
Other Real Estate Owned	9,501	10,638	17,450
Total Nonperforming Assets (“NPAs”)	\$ 17,799	\$ 19,171	\$ 26,499
Past Due Loans 30 – 89 Days	\$ 3,263	\$ 6,438	\$ 3,599
Performing Troubled Debt Restructurings	\$ 36,555	\$ 38,233	\$ 36,700
Nonperforming Loans/Loans	0.52%	0.54%	0.60%
Nonperforming Assets/Total Assets	0.61	0.67	0.95
Nonperforming Assets/Loans Plus OREO	1.11	1.21	1.73
Allowance/Nonperforming Loans	160.7%	157.4%	150.44%

(1) Nonperforming TDRs are included in the NPL totals.

Activity within our nonperforming asset portfolio is provided in the table below.

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>NPA Beginning Balance:</b>	\$ 19,171	\$ 29,595
Change in Nonaccrual Loans:		
Beginning Balance	8,533	10,305
Additions	2,868	3,796
Charge-Offs	(556)	(931)
Transferred to OREO	(638)	(1,201)
Paid Off/Payments	(693)	(933)
Restored to Accrual	(1,216)	(1,987)
Ending Balance	8,298	9,049
Change in OREO:		
Beginning Balance	10,638	19,290
Additions	1,541	1,201
Valuation Write-downs	(494)	(835)
Sales	(2,111)	(2,206)
Other	(73)	-
Ending Balance	9,501	17,450
<b>NPA Net Change</b>	(1,372)	(3,096)
<b>NPA Ending Balance</b>	\$ 17,799	\$ 26,499

Activity within our TDR portfolio is provided in the table below.

<i>(Dollars in Thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>TDR Beginning Balance:</b>	\$ 39,976	\$ 38,321
Additions	120	1,021
Charge-Offs	(79)	-
Paid Off/Payments	(910)	(445)
Removal Due to Change in TDR Status	-	-
Transferred to OREO	(41)	(184)
<b>TDR Ending Balance<sup>(1)</sup></b>	\$ 39,066	\$ 38,713

<sup>(1)</sup> Includes performing and nonaccrual TDR loan balances.

### **Allowance for Loan Losses**

We maintain an allowance for loan losses at a level that management believes to be sufficient to provide for probable losses inherent in the loan portfolio as of the balance sheet date. Credit losses arise from borrowers' inability or unwillingness to repay, and from other risks inherent in the lending process, including collateral risk, operations risk, concentration risk and economic risk. All related risks of lending are considered when assessing the adequacy of the



loan loss reserve. 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. The allowance for loan losses is based on management's judgment of overall loan quality. This is a significant estimate based on a detailed analysis of the loan portfolio. The balance can and will change based on changes in the assessment of the loan portfolio's overall credit quality. We evaluate the adequacy of the allowance for loan losses on a quarterly basis.

The allowance for loan losses was \$13.3 million as of March 31, 2017 compared to \$13.4 million as of December 31, 2016 and \$13.6 million as of March 31, 2016. The allowance for loan losses was 0.84% of outstanding loans and provided coverage of 161% of nonperforming loans as of March 31, 2017 compared to 0.86% and 157%, respectively, as of December 31, 2016 and 0.90% and 150%, respectively, as of March 31, 2016. The decrease in the allowance from both prior periods was attributable to continued favorable problem loan migration and lower net loan charge-offs, partially offset by growth in our loan portfolio. We believe that the allowance for loan losses was adequate to absorb losses inherent in our loan portfolio as of March 31, 2017.

## Deposits

Average total deposits were \$2.407 billion for the first quarter of 2017, an increase of \$100.4 million, or 4.4%, over the fourth quarter of 2016, and an increase of \$148.7 million, or 6.6% over the first quarter of 2016. The increase in deposits when compared to the fourth quarter of 2016 reflected growth in all deposit products except noninterest bearing deposits and certificates of deposit. The seasonal inflow of public fund balances began late in the fourth quarter of 2016, and the public fund balances are expected to decline through the fourth quarter of 2017. The increase in deposits compared to the first quarter 2016 reflected increases in all deposit products except certificates of deposit. Average public deposits increased \$16.1 million in the first quarter of 2017 compared to the first quarter of 2016.

Deposit levels remain strong, particularly given the recent increase in the fed funds rate, and average core deposits continue to experience growth. Because prudent pricing discipline is critical to managing our mix of deposits, we continue to monitor interest rates paid by competitors in the markets we serve.

## MARKET RISK AND INTEREST RATE SENSITIVITY

### Market Risk and Interest Rate Sensitivity

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

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

We have established a comprehensive interest rate risk management policy, which is administered by management's Asset/Liability Management Committee ("ALCO"). The policy establishes risk limits, which are quantitative measures of the percentage change in net interest income (a measure of net interest income at risk) and the fair value of equity

capital (a measure of economic value of equity (“EVE”) at risk) resulting from a hypothetical change in interest rates for maturities from one day to 30 years. We measure the potential adverse impacts that changing interest rates may have on our short-term earnings, long-term value, and liquidity by employing simulation analysis through the use of computer modeling. The simulation model is designed to capture optionality factors such as call features and interest rate caps and floors imbedded in investment and loan portfolio contracts. As with any method of analyzing interest rate risk, there are certain shortcomings inherent in the interest rate modeling methodology that we use. When interest rates change, actual movements in different categories of interest-earning assets and interest-bearing liabilities, loan prepayments, and withdrawals of time and other deposits, may deviate significantly from the assumptions that we use in our modeling. Finally, the methodology does not measure or reflect the impact that higher rates may have on adjustable-rate loan clients’ ability to service their debts, or the impact of rate changes on demand for loan and deposit products.

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

Our interest rate risk management goal is to maintain expected changes in our net interest income and capital levels due to fluctuations in market interest rates within acceptable limits. Management attempts to achieve this goal by balancing, within policy limits, the volume of variable-rate liabilities with a similar volume of variable-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched, by maintaining our core deposits as a significant component of our total funding sources, and by adjusting pricing rates to market conditions on a continuing basis.

We test our balance sheet using varying interest rate shock scenarios to analyze our interest rate risk. Average interest rates are shocked by plus or minus 100, 200, 300, and 400 basis points (“bp”), although we may elect not to use particular scenarios that we determined are impractical in a current rate environment. It is management’s goal to structure the balance sheet so that net interest earnings at risk over 12-month and 24-month periods, and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

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

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

#### ESTIMATED CHANGES IN NET INTEREST INCOME <sup>(1)</sup>

<b>Percentage Change (12-month shock)</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-15.0%	-12.5%	-10.0%	-7.5%	-7.5%
March 31, 2017	14.6%	10.6%	6.6%	3.1%	-11.0%
December 31, 2016	10.7%	7.5%	4.4%	2.1%	-9.0%
<b>Percentage Change (24-month shock)</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-17.5%	-15.0%	-12.5%	-10.0%	-10.0%
March 31, 2017	44.8%	33.4%	22.1%	11.7%	-16.0%
December 31, 2016	41.3%	30.5%	19.9%	10.5%	-14.3%

The Net Interest Income at Risk position indicates that in the short-term, all rising rate environments will positively impact our interest margin, while a declining rate environment of 100bp will have a negative impact on our net interest margin. The 12-month and 24-month Net Interest Income at Risk positions improved at the end of the first quarter of 2017 when compared to the prior quarter-end for all rate scenarios with the exception of rates down 100bp. Although short-term interest rates increased, we held our deposit rates relatively constant quarter-over-quarter, which thereby increased our potential exposure to falling rates.

All measures of net interest income at risk are within our prescribed policy limits with the exception of an instantaneous rate shock of -100bp over both a 12-month and 24-month period, which were -11.0% and -16.0% compared to limits of -7.50% and -10.0%, respectively. These metrics remain out of compliance due to our limited ability to lower our deposits rates relative to a decline in market rates. To bring this metric into compliance with our policy limits in the down 100bp scenario would require the bank to extend its asset duration considerably, which we do not believe is prudent given the current historically low interest rate environment.

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

which, in theory, approximates the fair value of our net assets.

#### ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY <sup>(1)</sup>

<b>Changes in Interest Rates</b>	<b>+400 bp</b>	<b>+300 bp</b>	<b>+200 bp</b>	<b>+100 bp</b>	<b>-100 bp</b>
Policy Limit	-30.0%	-25.0%	-20.0%	-15.0%	-15.0%
March 31, 2017	32.9%	26.1%	18.3%	10.1%	-25.4%
December 31, 2016	23.5%	18.6%	13.1%	7.3%	-24.5%

As of March 31, 2017, the economic value of equity in all rate scenarios versus the base case was more favorable than it was as of December 31, 2016 with the exception of rates down 100 bps. The EVE in the rates down 100 bps scenario remains outside of the desired parameters as exposure to falling rates is more extreme due to the low level of current deposit costs and limited capacity to reduce those costs relative to comparable discount benchmarks used to value them. To bring this metric into compliance with our policy limits in the down 100 scenario would require the bank to extend its asset duration considerably, which we do not believe is prudent given the current historically low interest rate environment.

*(1) Down 200, 300, and 400 bp scenarios have been excluded due to the current historically low interest rate environment.*

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

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

As of March 31, 2017, we had the ability to generate \$1.221 billion in additional liquidity through all of our available resources (this excludes \$291 million in overnight funds sold). In addition to the primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. We recognize the importance of maintaining liquidity and have developed a Contingency Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. We conduct a liquidity stress test on a quarterly basis based on events that could potentially occur at the Bank and report results to ALCO, our Market Risk Oversight Committee, and the Board of Directors. As of March 31, 2017, we believe the liquidity available to us was sufficient to meet our needs.

We view our investment portfolio primarily as a source of liquidity and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental and federal agencies, and municipal governments. The weighted average life of the portfolio is approximately 1.89 years, and as of March 31, 2017 had a net unrealized loss of \$0.2 million in the available-for-sale portfolio.

Our average overnight funds position (defined as funds sold plus interest bearing deposits with other banks less funds purchased) was \$245.2 million during the first quarter of 2017 compared to an average net overnight funds sold position of \$145.5 million in the fourth quarter of 2016 and \$286.2 million in the first quarter of 2016. The increase in net overnight funds compared to the fourth quarter of 2016 primarily reflected higher public fund balances. The decrease in net overnight funds compared to the first quarter of 2016 reflected growth in the loan and investment portfolios, and a reduction in both short-term and long-term borrowings, partially offset by growth in deposit balances.

We expect our capital expenditures will be approximately \$5.0 million over the next 12 months, which will primarily consist of office remodeling, office equipment/furniture, and technology purchases. Management expects that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

## **Borrowings**

As of March 31, 2017, advances from the FHLB totaled \$16.2 million in outstanding debt consisting of 18 notes. During the first three months of 2017, the Bank made FHLB advance payments totaling approximately \$2.0 million, which included paying off two advances totaling \$1.4 million. We did not obtain any new FHLB advances during the first quarter of 2017. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

We have issued two junior subordinated deferrable interest notes to our wholly owned Delaware statutory trusts. The first note for \$30.9 million was issued to CCBG Capital Trust I in November 2004, of which \$10 million was retired in April 2016. The second note for \$32.0 million was issued to CCBG Capital Trust II in May 2005. The interest payment for the CCBG Capital Trust I borrowing is due quarterly and adjusts quarterly to a variable rate of three-month LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The interest payment for the CCBG Capital Trust II borrowing is due quarterly and adjusts annually to a variable rate of three-month LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds from these borrowings were used to partially fund acquisitions. Under the terms of each junior subordinated deferrable interest note, in the event of default or if we elect to defer interest on the note, we may not, with certain exceptions, declare or pay dividends or make distributions on our capital stock or purchase or acquire any of our capital stock.

On April 12, 2016, we retired \$10 million in face value of trust preferred securities that were auctioned as part of a liquidation of a pooled collateralized debt obligation fund. The trust preferred securities were originally issued through CCBG Capital Trust I. Our winning bid equated to approximately 75% of the \$10 million par value, with the 25% discount resulting in a pre-tax gain of approximately \$2.5 million. We utilized internal resources and a \$3.75 million draw on a short-term borrowing facility to fund the repurchase.

## Capital

Equity capital was \$278.1 million as of March 31, 2017, compared to \$275.2 million as of December 31, 2016 and \$276.8 million as of March 31, 2016. Our leverage ratio was 9.95%, 10.23%, and 10.34%, respectively, for these periods. Further, as of March 31, 2017, our risk-adjusted capital ratio was 16.44% compared to 16.28% and 17.20% at December 31, 2016 and March 31, 2016, respectively. Our common equity tier 1 ratio was 12.77% as of March 31, 2017 compared to 12.61% and 12.82% as of December 31, 2016 and March 31, 2016, respectively. All of our capital ratios exceed the threshold to be designated as “well-capitalized” under the Basel III capital standards as of March 31, 2017.

During the first three months of 2017, shareowners’ equity increased \$2.9 million, or 1.1%, on an annualized basis. During this same period, shareowners’ equity was positively impacted by net income of \$2.7 million, stock compensation accretion of \$0.4 million, a \$0.3 million net decrease in the unrealized loss on investment securities, and net adjustments totaling \$0.3 million related to transactions under our stock compensation plans. Shareowners’ equity was reduced by common stock dividends totaling \$0.8 million.

As of March 31, 2017, our common stock had a book value of \$16.38 per diluted share compared to \$16.23 as of December 31, 2016 and \$16.04 as of March 31, 2016. Book value is impacted by changes in the amount of our net unrealized gain or loss on investment securities available-for-sale and changes to the amount of our unfunded pension liability both of which impact other comprehensive income. As of March 31, 2017, the net unrealized loss on investment securities available for sale was \$0.3 million and the amount of our unfunded pension liability was \$25.6 million.

In February 2014, our Board of Directors authorized the repurchase of up to 1,500,000 shares of our outstanding common stock through February 2019. Repurchases may be made in the open market or in privately negotiated transactions; however, we are not obligated to repurchase any specified number of shares. We did not repurchase any shares during the first quarter of 2017. As of March 31, 2017, we were authorized to repurchase up to 640,000 additional shares under the plan.

## OFF-BALANCE SHEET ARRANGEMENTS



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

As of March 31, 2017, we had \$420.8 million in commitments to extend credit and \$5.1 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments 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 us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

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

## **CRITICAL ACCOUNTING POLICIES**

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2016 Form 10-K. The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States (“GAAP”) and reporting practices applicable to the banking industry requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates.

We have identified accounting for (i) the allowance for loan and lease losses, (ii) valuation of goodwill, and (iii) pension benefits as our most critical accounting policies and estimates in that they are important to the portrayal of our financial condition and results, and they require our subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2016 Form 10-K.

**TABLE I**  
**AVERAGE BALANCES & INTEREST**  
**RATES**

(Dollars in Thousands)	March 31, 2017			Three Months Ended December 31, 2016			March 31, 2016		
	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate
<b>Assets:</b>									
Loans <sup>(1)(2)</sup>	\$ 1,585,561	\$ 18,137	4.64%	\$ 1,573,264	\$ 18,827	4.76%	\$ 1,507,508	\$ 18,141	4.76%
Taxable Securities <sup>(2)</sup>	600,528	1,784	1.20	614,560	1,726	1.12	552,092	1,420	1.12
Tax-Exempt Securities	97,965	396	1.62	90,046	343	1.52	94,951	332	1.52
Funds Sold	245,153	493	0.81	145,518	212	0.58	286,167	362	0.58
Total Earning Assets	2,529,207	20,810	3.33%	2,423,388	21,108	3.47%	2,440,718	20,255	3.47%
Cash & Due From Banks	48,906			50,207			47,834		
Allowance For Loan Losses	(13,436)			(14,017)			(13,999)		
Other Assets	280,463			283,885			289,193		
<b>TOTAL ASSETS</b>	<b>\$ 2,845,140</b>			<b>\$ 2,743,463</b>			<b>\$ 2,763,746</b>		
<b>Liabilities:</b>									
NOW Accounts	\$ 880,707	\$ 134	0.06%	\$ 782,518	\$ 78	0.04%	\$ 798,996	\$ 69	0.04%
Money Market Accounts	259,106	35	0.06	257,398	31	0.05	252,446	29	0.05
Savings Accounts	311,212	38	0.05	303,006	37	0.05	277,745	34	0.05
Other Time Deposits	158,289	74	0.19	161,859	78	0.19	177,057	89	0.19
Total Interest Bearing Deposits	1,609,314	281	0.07	1,504,781	224	0.06	1,506,244	221	0.06
Short-Term Borrowings	12,810	45	1.43	14,768	57	1.54	66,938	10	1.54
Subordinated Notes Payable	52,887	379	2.86	52,887	363	2.68	62,887	387	2.68
Other Long-Term Borrowings	14,468	99	2.77	17,473	129	2.93	27,769	216	2.93
Total Interest Bearing Liabilities	1,689,479	804	0.20%	1,589,909	773	0.20%	1,663,838	834	0.20%
Noninterest Bearing Deposits	797,964			802,136			752,356		
Other Liabilities	79,208			72,475			70,088		
<b>TOTAL LIABILITIES</b>	<b>2,566,651</b>			<b>2,464,520</b>			<b>2,486,282</b>		
<b>TOTAL SHAREOWNERS' EQUITY</b>	<b>278,489</b>			<b>278,943</b>			<b>277,464</b>		
<b>TOTAL LIABILITIES AND SHAREOWNERS' EQUITY</b>	<b>\$ 2,845,140</b>			<b>\$ 2,743,463</b>			<b>\$ 2,763,746</b>		
Interest Rate Spread			3.14%			3.27%			
Net Interest Income		\$ 20,006			\$ 20,335			\$ 19,421	
Net Interest Margin <sup>(3)</sup>			3.21%			3.34%			

<sup>(1)</sup>Average Balances include nonaccrual loans.

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

<sup>(3)</sup>Taxable equivalent net interest income divided by average earnings assets.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See “Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2016.

**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of March 31, 2017, the end of the period covered by this Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of March 31, 2017, the end of the period covered by this Form 10-Q, we maintained effective disclosure controls and procedures.

**Changes in Internal Control over Financial Reporting**

Our management, including our Chief Executive Officer and Chief Financial Officer, has reviewed our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). There have been no significant changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are party to lawsuits arising out of the normal course of business. In management's opinion, there is no known pending litigation, the outcome of which would, individually or in the aggregate, have a material effect on our

consolidated results of operations, financial position, or cash flows.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our 2016 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2016 Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosure**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(A) Exhibits

10.1 Participant Agreement, dated February 21, 2017, by and between J. Kimbrough Davis and Capital City Bank Group, Inc. – incorporated herein by reference to Exhibit 10.1 of the Registrant’s Form 8-K (file 2/27/17) (No. 0-13358).

31.1 Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

31.2 Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

32.1 Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.

32.2 Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned Chief Financial Officer hereunto duly authorized.

CAPITAL CITY BANK GROUP, INC.

(Registrant)

/s/ J. Kimbrough Davis

J. Kimbrough Davis

Executive Vice President and Chief Financial  
Officer

(Mr. Davis is the Principal Financial Officer and  
has been duly authorized to sign on behalf of the  
Registrant)

Date: May 3, 2017



Exhibit Index

<u>Exhibit</u>	<u>Description</u>
10.1	Participant Agreement, dated February 21, 2017, by and between J. Kimbrough Davis and Capital City Bank Group, Inc. – incorporated herein by reference to Exhibit 10.1 of the Registrant’s Form 8-K (file 2/27/17) (No. 0-13358).
31.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document