

CAPITAL CITY BANK GROUP INC  
Form 10-Q  
May 03, 2019

**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, 2019**

**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**  
(State or other jurisdiction of incorporation or organization)

**59-2273542**  
(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.

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

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.

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, 2019, 16,812,485 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, 2019**

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## 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, 2018 (the “2018 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;
- 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 reserve, deferred tax asset valuation and pension plan;
- changes in accounting principles, policies, practices or guidelines, including the effects of forthcoming Current Expected Credit Losses (“CECL”) accounting implementation;
- 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 subject to our 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;
- 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)<br/>March 31,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--|---|------------------------------|
| <b>ASSETS</b>  |   |                              |
| Cash and Due From Banks  | \$ 49,501                                 | \$ 62,032                    |
| Federal Funds Sold and Interest Bearing Deposits   | 304,213                                   | 213,968                      |
| Total Cash and Cash Equivalents  | 353,714                                   | 276,000                      |
| Investment Securities, Available for Sale, at fair value   | 429,016                                   | 446,157                      |
| Investment Securities, Held to Maturity, at amortized cost (fair value of \$225,317 and \$214,413) | 226,179                                   | 217,320                      |
| Total Investment Securities  | 655,195                                   | 663,477                      |
| Loans Held For Sale  | 4,557                                     | 6,869                        |
| Loans, Net of Unearned Income  | 1,797,105                                 | 1,774,225                    |
| Allowance for Loan Losses  | (14,120)                                  | (14,210)                     |
| Loans, Net   | 1,782,985                                 | 1,760,015                    |
| Premises and Equipment, net  | 86,846                                    | 87,190                       |
| Goodwill   | 84,811                                    | 84,811                       |
| Other Real Estate Owned  | 1,902                                     | 2,229                        |
| Other Assets   | 82,041                                    | 78,592                       |
| Total Assets   | \$ 3,052,051                              | \$ 2,959,183                 |
| <b>LIABILITIES</b>   |   |                              |
| Deposits:  |   |                              |
| Noninterest Bearing Deposits   | \$ 995,853                                | \$ 947,858                   |
| Interest Bearing Deposits  | 1,621,441                                 | 1,583,998                    |
| Total Deposits   | 2,617,294                                 | 2,531,856                    |
| Short-Term Borrowings  | 8,983                                     | 13,541                       |
| Subordinated Notes Payable   | 52,887                                    | 52,887                       |
| Other Long-Term Borrowings   | 7,661                                     | 8,568                        |
| Other Liabilities  | 56,240                                    | 49,744                       |
| Total Liabilities  | 2,743,065                                 | 2,656,596                    |
| <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; 16,812,460 and 16,747,571 shares      | 168                                       | 167                          |

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issued and outstanding at March 31, 2019 and December 31, 2018,  
respectively

|  |              |              |
|--|--------------|--------------|
| Additional Paid-In Capital                       | 31,929       | 31,058       |
| Retained Earnings                                | 304,763      | 300,177      |
| Accumulated Other Comprehensive Loss, net of tax | (27,874)     | (28,815)     |
| Total Shareowners' Equity                        | 308,986      | 302,587      |
| Total Liabilities and Shareowners' Equity        | \$ 3,052,051 | \$ 2,959,183 |

*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>2019</b>                         | <b>2018</b> |
| <b>INTEREST INCOME</b>                               |                                     |             |
| Loans, including Fees                                | \$ 22,616                           | \$ 19,535   |
| Investment Securities:                               |                                     |             |
| Taxable Securities                                   | 3,387                               | 2,523       |
| Tax Exempt Securities                                | 126                                 | 239         |
| Federal Funds Sold and Interest Bearing Deposits     | 1,593                               | 917         |
| Total Interest Income                                | 27,722                              | 23,214      |
| <br><b>INTEREST EXPENSE</b>                          |                                     |             |
| Deposits   | 2,099                               | 868         |
| Short-Term Borrowings                                | 35                                  | 8           |
| Subordinated Notes Payable                           | 608                                 | 475         |
| Other Long-Term Borrowings                           | 72                                  | 100         |
| Total Interest Expense                               | 2,814                               | 1,451       |
| <br><b>NET INTEREST INCOME</b>                       | 24,908                              | 21,763      |
| Provision for Loan Losses                            | 767                                 | 745         |
| Net Interest Income After Provision For Loan Losses  | 24,141                              | 21,018      |
| <br><b>NONINTEREST INCOME</b>                        |                                     |             |
| Deposit Fees   | 4,775                               | 4,872       |
| Bank Card Fees                                       | 2,855                               | 2,811       |
| Wealth Management Fees                               | 2,323                               | 2,173       |
| Mortgage Banking Fees                                | 993                                 | 1,057       |
| Other  | 1,606                               | 1,564       |
| Total Noninterest Income                             | 12,552                              | 12,477      |
| <br><b>NONINTEREST EXPENSE</b>                       |                                     |             |
| Compensation   | 16,349                              | 15,911      |
| Occupancy, net                                       | 4,509                               | 4,551       |
| Other Real Estate Owned, net                         | 363                                 | 626         |
| Other  | 6,977                               | 6,818       |
| Total Noninterest Expense                            | 28,198                              | 27,906      |
| <br><b>INCOME BEFORE INCOME TAXES</b>                | 8,495                               | 5,589       |
| Income Tax Expense (Benefit)                         | 2,059                               | (184)       |
| <br><b>NET INCOME</b>                                | \$ 6,436                            | \$ 5,773    |
| <br><b>BASIC NET INCOME PER SHARE</b>                | \$ 0.38                             | \$ 0.34     |
| <b>DILUTED NET INCOME PER SHARE</b>                  | \$ 0.38                             | \$ 0.34     |
| <br>Average Basic Shares Outstanding                 | 16,791                              | 17,028      |

|                                    |        |        |
|------------------------------------|--------|--------|
| Average Diluted Shares Outstanding | 16,819 | 17,073 |
|------------------------------------|--------|--------|

*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<br/>March 31,</b> |             |
|---|---|-------------|
| <b>NET INCOME</b>   | <b>2019</b>                             | <b>2018</b> |
|   | \$ 6,436                                | \$ 5,773    |
| <b>Other comprehensive income (loss), before tax:</b>   |   |             |
| Change in net unrealized gain/loss on securities available for sale                                     | 1,250                                   | (1,488)     |
| Amortization of unrealized losses on securities transferred from available for sale to held to maturity | 12                                      | 15          |
| Total Investment Securities   | 1,262                                   | (1,473)     |
| <b>Other comprehensive income (loss), before tax</b>  | 1,262                                   | (1,473)     |
| Deferred tax expense (benefit) related to other comprehensive income                                    | 321                                     | (373)       |
| <b>Other comprehensive income (loss), net of tax</b>  | 941                                     | (1,100)     |
| <b>TOTAL COMPREHENSIVE INCOME</b>   | \$ 7,377                                | \$ 4,673    |

*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<br>Other<br>Comprehensive<br>Loss, Net<br>of<br>Taxes | Total      |
|--|-------------|--------|--------------------|------------|---|------------|
|  | Outstanding | Stock  | Paid-In<br>Capital | Earnings   |   |            |
| <i>(Dollars In Thousands, Except Share Data)</i>     |             |        |                    |            |   |            |
| <b>Balance, January 1, 2018</b>                      | 16,988,951  | \$ 170 | \$ 36,674          | \$ 279,410 | \$ (32,044)   | \$ 284,210 |
| Net Income   | -           | -      | -                  | 5,773      | -   | 5,773      |
| Other Comprehensive Loss, net of tax                 | -           | -      | -                  | -          | (1,100)   | (1,100)    |
| Cash Dividends (\$0.0700 per share)                  | -           | -      | -                  | (1,193)    | -   | (1,193)    |
| Stock Based Compensation                             | -           | -      | 331                | -          | -   | 331        |
| Impact of Transactions Under Compensation Plans, net | 55,115      | 1      | 338                | -          | -   | 339        |
| <b>Balance, March 31, 2018</b>                       | 17,044,066  | \$ 171 | \$ 37,343          | \$ 283,990 | \$ (33,144)   | \$ 288,360 |
| <b>Balance, January 1, 2019</b>                      | 16,747,571  | \$ 167 | \$ 31,058          | \$ 300,177 | \$ (28,815)   | \$ 302,587 |
| Net Income   | -           | -      | -                  | 6,436      | -   | 6,436      |
| Other Comprehensive Income, net of tax               | -           | -      | -                  | -          | 941   | 941        |
| Cash Dividends (\$0.1100 per share)                  | -           | -      | -                  | (1,850)    | -   | (1,850)    |
| Stock Based Compensation                             | -           | -      | 499                | -          | -   | 499        |
| Impact of Transactions Under Compensation Plans, net | 64,889      | 1      | 372                | -          | -   | 373        |
| <b>Balance, March 31, 2019</b>                       | 16,812,460  | \$ 168 | \$ 31,929          | \$ 304,763 | \$ (27,874)   | \$ 308,986 |

*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>2019</b>                         | <b>2018</b>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                  |                                     |               |
| Net Income   | \$ 6,436                            | \$ 5,773      |
| Adjustments to Reconcile Net Income to                       |                                     |               |
| Cash Provided by Operating Activities:                       |                                     |               |
| Provision for Loan Losses                                    | 767                                 | 745           |
| Depreciation   | 1,612                               | 1,605         |
| Amortization of Premiums, Discounts and Fees, net            | 1,234                               | 1,723         |
| Originations of Loans Held-for-Sale                          | (38,698)                            | (39,137)      |
| Proceeds From Sales of Loans Held-for-Sale                   | 42,003                              | 40,166        |
| Net Gain From Sales of Loans Held-for-Sale                   | (993)                               | (1,057)       |
| Stock Compensation   | 499                                 | 331           |
| Net Tax Benefit From Stock-Based Compensation                | (14)                                | (41)          |
| Deferred Income Taxes  | 321                                 | 1,407         |
| Net Change in Operating Leases                               | 23                                  | -             |
| Net Loss on Sales and Write-Downs of Other Real Estate Owned | 215                                 | 554           |
| Net Increase in Other Assets                                 | (4,854)                             | (6,173)       |
| Net Increase (Decrease) in Other Liabilities                 | 6,689                               | (3,706)       |
| Net Cash Provided By Operating Activities                    | 15,240                              | 2,190         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |                                     |               |
| Securities Held to Maturity:                                 |                                     |               |
| Purchases  | (18,167)                            | (35,953)      |
| Payments, Maturities, and Calls                              | 8,953                               | 26,696        |
| Securities Available for Sale:                               |                                     |               |
| Purchases  | (13,370)                            | (49,749)      |
| Payments, Maturities, and Calls                              | 30,784                              | 55,221        |
| Purchases of Loans Held for Investment                       | (14,706)                            | (3,965)       |
| Net Increase in Loans  | (9,461)                             | (5,514)       |
| Proceeds from Insurance Claims on Premises                   | 790                                 | -             |
| Proceeds From Sales of Other Real Estate Owned               | 639                                 | 364           |
| Purchases of Premises and Equipment                          | (1,268)                             | (847)         |
| Net Cash Used In Investing Activities                        | (15,806)                            | (13,747)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                  |                                     |               |
| Net Increase in Deposits                                     | 85,438                              | 29,007        |
| Net Decrease in Short-Term Borrowings                        | (4,918)                             | (2,587)       |
| Repayment of Other Long-Term Borrowings                      | (547)                               | (634)         |
| Dividends Paid   | (1,850)                             | (1,193)       |
| Issuance of Common Stock Under Compensation Plans            | 157                                 | 147           |
| Net Cash Provided By In Financing Activities                 | 78,280                              | 24,740        |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>             | <b>77,714</b>                       | <b>13,183</b> |

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|  |            |            |
|--|------------|------------|
| Cash and Cash Equivalents at Beginning of Period | 276,000    | 285,442    |
| Cash and Cash Equivalents at End of Period       | \$ 353,714 | \$ 298,625 |

**Supplemental Cash Flow Disclosures:**

|                   |          |          |
|-------------------|----------|----------|
| Interest Paid     | \$ 2,813 | \$ 1,451 |
| Income Taxes Paid | \$ -     | \$ -     |

**Noncash Investing and Financing Activities:**

|   |          |        |
|---|----------|--------|
| Loans Transferred to Other Real Estate Owned  | \$ 527   | \$ 307 |
| Right-of-Use Assets Obtained in Exchange for Operating Lease Liabilities <sup>(1)</sup> | \$ 1,992 | \$ -   |

*<sup>(1)</sup>Initial amount recorded upon implementation on January 1, 2019.*

*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”). 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, 2018 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, 2018.

Accounting Changes

*Leases.* Accounting Standards Update (“ASU”) 2016-02 requires that lessees and lessors recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was effective for the Company on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest

period presented or as of the beginning of the period of adoption with the option to elect certain practical expedients. The Company elected to apply the modified retrospective transition approach as of the beginning of the period of adoption and has not restated comparative periods. The following practical expedients provided under ASU 2016-02 were not reassessed: (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, and (iii) initial and direct costs of any existing leases. The Company did not elect to apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by the accounting guidance).

The Company's operating leases related primarily to banking office locations. As a result of implementing ASU 2016-02, the Company recognized operating lease right-of-use ("ROU") assets of \$2.0 million and operating lease liabilities of \$2.8 million on January 1, 2019, with no significant impact on its consolidated statement of income or consolidated statement of cash flows compared to the prior lease accounting model. The difference between the lease assets and the lease liabilities of \$0.8 million was prepaid rent, which was reclassified to lease assets. The ROU asset and lease liability are recorded in other assets and other liabilities, respectively, in the consolidated statement of financial condition. See Note 5 – Leases for additional information.



**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:

|  | March 31, 2019 |                  |                   |              | December 31, 2018 |                 |                   |              |
|--|----------------|------------------|-------------------|--------------|-------------------|-----------------|-------------------|--------------|
|  | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value | Amortized Cost    | Unrealized Gain | Unrealized Losses | Market Value |
| <b>Available for Sale</b>                                |                |                  |                   |              |                   |                 |                   |              |
| U.S. Government Treasury                                 | \$254,265      | \$ 364           | \$ 1,688          | \$252,941    | \$264,298         | \$ 167          | \$ 2,616          | \$261,849    |
| U.S. Government Agency States and Political Subdivisions | 133,566        | 495              | 468               | 133,593      | 133,201           | 520             | 515               | 133,206      |
| Mortgage-Backed Securities                               | 33,900         | 3                | 47                | 33,856       | 42,509            | -               | 144               | 42,365       |
| Equity Securities <sup>(1)</sup>                         | 736            | 43               | -                 | 779          | 903               | 40              | -                 | 943          |
| Total  | 7,847          | -                | -                 | 7,847        | 7,794             | -               | -                 | 7,794        |
|  | \$430,314      | \$ 905           | \$ 2,203          | \$429,016    | \$448,705         | \$ 727          | \$ 3,275          | \$446,157    |
| <b>Held to Maturity</b>                                  |                |                  |                   |              |                   |                 |                   |              |
| U.S. Government Treasury                                 | \$ 35,076      | \$ -             | \$ 311            | \$ 34,765    | \$ 35,088         | \$ -            | \$ 477            | \$ 34,611    |
| States and Political Subdivisions                        | 5,960          | -                | 10                | 5,950        | 6,512             | -               | 26                | 6,486        |
| Mortgage-Backed Securities                               | 185,143        | 668              | 1,209             | 184,602      | 175,720           | 220             | 2,624             | 173,316      |
| Total  | \$226,179      | \$ 668           | \$ 1,530          | \$225,317    | \$217,320         | \$ 220          | \$ 3,127          | \$214,413    |
| Total Investment Securities                              | \$656,493      | \$ 1,573         | \$ 3,733          | \$654,333    | \$666,025         | \$ 947          | \$ 6,402          | \$660,570    |

<sup>(1)</sup> Includes Federal Home Loan Bank and Federal Reserve Bank stock, recorded at cost of \$3.1 million, \$4.8 million, respectively, at March 31, 2019 and includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of \$3.0 million and \$4.8 million, respectively, at December 31, 2018.

Securities with an amortized cost of \$368.1 million and \$319.6 million at March 31, 2019 and December 31, 2018, 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.

*Maturity Distribution.* At March 31, 2019, 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               | \$ 131,777                | \$ 131,011          | \$ 20,620               | \$ 20,516           |
| Due after one year through five years | 172,196                   | 171,513             | 20,416                  | 20,199              |
| Mortgage-Backed Securities            | 736                       | 779                 | 185,143                 | 184,602             |
| U.S. Government Agency                | 117,758                   | 117,866             | -                       | -                   |
| Equity Securities                     | 7,847                     | 7,847               | -                       | -                   |
| Total                                 | \$ 430,314                | \$ 429,016          | \$ 226,179              | \$ 225,317          |

*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<br/>12 Months</b> |                              | <b>Greater Than<br/>12 Months</b> |                              | <b>Total</b>            |                              |
|-----------------------------------|--------------------------------|------------------------------|-----------------------------------|------------------------------|-------------------------|------------------------------|
|                                   | <b>Market<br/>Value</b>        | <b>Unrealized<br/>Losses</b> | <b>Market<br/>Value</b>           | <b>Unrealized<br/>Losses</b> | <b>Market<br/>Value</b> | <b>Unrealized<br/>Losses</b> |
| <b>March 31, 2019</b>             |                                |                              |                                   |                              |                         |                              |
| <b>Available for Sale</b>         |                                |                              |                                   |                              |                         |                              |
| U.S. Government Treasury          | \$ -                           | \$ -                         | \$ 197,921                        | \$ 1,688                     | \$ 197,921              | \$ 1,688                     |
| U.S. Government Agency            | 35,901                         | 238                          | 39,054                            | 230                          | 74,955                  | 468                          |
| States and Political Subdivisions | 4,148                          | 1                            | 22,769                            | 46                           | 26,917                  | 47                           |
| Mortgage-Backed Securities        | 9                              | -                            | -                                 | -                            | 9                       | -                            |
| Total                             | 40,058                         | 239                          | 259,744                           | 1,964                        | 299,802                 | 2,203                        |
| <b>Held to Maturity</b>           |                                |                              |                                   |                              |                         |                              |
| U.S. Government Treasury          | -                              | -                            | 34,766                            | 311                          | 34,766                  | 311                          |
| States and Political Subdivisions | 203                            | -                            | 5,747                             | 10                           | 5,950                   | 10                           |
| Mortgage-Backed Securities        | 10,210                         | 82                           | 85,679                            | 1,127                        | 95,889                  | 1,209                        |
| Total                             | \$ 10,413                      | \$ 82                        | \$ 126,192                        | \$ 1,448                     | \$ 136,605              | \$ 1,530                     |
| <b>December 31, 2018</b>          |                                |                              |                                   |                              |                         |                              |
| <b>Available for Sale</b>         |                                |                              |                                   |                              |                         |                              |
| U.S. Government Treasury          | \$ 28,420                      | \$ 80                        | \$ 193,501                        | \$ 2,536                     | \$ 221,921              | \$ 2,616                     |
| U.S. Government Agency            | 53,237                         | 271                          | 28,735                            | 244                          | 81,972                  | 515                          |
| States and Political Subdivisions | 8,243                          | 12                           | 31,417                            | 132                          | 39,660                  | 144                          |
| Mortgage-Backed Securities        | 10                             | -                            | -                                 | -                            | 10                      | -                            |
| Total                             | 89,910                         | 363                          | 253,653                           | 2,912                        | 343,563                 | 3,275                        |
| <b>Held to Maturity</b>           |                                |                              |                                   |                              |                         |                              |
| U.S. Government Treasury          | -                              | -                            | 34,612                            | 477                          | 34,612                  | 477                          |
| States and Political Subdivisions | 204                            | -                            | 6,281                             | 26                           | 6,485                   | 26                           |
| Mortgage-Backed Securities        | 51,327                         | 389                          | 84,705                            | 2,235                        | 136,032                 | 2,624                        |
| Total                             | \$ 51,531                      | \$ 389                       | \$ 125,598                        | \$ 2,738                     | \$ 177,129              | \$ 3,127                     |

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 available-for-sale (“AFS”) and held-to-maturity (“HTM”) 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, 2019, there were 414 positions (combined AFS and HTM) with unrealized losses totaling \$3.7 million. 48 of these positions were U.S. government treasury securities guaranteed by the U.S. government. 265 of these positions were U.S. government agency and mortgage-backed securities issued by U.S. government sponsored entities. The remaining 101 positions were municipal securities. Because the declines in the market value of these securities were 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 did not consider these investments to be other-than-temporarily impaired at March 31, 2019.

**NOTE 3 – LOANS, NET**

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

| <i>(Dollars in Thousands)</i>            | <b>March 31, 2019</b> | <b>December 31, 2018</b> |
|--|-----------------------|--------------------------|
| Commercial, Financial and Agricultural   | \$ 238,942            | \$ 233,689               |
| Real Estate – Construction               | 87,123                | 89,527                   |
| Real Estate – Commercial Mortgage        | 615,129               | 602,061                  |
| Real Estate – Residential <sup>(1)</sup> | 349,004               | 342,215                  |
| Real Estate – Home Equity                | 209,194               | 210,111                  |
| Consumer <sup>(2)</sup>                  | 297,713               | 296,622                  |
| Loans, Net of Unearned Income            | \$ 1,797,105          | \$ 1,774,225             |

<sup>(1)</sup> *Includes loans in process with outstanding balances of \$10.3 million and \$9.2 million at March 31, 2019 and December 31, 2018, respectively.*

<sup>(2)</sup> *Includes overdraft balances of \$1.4 million and \$1.6 million at March 31, 2019 and December 31, 2018, respectively.*

Net deferred costs included in loans were \$1.7 million at March 31, 2019 and \$1.5 million at December 31, 2018.

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 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.

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| <i>(Dollars in Thousands)</i>             | <b>March 31, 2019</b> |                  | <b>December 31, 2018</b> |                  |
|---|-----------------------|------------------|--------------------------|------------------|
|   | <b>Nonaccrual</b>     | <b>90 + Days</b> | <b>Nonaccrual</b>        | <b>90 + Days</b> |
| Commercial, Financial and Agricultural \$ | 223                   | \$ -             | \$ 267                   | \$ -             |
| Real Estate – Construction                | 323                   | -                | 722                      | -                |
| Real Estate – Commercial Mortgage         | 1,976                 | -                | 2,860                    | -                |
| Real Estate – Residential                 | 1,341                 | -                | 2,119                    | -                |
| Real Estate – Home Equity                 | 1,033                 | -                | 584                      | -                |
| Consumer                                  | 151                   | -                | 320                      | -                |
| Total Nonaccrual Loans                    | \$ 5,047              | \$ -             | \$ 6,872                 | \$ -             |

*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 accruing past due loans by class of loans.

| <i>(Dollars in Thousands)</i>          | <b>30-59<br/>DPD</b> | <b>60-89<br/>DPD</b> | <b>90 +<br/>DPD</b> | <b>Total<br/>Past Due</b> | <b>Total<br/>Current</b> | <b>Total<br/>Loans<sup>(1)</sup></b> |
|--|----------------------|----------------------|---------------------|---------------------------|--------------------------|--------------------------------------|
| <b>March 31, 2019</b>                  |                      |                      |                     |                           |                          |                                      |
| Commercial, Financial and Agricultural | \$ 509               | \$ 128               | \$ -                | \$ 637                    | \$ 238,082               | \$ 238,942                           |
| Real Estate – Construction             | 59                   | -                    | -                   | 59                        | 86,741                   | 87,123                               |
| Real Estate – Commercial Mortgage      | 1,235                | 340                  | -                   | 1,575                     | 611,578                  | 615,129                              |
| Real Estate – Residential              | 560                  | 100                  | -                   | 660                       | 347,003                  | 349,004                              |
| Real Estate – Home Equity              | 415                  | 48                   | -                   | 463                       | 207,698                  | 209,194                              |
| Consumer                               | 1,065                | 223                  | -                   | 1,288                     | 296,274                  | 297,713                              |
| Total Past Due Loans                   | \$ 3,843             | \$ 839               | \$ -                | \$ 4,682                  | \$ 1,787,376             | \$ 1,797,105                         |
| <b>December 31, 2018</b>               |                      |                      |                     |                           |                          |                                      |
| Commercial, Financial and Agricultural | \$ 104               | \$ 58                | \$ -                | \$ 162                    | \$ 233,260               | \$ 233,689                           |
| Real Estate – Construction             | 489                  | -                    | -                   | 489                       | 88,316                   | 89,527                               |
| Real Estate – Commercial Mortgage      | 124                  | -                    | -                   | 124                       | 599,077                  | 602,061                              |
| Real Estate – Residential              | 745                  | 627                  | -                   | 1,372                     | 338,724                  | 342,215                              |
| Real Estate – Home Equity              | 512                  | 124                  | -                   | 636                       | 208,891                  | 210,111                              |
| Consumer                               | 1,661                | 313                  | -                   | 1,974                     | 294,328                  | 296,622                              |
| Total Past Due Loans                   | \$ 3,635             | \$ 1,122             | \$ -                | \$ 4,757                  | \$ 1,762,596             | \$ 1,774,225                         |

<sup>(1)</sup> Total Loans include nonaccrual loans of \$5.0 million and \$6.9 million at March 31, 2019 and December 31, 2018, respectively.

*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,<br/>Financial,<br/>Agricultural</b> | <b>Real<br/>Estate<br/>Construction</b> | <b>Real<br/>Estate<br/>Commercial<br/>Mortgage</b> | <b>Real<br/>Estate<br/>Residential</b> | <b>Real<br/>Estate</b> | <b>Consumer</b> | <b>Total</b> |
|-------------------------------|--|---|--|--|------------------------|-----------------|--------------|
|-------------------------------|--|---|--|--|------------------------|-----------------|--------------|

|                           | <b>Home<br/>Equity</b> |        |          |          |          |          |           |
|---------------------------|------------------------|--------|----------|----------|----------|----------|-----------|
| <b>Three Months Ended</b> |                        |        |          |          |          |          |           |
| <b>March 31, 2019</b>     |                        |        |          |          |          |          |           |
| Beginning Balance         | \$ 1,434               | \$ 280 | \$ 4,181 | \$ 3,400 | \$ 2,301 | \$ 2,614 | \$ 14,210 |
| Provision for Loan Losses | 217                    | 101    | (103)    | 6        | (20)     | 566      | 767       |
| Charge-Offs               | (95)                   | -      | (155)    | (264)    | (52)     | (795)    | (1,361)   |
| Recoveries                | 74                     | -      | 70       | 44       | 32       | 284      | 504       |
| Net Charge-Offs           | (21)                   | -      | (85)     | (220)    | (20)     | (511)    | (857)     |
| Ending Balance            | \$ 1,630               | \$ 381 | \$ 3,993 | \$ 3,186 | \$ 2,261 | \$ 2,669 | \$ 14,120 |
| <b>Three Months Ended</b> |                        |        |          |          |          |          |           |
| <b>March 31, 2018</b>     |                        |        |          |          |          |          |           |
| Beginning Balance         | \$ 1,191               | \$ 122 | \$ 4,346 | \$ 3,206 | \$ 2,506 | \$ 1,936 | \$ 13,307 |
| Provision for Loan Losses | (44)                   | 128    | (126)    | 180      | (90)     | 697      | 745       |
| Charge-Offs               | (182)                  | (7)    | (290)    | (107)    | (158)    | (695)    | (1,439)   |
| Recoveries                | 166                    | 1      | 123      | 84       | 61       | 210      | 645       |
| Net Charge-Offs           | (16)                   | (6)    | (167)    | (23)     | (97)     | (485)    | (794)     |
| Ending Balance            | \$ 1,131               | \$ 244 | \$ 4,053 | \$ 3,363 | \$ 2,319 | \$ 2,148 | \$ 13,258 |



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,<br/>Financial,<br/>Agricultural</b> | <b>Real<br/>Estate<br/>Construction</b> | <b>Real Estate<br/>Commercial<br/>Mortgage</b> | <b>Real<br/>Estate<br/>Residential</b> | <b>Real Estate<br/>Home Equity</b> | <b>Consumer</b> | <b>Total</b> |
|-------------------------------|--|---|--|--|------------------------------------|-----------------|--------------|
| <i>(Dollars in Thousands)</i> |  |   |  |  |                                    |                 |              |
| <b>March 31, 2019</b>         |  |   |  |  |                                    |                 |              |
| Period-end amount             |  |   |  |  |                                    |                 |              |
| Allocated to:                 |  |   |  |  |                                    |                 |              |
| Loans Individually            |  |   |  |  |                                    |                 |              |
| Evaluated for Impairment      | \$ 186   | \$ 152                                  | \$ 827   | \$ 625                                 | \$ 310                             | \$ 2            | \$ 2,102     |
| Loans Collectively            |  |   |  |  |                                    |                 |              |
| Evaluated for Impairment      | 1,444  | 229                                     | 3,166  | 2,561                                  | 1,951                              | 2,667           | 12,018       |
| Ending Balance                | \$ 1,630   | \$ 381                                  | \$ 3,993                                       | \$ 3,186                               | \$ 2,261                           | \$ 2,669        | \$ 14,120    |
| <b>December 31, 2018</b>      |  |   |  |  |                                    |                 |              |
| Period-end amount             |  |   |  |  |                                    |                 |              |
| Allocated to:                 |  |   |  |  |                                    |                 |              |
| Loans Individually            |  |   |  |  |                                    |                 |              |
| Evaluated for Impairment      | \$ 118   | \$ 52                                   | \$ 1,026                                       | \$ 919                                 | \$ 289                             | \$ 1            | \$ 2,405     |
| Loans Collectively            |  |   |  |  |                                    |                 |              |
| Evaluated for Impairment      | 1,316  | 228                                     | 3,155  | 2,481                                  | 2,012                              | 2,613           | 11,805       |
| Ending Balance                | \$ 1,434   | \$ 280                                  | \$ 4,181                                       | \$ 3,400                               | \$ 2,301                           | \$ 2,614        | \$ 14,210    |
| <b>March 31, 2018</b>         |  |   |  |  |                                    |                 |              |
| Period-end amount             |  |   |  |  |                                    |                 |              |
| Allocated to:                 |  |   |  |  |                                    |                 |              |
| Loans Individually            |  |   |  |  |                                    |                 |              |
| Evaluated for Impairment      | \$ 182   | \$ 114                                  | \$ 1,779                                       | \$ 1,412                               | \$ 389                             | \$ 1            | \$ 3,877     |
| Loans Collectively            |  |   |  |  |                                    |                 |              |
| Evaluated for Impairment      | 949  | 130                                     | 2,274  | 1,951                                  | 1,930                              | 2,147           | 9,381        |
| Ending Balance                | \$ 1,131   | \$ 244                                  | \$ 4,053                                       | \$ 3,363                               | \$ 2,319                           | \$ 2,148        | \$ 13,258    |

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<br/>Thousands)</i>           | <b>Commercial,<br/>Financial,</b> | <b>Real Estate</b>  | <b>Real Estate<br/>Commercial</b> | <b>Real Estate</b> | <b>Real Estate</b> | <b>Consumer</b>   | <b>Total</b>       |
|---|-----------------------------------|---------------------|-----------------------------------|--------------------|--------------------|-------------------|--------------------|
|   | <b>Agricultural</b>               | <b>Construction</b> | <b>Mortgage</b>                   | <b>Residential</b> | <b>Home Equity</b> |                   |                    |
| <b>March 31,<br/>2019</b>                   |                                   |                     |                                   |                    |                    |                   |                    |
| Individually<br>Evaluated for<br>Impairment | \$ 787                            | \$ 382              | \$ 11,908                         | \$ 8,930           | \$ 2,630           | \$ 84             | \$ 24,721          |
| Collectively<br>Evaluated for<br>Impairment | 238,155                           | 86,741              | 603,221                           | 340,074            | 206,564            | 297,629           | 1,772,384          |
| <b>Total</b>                                | <b>\$ 238,942</b>                 | <b>\$ 87,123</b>    | <b>\$ 615,129</b>                 | <b>\$ 349,004</b>  | <b>\$ 209,194</b>  | <b>\$ 297,713</b> | <b>\$1,797,105</b> |
| <b>December 31,<br/>2018</b>                |                                   |                     |                                   |                    |                    |                   |                    |
| Individually<br>Evaluated for<br>Impairment | \$ 873                            | \$ 781              | \$ 12,650                         | \$ 10,593          | \$ 2,210           | \$ 88             | \$ 27,195          |
| Collectively<br>Evaluated for<br>Impairment | 232,816                           | 88,746              | 589,411                           | 331,622            | 207,901            | 296,534           | 1,747,030          |
| <b>Total</b>                                | <b>\$ 233,689</b>                 | <b>\$ 89,527</b>    | <b>\$ 602,061</b>                 | <b>\$ 342,215</b>  | <b>\$ 210,111</b>  | <b>\$ 296,622</b> | <b>\$1,774,225</b> |
| <b>March 31,<br/>2018</b>                   |                                   |                     |                                   |                    |                    |                   |                    |
| Individually<br>Evaluated for<br>Impairment | \$ 1,283                          | \$ 671              | \$ 18,445                         | \$ 13,204          | \$ 3,198           | \$ 109            | \$ 36,910          |
| Collectively<br>Evaluated for<br>Impairment | 197,492                           | 79,565              | 532,864                           | 308,834            | 220,796            | 285,434           | 1,624,985          |
| <b>Total</b>                                | <b>\$ 198,775</b>                 | <b>\$ 80,236</b>    | <b>\$ 551,309</b>                 | <b>\$ 322,038</b>  | <b>\$ 223,994</b>  | <b>\$ 285,543</b> | <b>\$1,661,895</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<br/>Principal<br/>Balance</b> | <b>Recorded<br/>Investment<br/>With No Allowance</b> | <b>Recorded<br/>Investment<br/>With<br/>Allowance</b> | <b>Related<br/>Allowance</b> |
|--|---|--|---|------------------------------|
| <b>March 31, 2019</b>                  |   |  |   |                              |
| Commercial, Financial and Agricultural | \$ 787                                  | \$ 96  | \$ 691  | \$ 186                       |
| Real Estate – Construction             | 382                                     | 59   | 323   | 152                          |
| Real Estate – Commercial Mortgage      | 11,908                                  | 2,453  | 9,455   | 827                          |
| Real Estate – Residential              | 8,930                                   | 2,402  | 6,528   | 625                          |
| Real Estate – Home Equity              | 2,630                                   | 1,057  | 1,573   | 310                          |
| Consumer                               | 84                                      | 47   | 37  | 2                            |
| Total                                  | \$ 24,721                               | \$ 6,114   | \$ 18,607   | \$ 2,102                     |
| <b>December 31, 2018</b>               |   |  |   |                              |
| Commercial, Financial and Agricultural | \$ 873                                  | \$ 101   | \$ 772  | \$ 118                       |
| Real Estate – Construction             | 781                                     | 459  | 322   | 52                           |
| Real Estate – Commercial Mortgage      | 12,650                                  | 2,384  | 10,266  | 1,026                        |
| Real Estate – Residential              | 10,593                                  | 1,482  | 9,111   | 919                          |
| Real Estate – Home Equity              | 2,210                                   | 855  | 1,355   | 289                          |
| Consumer                               | 88                                      | 49   | 39  | 1                            |
| Total                                  | \$ 27,195                               | \$ 5,330   | \$ 21,865   | \$ 2,405                     |

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>2019</b>                                |                                      | <b>2018</b>                                |                                      |
| <i>(Dollars in Thousands)</i>          | <b>Average<br/>Recorded<br/>Investment</b> | <b>Total<br/>Interest<br/>Income</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Total<br/>Interest<br/>Income</b> |
| Commercial, Financial and Agricultural | \$ 830                                     | \$ 11                                | \$ 1,330                                   | \$ 29                                |
| Real Estate – Construction             | 582  | -                                    | 517  | 1                                    |
| Real Estate – Commercial Mortgage      | 12,279                                     | 123                                  | 18,862                                     | 175                                  |
| Real Estate – Residential              | 9,761                                      | 127                                  | 13,038                                     | 148                                  |
| Real Estate – Home Equity              | 2,420                                      | 26                                   | 3,265                                      | 26                                   |
| Consumer                               | 86   | 2                                    | 111  | 2                                    |
| <b>Total</b>                           | <b>\$ 25,958</b>                           | <b>\$ 289</b>                        | <b>\$ 37,123</b>                           | <b>\$ 381</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,<br/>Financial,<br/>Agriculture</b> | <b>Real Estate</b> | <b>Consumer</b> | <b>Total<br/>Loans</b> |
|-------------------------------|---|--------------------|-----------------|------------------------|
| <b>March 31, 2019</b>         |   |                    |                 |                        |
| Pass                          | \$ 237,133  | \$ 1,222,160       | \$ 297,255      | \$ 1,756,548           |
| Special Mention               | 1,109   | 17,178             | 51              | 18,338                 |
| Substandard                   | 700   | 21,112             | 407             | 22,219                 |
| Doubtful                      | -   | -                  | -               | -                      |
| Total Loans                   | \$ 238,942  | \$ 1,260,450       | \$ 297,713      | \$ 1,797,105           |
| <b>December 31, 2018</b>      |   |                    |                 |                        |
| Pass                          | \$ 232,417  | \$ 1,211,451       | \$ 295,888      | \$ 1,739,756           |
| Special Mention               | 479   | 11,048             | 54              | 11,581                 |
| Substandard                   | 793   | 21,415             | 680             | 22,888                 |
| Doubtful                      | -   | -                  | -               | -                      |
| Total Loans                   | \$ 233,689  | \$ 1,243,914       | \$ 296,622      | \$ 1,774,225           |

*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, 2019</b> |                    | <b>December 31, 2018</b> |                    |
|--|-----------------------|--------------------|--------------------------|--------------------|
|  | <b>Accruing</b>       | <b>Nonaccruing</b> | <b>Accruing</b>          | <b>Nonaccruing</b> |
| Commercial, Financial and Agricultural | \$ 695                | \$ -               | \$ 873                   | \$ -               |
| Real Estate – Construction             | 59                    | -                  | 59                       | -                  |
| Real Estate – Commercial Mortgage      | 9,652                 | 674                | 9,910                    | 1,239              |
| Real Estate – Residential              | 8,371                 | 535                | 9,234                    | 1,222              |
| Real Estate – Home Equity              | 1,930                 | 178                | 1,920                    | 179                |
| Consumer                               | 84                    | -                  | 88                       | -                  |
| <b>Total TDRs</b>                      | <b>\$ 20,791</b>      | <b>\$ 1,387</b>    | <b>\$ 22,084</b>         | <b>\$ 2,640</b>    |

For TDRs, the Company estimated \$1.7 million and \$2.3 million of impaired loan loss reserves for these loans at March 31, 2019 and December 31, 2018, respectively.

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, a principal moratorium, a reduction in the interest rate, or a combination thereof. The financial impact of these modifications was not material.

| <i>(Dollars in Thousands)</i>          | <b>Three Months Ended March 31, 2019</b> |  | <b>Three Months Ended March 31, 2018</b> |  |
|--|--|--|--|--|
|  | <b>Number of Contracts</b>               | <b>Post-Modified Recorded Investment<sup>(1)</sup></b> | <b>Number of Contracts</b>               | <b>Post-Modified Recorded Investment</b> |
| Commercial, Financial and Agricultural | -  | \$ -   | 1  | \$ 230                                   |
| Real Estate – Construction             | -  | -  | -  | -  |
| Real Estate – Commercial Mortgage      | -  | -  | 1  | 228                                      |
| Real Estate – Residential              | 1  | 74   | -  | -  |
| Real Estate – Home Equity              | 1  | 31   | -  | -  |
| Consumer                               | -  | -  | -  | -  |
| <b>Total TDRs</b>                      | <b>2</b>                                 | <b>\$ 105</b>  | <b>2</b>                                 | <b>\$ 458</b>                            |

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

For the three months ended March 31, 2019 and March 31, 2018, there were no loans modified as TDRs within the previous 12 months that had defaulted.



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

|  | Three Months Ended March<br>31,<br>2019 |                        | Three Months Ended March<br>31,<br>2018 |                                       |
|--|---|------------------------|---|---------------------------------------|
|  | Number of<br>Contracts                  | Recorded<br>Investment | Number of<br>Contracts                  | Recorded<br>Investment <sup>(1)</sup> |
| <i>(Dollars in Thousands)</i>                      |   |                        |   |                                       |
| Extended amortization                              | -                                       | \$ -                   | 1                                       | \$ 228                                |
| Interest rate adjustment                           | -                                       | -                      | -                                       | -                                     |
| Extended amortization and interest rate adjustment | 2                                       | 105                    | -                                       | -                                     |
| Principal Moratorium                               | -                                       | -                      | 1                                       | 230                                   |
| Other  | -                                       | -                      | -                                       | -                                     |
| Total TDRs   | 2                                       | \$ 105                 | 2                                       | \$ 458                                |

**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>2019</b>                         | <b>2018</b> |
| Beginning Balance             | \$ 2,229                            | \$ 3,941    |
| Additions                     | 527                                 | 307         |
| Valuation Write-downs         | (190)                               | (494)       |
| Sales                         | (664)                               | (424)       |
| Ending Balance                | \$ 1,902                            | \$ 3,330    |

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

| <i>(Dollars in Thousands)</i>      | <b>Three Months Ended March 31,</b> |             |
|------------------------------------|-------------------------------------|-------------|
|                                    | <b>2019</b>                         | <b>2018</b> |
| Gains from the Sale of Properties  | \$ (12)                             | \$ (28)     |
| Losses from the Sale of Properties | 37                                  | 88          |
| Rental Income from Properties      | (3)                                 | (3)         |
| Property Carrying Costs            | 151                                 | 75          |
| Valuation Adjustments              | 190                                 | 494         |
| Total                              | \$ 363                              | \$ 626      |

As of March 31, 2019, the Company had \$0.9 million of loans secured by residential real estate in the process of foreclosure.

**NOTE 5 – LEASES**

Operating leases in which the Company is the lessee are recorded as operating lease right of use (“ROU”) assets and operating liabilities, included in other assets and liabilities, respectively, on its consolidated statement of financial condition.

Operating lease ROU assets represent the Company’s right to use an underlying asset during the lease term and operating lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company’s incremental borrowing rate at the lease commencement date. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit

interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in occupancy expense in the consolidated statement of income.

The Company's operating leases primarily relate to banking offices with remaining lease terms of 2 to 9 years. The Company's leases are not complex and do not contain residual value guarantees, variable lease payments, or significant assumptions or judgments made in applying the requirements of Topic 842. Operating leases with an initial term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term. At March 31, 2019, the operating lease ROU assets and liabilities were \$1.9 million and \$2.8 million, respectively. The Company does not have any finance leases or any significant lessor agreements.

The table below summarizes our lease expense and other information related to the Company's operating leases:

| <i>(Dollars in Thousands)</i>  | <b>Three Months Ended<br/>March 31, 2019</b> |       |
|--|--|-------|
| Operating lease expense  | \$   | 81    |
| Short-term lease expense   |  | 35    |
| Total lease expense  | \$   | 116   |
| <b>Other information:</b>  |  |       |
| Cash paid for amounts included in the measurement of lease liabilities:      |  |       |
| Operating cash flows from operating leases                                   | \$   | 83    |
| Right-of-use assets obtained in exchange for new operating lease liabilities |  | 1,928 |
| Weighted-average remaining lease term — operating leases (in years)          |  | 7.4   |
| Weighted-average discount rate — operating leases                            |  | 2.9%  |

The table below summarizes the maturity of remaining lease liabilities:

| <i>(Dollars in Thousands)</i>    | <b>March 31, 2019</b> |              |
|----------------------------------|-----------------------|--------------|
| 2019                             | \$                    | 316          |
| 2020                             |                       | 451          |
| 2021                             |                       | 420          |
| 2022                             |                       | 417          |
| 2023                             |                       | 398          |
| 2024 and thereafter              |                       | 1,085        |
| <b>Total</b>                     | \$                    | <b>3,087</b> |
| Less: Interest                   |                       | (326)        |
| Present Value of Lease liability | \$                    | 2,761        |

At March 31, 2019, the Company has additional operating lease payments for a banking office (to be constructed) that has not yet commenced of \$1.4 million. Payments on the operating lease are expected to commence after the construction period ends, which is expected to occur during the second quarter of 2020.

A related party is the lessor in an operating lease with the Company. The Company's minimum payment is \$0.2 million annually through 2028, for an aggregate remaining obligation of \$1.1 million at March 31, 2019.

## **NOTE 6 - 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>2019</b>                         | <b>2018</b> |
| Service Cost                        | \$ 1,529                            | \$ 1,721    |
| Interest Cost                       | 1,545                               | 1,415       |
| Expected Return on Plan Assets      | (2,382)                             | (2,391)     |
| Prior Service Cost Amortization     | 4                                   | 50          |
| Net Loss Amortization               | 965                                 | 918         |
| Net Periodic Benefit Cost           | \$ 1,661                            | \$ 1,713    |
| Discount Rate Used for Benefit Cost | 4.43%                               | 3.71%       |
| Long-term Rate of Return on Assets  | 7.25%                               | 7.25%       |

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>2019</b>                         | <b>2018</b> |
| Interest Cost                       | \$ 87                               | \$ 57       |
| Net Loss Amortization               | 190                                 | 406         |
| Net Periodic Benefit Cost           | \$ 277                              | \$ 463      |
| Discount Rate Used for Benefit Cost | 4.23%                               | 3.53%       |

The service cost component of net periodic benefit cost is reflected in compensation expense in the accompanying statements of income. The other components of net periodic cost are included in "other" within the noninterest expense category in the statements of income.

#### **NOTE 7 - 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, 2019</b> |                 |              | <b>December 31, 2018</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> | \$ 109,646            | \$ 388,161      | \$ 497,807   | \$ 94,572                | \$ 373,438      | \$ 468,010   |
| Standby Letters of Credit                   | 5,050                 | -               | 5,050        | 4,986                    | -               | 4,986        |
| Total                                       | \$ 114,696            | \$ 388,161      | \$ 502,857   | \$ 99,558                | \$ 373,438      | \$ 472,996   |

<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. 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 \$137,000. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

## **NOTE 8 – 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. Quarterly, 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, 2019, 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<br/>Inputs</b> | <b>Level 2<br/>Inputs</b> | <b>Level 3<br/>Inputs</b> | <b>Total Fair<br/>Value</b> |
|-----------------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|
| <b>March 31, 2019</b>             |                           |                           |                           |                             |
| ASSETS:                           |                           |                           |                           |                             |
| Securities Available for Sale:    |                           |                           |                           |                             |
| U.S. Government Treasury          | \$ 252,941                | \$ -                      | \$ -                      | \$ 252,941                  |
| U.S. Government Agency            | -                         | 133,593                   | -                         | 133,593                     |
| States and Political Subdivisions | -                         | 33,856                    | -                         | 33,856                      |
| Mortgage-Backed Securities        | -                         | 779                       | -                         | 779                         |
| Equity Securities                 | -                         | 7,847                     | -                         | 7,847                       |
| <b>December 31, 2018</b>          |                           |                           |                           |                             |
| ASSETS:                           |                           |                           |                           |                             |
| Securities Available for Sale:    |                           |                           |                           |                             |
| U.S. Government Treasury          | \$ 261,849                | \$ -                      | \$ -                      | \$ 261,849                  |
| U.S. Government Agency            | -                         | 133,206                   | -                         | 133,206                     |
| States and Political Subdivisions | -                         | 42,365                    | -                         | 42,365                      |
| Mortgage-Backed Securities        | -                         | 943                       | -                         | 943                         |
| Equity Securities                 | -                         | 7,794                     | -                         | 7,794                       |

#### **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 \$4.4 million with a valuation allowance of \$0.7 million at March 31, 2019 and \$5.6 million and \$0.8 million, respectively, at December 31, 2018.

*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 2019, 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, estimated discount rates, and incorporates a liquidity discount to meet the objective of “exit price” valuation.

*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, 2019</b> |                       | <b>Level 3 Inputs</b> |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   |                       | <b>Level 1 Inputs</b> | <b>Level 2 Inputs</b> |                       |
| <b>ASSETS:</b>                            |                       |                       |                       |                       |
| Cash                                      | \$ 49,501             | \$ 49,501             | \$ -                  | \$ -                  |
| Short-Term Investments                    | 304,213               | 304,213               | -                     | -                     |
| Investment Securities, Available for Sale | 429,016               | 252,941               | 176,075               | -                     |
| Investment Securities, Held to Maturity   | 226,179               | 34,765                | 190,552               | -                     |
| Equity Securities <sup>(1)</sup>          | 3,588                 | -                     | 3,588                 | -                     |
| Loans Held for Sale                       | 4,557                 | -                     | 4,557                 | -                     |
| Loans, Net of Allowance for Loan Losses   | 1,782,985             | -                     | -                     | 1,760,136             |
| <b>LIABILITIES:</b>                       |                       |                       |                       |                       |
| Deposits                                  | \$ 2,617,294          | \$ -                  | \$ 2,615,572          | \$ -                  |
| Short-Term Borrowings                     | 8,983                 | -                     | 8,983                 | -                     |
| Subordinated Notes Payable                | 52,887                | -                     | 41,128                | -                     |
| Long-Term Borrowings                      | 7,661                 | -                     | 7,715                 | -                     |

| <i>(Dollars in Thousands)</i> | <b>Carrying Value</b> | <b>December 31, 2018</b> |                       | <b>Level 3 Inputs</b> |
|-------------------------------|-----------------------|--------------------------|-----------------------|-----------------------|
|                               |                       | <b>Level 1 Inputs</b>    | <b>Level 2 Inputs</b> |                       |

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ASSETS:

|   |    |           |    |         |    |         |    |           |
|---|----|-----------|----|---------|----|---------|----|-----------|
| Cash                                      | \$ | 62,032    | \$ | 62,032  | \$ | -       | \$ | -         |
| Short-Term Investments                    |    | 213,968   |    | 213,968 |    | -       |    | -         |
| Investment Securities, Available for Sale |    | 446,157   |    | 261,849 |    | 184,308 |    | -         |
| Investment Securities, Held to Maturity   |    | 217,320   |    | 34,611  |    | 179,802 |    | -         |
| Loans Held for Sale                       |    | 6,869     |    | -       |    | 6,869   |    | -         |
| Equity Securities <sup>(1)</sup>          |    | 3,591     |    | -       |    | 3,591   |    | -         |
| Loans, Net of Allowance for Loan Losses   |    | 1,760,015 |    | -       |    | -       |    | 1,730,161 |

LIABILITIES:

|                            |    |           |    |   |    |           |    |   |
|----------------------------|----|-----------|----|---|----|-----------|----|---|
| Deposits                   | \$ | 2,531,856 | \$ | - | \$ | 2,529,841 | \$ | - |
| Short-Term Borrowings      |    | 13,541    |    | - |    | 13,541    |    | - |
| Subordinated Notes Payable |    | 52,887    |    | - |    | 42,359    |    | - |
| Long-Term Borrowings       |    | 8,568     |    | - |    | 7,879     |    | - |

<sup>(1)</sup> Not readily marketable securities - reflected in other assets.

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 9 – 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<br/>Tax<br/>Amount</b> | <b>Tax<br/>(Expense)<br/>Benefit</b> | <b>Net of<br/>Tax<br/>Amount</b> |
|--|----------------------------------|--------------------------------------|----------------------------------|
| <b>March 31, 2019</b>  |                                  |                                      |                                  |
| Investment Securities:   |                                  |                                      |                                  |
| Change in net unrealized gain/loss on securities available for sale                          | \$ 1,250                         | \$ (317)                             | \$ 933                           |
| Amortization of losses on securities transferred from available for sale to held to maturity | 12                               | (4)                                  | 8                                |
| Total Other Comprehensive Loss   | \$ 1,262                         | \$ (321)                             | \$ 941                           |
| <b>March 31, 2018</b>  |                                  |                                      |                                  |
| Investment Securities:   |                                  |                                      |                                  |
| Change in net unrealized gain/loss on securities available for sale                          | \$ (1,488)                       | \$ 377                               | \$ (1,111)                       |
| Amortization of losses on securities transferred from available for sale to held to maturity | 15                               | (4)                                  | 11                               |
| Total Other Comprehensive Income   | \$ (1,473)                       | \$ 373                               | \$ (1,100)                       |

Accumulated other comprehensive loss was comprised of the following components:

| <i>(Dollars in Thousands)</i>                | <b>Securities<br/>Available<br/>for Sale</b> | <b>Retirement<br/>Plans</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> |
|--|--|-----------------------------|---|
| <b>Balance as of January 1, 2019</b>         | \$ (2,008)                                   | \$ (26,807)                 | \$ (28,815)   |
| Other comprehensive income during the period | 941  | -                           | 941   |
| <b>Balance as of March 31, 2019</b>          | \$ (1,067)                                   | \$ (26,807)                 | \$ (27,874)   |
| <b>Balance as of January 1, 2018</b>         | \$ (1,743)                                   | \$ (30,301)                 | \$ (32,044)   |
| Other comprehensive loss during the period   | (1,100)                                      | -                           | (1,100)   |
| <b>Balance as of March 31, 2018</b>          | \$ (2,843)                                   | \$ (30,301)                 | \$ (33,144)   |

**NOTE 10 – ACCOUNTING STANDARDS UPDATES**

ASU 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements.*” ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on its financial statements and related disclosures. As part of its implementation efforts to date, management has formed a cross-functional implementation team and developed a project plan. The Company has also engaged a vendor to assist in model development. The Company’s implementation plan has progressed through the design and build phase and will begin testing and parallel modeling in the second quarter of 2019. In conjunction with the implementation, the Company is reviewing business process and evaluating potential changes to the control environment. The Company expects the new guidance will result in an increase in the allowance for credit losses given the change from accounting for losses inherent in the loan portfolio to accounting for losses over the remaining expected life of the portfolio. However, since the magnitude of the anticipated increase in the allowance for credit losses will be impacted by economic conditions and trends in the Company’s portfolio at the time of adoption, the quantitative impact cannot yet be reasonably estimated.

**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 2019 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 2018 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 59 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, and retail securities brokerage.



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, noninterest income such as deposit fees, wealth management fees, mortgage banking fees and bank card fees, and operating expenses such as salaries and employee benefits, occupancy and other operating expenses, including income taxes.

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 2018 Form 10-K.

#### **NON-GAAP FINANCIAL MEASURE**

We present a tangible common equity ratio and a tangible book value per diluted share that, in each case, removes the effect of goodwill resulting from merger and acquisition activity. We believe these measures are 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.

| <i>(Dollars in Thousands, except per share data)</i> | <b>2019</b> |              | <b>2018</b>  |              |              |              |
|--|-------------|--------------|--------------|--------------|--------------|--------------|
|  |             | First        | Fourth       | Third        | Second       | First        |
| Shareowners' Equity (GAAP)                           | \$          | 308,986      | \$ 302,587   | \$ 298,016   | \$ 293,571   | \$ 288,360   |
| Less: Goodwill (GAAP)                                |             | 84,811       | 84,811       | 84,811       | 84,811       | 84,811       |
| Tangible Shareowners' Equity (non-GAAP)              | A           | 224,175      | 217,776      | 213,205      | 208,760      | 203,549      |
| Total Assets (GAAP)                                  |             | 3,052,051    | 2,959,183    | 2,819,190    | 2,880,278    | 2,924,832    |
| Less: Goodwill (GAAP)                                |             | 84,811       | 84,811       | 84,811       | 84,811       | 84,811       |
| Tangible Assets (non-GAAP)                           | B           | \$ 2,967,240 | \$ 2,874,372 | \$ 2,734,379 | \$ 2,795,467 | \$ 2,840,021 |
| <b>Tangible Common Equity Ratio (non-GAAP)</b>       | <b>A/B</b>  | <b>7.56%</b> | <b>7.58%</b> | <b>7.80%</b> | <b>7.47%</b> | <b>7.17%</b> |
| Actual Diluted Shares Outstanding (GAAP)             | C           | 16,840,496   | 16,808,542   | 17,127,846   | 17,114,380   | 17,088,419   |
| <b>Diluted Tangible Book Value (non-GAAP)</b>        | <b>A/C</b>  | <b>13.31</b> | <b>12.96</b> | <b>12.45</b> | <b>12.20</b> | <b>11.91</b> |

**SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)***(Dollars in Thousands, Except  
(Per Share Data))*

|  | <b>2019</b> |             | <b>2018</b> |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
|  | First       | Fourth      | Third       | Second      | First       | Fourth      |
| <b>Summary of Operations:</b>                          |             |             |             |             |             |             |
| Interest Income  | \$ 27,722   | \$ 26,370   | \$ 25,392   | \$ 24,419   | \$ 23,214   | \$ 22,627   |
| Interest Expense                                       | 2,814       | 2,022       | 1,769       | 1,649       | 1,451       | 1,138       |
| Net Interest Income                                    | 24,908      | 24,348      | 23,623      | 22,770      | 21,763      | 21,489      |
| Provision for Loan Losses                              | 767         | 457         | 904         | 815         | 745         | 826         |
| Net Interest Income After<br>Provision for Loan Losses | 24,141      | 23,891      | 22,719      | 21,955      | 21,018      | 20,663      |
| Noninterest Income                                     | 12,552      | 13,238      | 13,308      | 12,542      | 12,477      | 12,897      |
| Noninterest Expense                                    | 28,198      | 26,505      | 28,699      | 28,393      | 27,906      | 26,897      |
| Income Before Income Taxes                             | 8,495       | 10,624      | 7,328       | 6,104       | 5,589       | 6,663       |
| Income Tax Expense (Benefit) <sup>(2)</sup>            | 2,059       | 2,166       | 1,338       | 101         | (184)       | 6,660       |
| Net Income   | 6,436       | 8,458       | 5,990       | 6,003       | 5,773       | 3           |
| Net Interest Income (FTE)                              | \$ 25,042   | \$ 24,513   | \$ 23,785   | \$ 22,917   | \$ 21,943   | \$ 21,808   |
| <b>Per Common Share:</b>                               |             |             |             |             |             |             |
| Net Income Basic                                       | \$ 0.38     | \$ 0.50     | \$ 0.35     | \$ 0.35     | \$ 0.34     | \$ 0.00     |
| Net Income Diluted                                     | 0.38        | 0.50        | 0.35        | 0.35        | 0.34        | 0.00        |
| Cash Dividends Declared                                | 0.11        | 0.09        | 0.09        | 0.07        | 0.07        | 0.07        |
| Diluted Book Value                                     | 18.35       | 18.00       | 17.40       | 17.15       | 16.87       | 16.65       |
| Diluted Tangible Book Value <sup>(1)</sup>             | 13.31       | 12.96       | 12.45       | 12.20       | 11.91       | 11.68       |
| Market Price:  |             |             |             |             |             |             |
| High   | 25.87       | 26.95       | 25.91       | 25.99       | 26.50       | 26.01       |
| Low  | 21.04       | 19.92       | 23.19       | 22.28       | 22.80       | 22.21       |
| Close  | 21.78       | 23.21       | 23.34       | 23.63       | 24.75       | 22.94       |
| <b>Selected Average Balances:</b>                      |             |             |             |             |             |             |
| Loans, Net   | \$1,780,406 | \$1,785,570 | \$1,747,093 | \$1,691,287 | \$1,647,612 | \$1,640,738 |
| Earning Assets   | 2,704,802   | 2,554,482   | 2,535,292   | 2,566,006   | 2,592,465   | 2,511,985   |
| Total Assets   | 2,996,511   | 2,849,245   | 2,826,924   | 2,861,104   | 2,892,120   | 2,822,451   |
| Deposits   | 2,564,715   | 2,412,375   | 2,392,272   | 2,431,956   | 2,456,106   | 2,378,411   |
| Shareowners' Equity                                    | 307,262     | 302,196     | 297,757     | 291,806     | 287,502     | 288,044     |
| Common Equivalent Average<br>Shares:                   |             |             |             |             |             |             |
| Basic  | 16,791      | 16,989      | 17,056      | 17,045      | 17,028      | 16,967      |
| Diluted  | 16,819      | 17,050      | 17,125      | 17,104      | 17,073      | 17,050      |
| <b>Performance Ratios:</b>                             |             |             |             |             |             |             |
| Return on Average Assets                               | 0.87%       | 1.18%       | 0.84%       | 0.84%       | 0.81%       | 0.00%       |
| Return on Average Equity                               | 8.49        | 11.10       | 7.98        | 8.25        | 8.14        | 0.00        |
| Net Interest Margin (FTE)                              | 3.75        | 3.81        | 3.72        | 3.58        | 3.43        | 3.45        |
| Noninterest Income as % of<br>Operating Revenue        | 33.51       | 35.22       | 36.04       | 35.52       | 36.44       | 37.51       |
| Efficiency Ratio                                       | 75.01       | 70.21       | 77.37       | 80.07       | 81.07       | 77.50       |

**Asset Quality:**

|                                    |    |        |    |        |    |        |    |        |    |        |    |        |    |
|------------------------------------|----|--------|----|--------|----|--------|----|--------|----|--------|----|--------|----|
| Allowance for Loan Losses          | \$ | 14,120 | \$ | 14,210 | \$ | 14,219 | \$ | 13,563 | \$ | 13,258 | \$ | 13,307 | \$ |
| Allowance for Loan Losses to Loans |    | 0.78%  |    | 0.80%  |    | 0.80%  |    | 0.78%  |    | 0.80%  |    | 0.80%  |    |
| Nonperforming Assets ("NPAs")      |    | 6,949  |    | 9,101  |    | 9,587  |    | 9,114  |    | 10,644 |    | 11,100 |    |
| NPAs to Total Assets               |    | 0.23   |    | 0.31   |    | 0.34   |    | 0.32   |    | 0.36   |    | 0.38   |    |
| NPAs to Loans plus OREO            |    | 0.39   |    | 0.51   |    | 0.54   |    | 0.52   |    | 0.64   |    | 0.67   |    |
| Allowance to Non-Performing Loans  |    | 279.77 |    | 206.79 |    | 207.06 |    | 236.25 |    | 181.26 |    | 185.87 |    |
| Net Charge-Offs to Average Loans   |    | 0.20   |    | 0.10   |    | 0.06   |    | 0.12   |    | 0.20   |    | 0.21   |    |

**Capital Ratios:**

|                                       |  |        |  |        |  |        |  |        |  |        |  |        |  |
|---------------------------------------|--|--------|--|--------|--|--------|--|--------|--|--------|--|--------|--|
| Tier 1 Capital                        |  | 16.34% |  | 16.36% |  | 16.17% |  | 16.25% |  | 16.31% |  | 16.33% |  |
| Total Capital                         |  | 17.09  |  | 17.13  |  | 16.94  |  | 17.00  |  | 17.05  |  | 17.10  |  |
| Common Equity Tier 1                  |  | 13.62  |  | 13.58  |  | 13.43  |  | 13.46  |  | 13.44  |  | 13.42  |  |
| Leverage                              |  | 10.53  |  | 10.89  |  | 10.99  |  | 10.69  |  | 10.36  |  | 10.47  |  |
| Tangible Common Equity <sup>(1)</sup> |  | 7.56   |  | 7.58   |  | 7.80   |  | 7.47   |  | 7.17   |  | 7.09   |  |

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

<sup>(2)</sup>Includes \$0.4 million, \$1.4 million, and \$1.5 million income tax benefit in the third, second and first quarter of 2018, respectively. Also includes \$4.1 million income tax expense adjustment in the fourth quarter of 2017 related to the Tax Cuts and Jobs Act of 2017.

## FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

### Results of Operations

- Net income of \$6.4 million, or \$0.38 per diluted share, for the first quarter of 2019 compared to net income of \$8.5 million, or \$0.50 per diluted share, for the fourth quarter of 2018, and net income of \$5.8 million, or \$0.34 per diluted share for the first quarter of 2018. Net income for the first quarter of 2018 included a \$1.5 million, or \$0.09 per diluted share tax benefit related to a 2017 plan year pension plan contribution. Net income for the fourth quarter of 2018 included a \$2.0 million, or \$0.09 per diluted share, gain from the sale of a banking office and a \$0.3 million, or \$0.02 per diluted share, tax benefit from a tax accounting method change.

- Taxable equivalent net interest income for the first quarter of 2019 was \$25.0 million compared to \$24.5 million for the fourth quarter of 2018 and \$21.9 million for the first quarter of 2018. During the first quarter of 2019, overnight funds increased as a result of seasonal growth in our deposit balances. The increase in tax-equivalent net interest income compared to the first quarter of 2018 reflected growth in the loan portfolio and higher rates earned on overnight funds, investment securities, and variable rate loans, partially offset by a higher cost on our negotiated rate deposits.

- Provision for loan losses was \$0.8 million for the first quarter of 2019 compared to \$0.5 million for the fourth quarter of 2018 and \$0.7 million for the first quarter of 2018. The higher provision compared to the fourth quarter of 2018 reflected higher net loan charge-offs.

- Noninterest income for the first quarter of 2019 totaled \$12.6 million, a decrease of \$0.7 million, or 5.2%, from the fourth quarter of 2018 and a \$0.1 million, or 0.6%, increase over the first quarter of 2018. The decrease from the fourth quarter of 2018 was primarily attributable to lower deposit fees and mortgage banking fees.

- Noninterest expense for the first quarter of 2019 totaled \$28.2 million, an increase of \$1.7 million, or 6.4%, over the fourth quarter of 2018 and \$0.3 million, or 1.0%, over the first quarter of 2018. The increase over the fourth quarter was primarily attributable to higher other real estate owned (“OREO”) expense of \$2.0 million, partially offset by lower occupancy expense of \$0.3 million. The increase in OREO expense reflected a \$2.0 million gain on the sale of a banking office in the fourth quarter of 2018.

## Financial Condition

- Average earning assets were \$2.705 billion for the first quarter of 2019, an increase of \$150.3 million, or 5.9%, over the fourth quarter of 2018, and an increase of \$112.3 million, or 4.3%, over the first quarter of 2018. The change in average earning assets over both periods reflected a higher level of total deposits, resulting in a higher balance of overnight funds sold.
- Average loans decreased by \$5.2 million, or 0.29%, from the fourth quarter of 2018, and increased \$132.8 million, or 8.1%, over the first quarter of 2018. On an “as of” basis, loans grew \$20.6 million and \$134.9 million, respectively.
- Nonperforming assets totaled \$6.9 million at March 31, 2019, a decrease of \$2.2 million, or 23.6%, from December 31, 2018 and \$3.7 million, or 34.7%, from March 31, 2018. Nonperforming assets represented 0.23% of total assets at March 31, 2019 compared to 0.31% at December 31, 2018 and 0.36% at March 31, 2018.
- At March 31, 2019, we were well-capitalized with a risk based capital ratio of 17.09% and a tangible common equity ratio of 7.56% compared to 17.13% and 7.58%, respectively, at December 31, 2018, and 17.05% and 7.17%, respectively, at March 31, 2018. At March 31, 2019, all of our regulatory capital ratios exceeded the threshold to be well-capitalized under the Basel III capital standards.

**RESULTS OF OPERATIONS****Net Income**

For the first quarter of 2019, we realized net income of \$6.4 million, or \$0.38 per diluted share, compared to net income of \$8.5 million, or \$0.50 per diluted share, for the fourth quarter of 2018, and \$5.8 million, or \$0.34 per diluted share, for the first quarter of 2018.

Net income for the first quarter of 2018 included a \$1.5 million, or \$0.09 per diluted share tax benefit related to a 2017 plan year pension plan contribution. Net income for the fourth quarter of 2018 included a \$2.0 million, or \$0.09 per diluted share, gain from the sale of a banking office and a \$0.3 million, or \$0.02 per diluted share, tax benefit from a tax accounting method change.

Compared to the fourth quarter of 2018, the \$2.1 million decrease in operating profit reflected a \$1.7 million increase in noninterest expense, lower noninterest income of \$0.7 million, and a \$0.3 million increase in the loan loss provision, partially offset by higher net interest income of \$0.6 million.

Compared to the first quarter of 2018, the \$2.9 million increase in operating profit was attributable to higher net interest income of \$3.1 million and noninterest income of \$0.1 million, partially offset by higher noninterest expense of \$0.3 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, 2019</b>     | <b>December 31, 2018</b> | <b>March 31, 2018</b> |
| Interest Income                                      | \$ 27,722                 | \$ 26,370                | \$ 23,214             |
| Taxable Equivalent Adjustments                       | 134                       | 165                      | 180                   |
| Total Interest Income (FTE)                          | 27,856                    | 26,535                   | 23,394                |
| Interest Expense                                     | 2,814                     | 2,022                    | 1,451                 |
| Net Interest Income (FTE)                            | 25,042                    | 24,513                   | 21,943                |
| Provision for Loan Losses                            | 767                       | 457                      | 745                   |
| Taxable Equivalent Adjustments                       | 134                       | 165                      | 180                   |
| Net Interest Income After Provision for Loan Losses  | 24,141                    | 23,891                   | 21,018                |
| Noninterest Income                                   | 12,552                    | 13,238                   | 12,477                |

|                              |          |          |          |
|------------------------------|----------|----------|----------|
| Noninterest Expense          | 28,198   | 26,505   | 27,906   |
| Income Before Income Taxes   | 8,495    | 10,624   | 5,589    |
| Income Tax Expense (Benefit) | 2,059    | 2,166    | (184)    |
| Net Income                   | \$ 6,436 | \$ 8,458 | \$ 5,773 |
| Basic Net Income Per Share   | \$ 0.38  | \$ 0.50  | \$ 0.34  |
| Diluted Net Income Per Share | \$ 0.38  | \$ 0.50  | \$ 0.34  |

### 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 state and local government debt obligations. 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 for the first quarter of 2019 was \$25.0 million compared to \$24.5 million for the fourth quarter of 2018 and \$21.9 million for the first quarter of 2018. During the first quarter of 2019, overnight funds increased primarily due to seasonal growth in our public fund deposits and a higher balance of one large negotiated rate client. The increase in tax-equivalent net interest income compared to the first quarter of 2018 reflected growth in the loan portfolio and higher rates earned on overnight funds, investment securities, and variable rate loans, partially offset by a higher cost on our negotiated rate deposits.

The federal funds target rate ended the first quarter of 2019 at a range of 2.25%-2.50%, with the most recent increase to the target rate occurring in December 2018. These federal funds rate increases positively affected our net interest income due to favorable repricing of our variable and adjustable rate earning assets. Although these increases resulted in higher rates paid on our negotiated rate deposit products, we continue to prudently manage our deposit mix and overall cost of funds, which was 42 basis points for the first quarter of 2019 compared to 31 basis points for the prior quarter. In conjunction with our overall balance sheet management, we continue to review our deposit board rates to determine whether rate increases are appropriate.



Our net interest margin for the first quarter of 2019 was 3.75%, a decrease of six basis points over the fourth quarter of 2019 and an increase of 32 basis points over the first quarter of 2018. The decrease in margin compared to the fourth quarter of 2018 was attributable to a higher level and less favorable mix of earning assets and an increase in cost of funds, primarily negotiated NOW and MMAs. All three factors were driven by the seasonal inflow of public fund deposits, which is anticipated in the first quarter of each year. The increase in the margin compared to the first quarter of 2018 was primarily due to loan growth and higher yields on our variable and adjustable rate earning assets, partially offset by higher rates on our negotiated rate deposits.

### Provision for Loan Losses

The provision for loan losses for the first quarter of 2019 was \$0.8 million compared to \$0.5 million for the fourth quarter of 2018 and \$0.7 million for the first quarter of 2018. The higher provision compared to the fourth quarter of 2018 was primarily attributable to higher net loan charge-offs. Net loan charge-offs for the first quarter of 2019 totaled \$0.9 million, or 0.20% (annualized), of average loans. This compares to \$0.5 million, or 0.10% (annualized), for the fourth quarter of 2018 and \$0.8 million, or 0.20% (annualized), for the first quarter of 2018. At March 31, 2019, the allowance for loan losses of \$14.1 million was 0.78% of outstanding loans (net of overdrafts) and provided coverage of 280% of nonperforming loans compared to 0.80% and 207%, respectively, at December 31, 2018 and 0.80% and 181%, respectively, at March 31, 2018.

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

| <i>(Dollars in Thousands, except per share data)</i> | <b>March 31, 2019</b> | <b>Three Months Ended<br/>December 31,<br/>2018</b> | <b>March 31, 2018</b> |
|--|-----------------------|---|-----------------------|
| <b>CHARGE-OFFS</b>                                   |                       |   |                       |
| Commercial, Financial and Agricultural               | \$ 95                 | \$ 53   | \$ 182                |
| Real Estate - Construction                           | -                     | -   | 7                     |
| Real Estate - Commercial Mortgage                    | 155                   | -   | 290                   |
| Real Estate - Residential                            | 264                   | 111   | 107                   |
| Real Estate - Home Equity                            | 52                    | 106   | 158                   |
| Consumer   | 795                   | 728   | 695                   |
| Total Charge-offs                                    | \$ 1,361              | \$ 998  | \$ 1,439              |
| <b>RECOVERIES</b>                                    |                       |   |                       |
| Commercial, Financial and Agricultural               | \$ 74                 | \$ 128  | \$ 166                |
| Real Estate - Construction                           | -                     | 25  | 1                     |
| Real Estate - Commercial Mortgage                    | 70                    | 13  | 123                   |
| Real Estate - Residential                            | 44                    | 106   | 84                    |
| Real Estate - Home Equity                            | 32                    | 61  | 61                    |
| Consumer   | 284                   | 199   | 210                   |
| Total Recoveries                                     | \$ 504                | \$ 532  | \$ 645                |

|  |    |       |    |       |    |       |
|--|----|-------|----|-------|----|-------|
| Net Charge-offs  | \$ | 857   | \$ | 466   | \$ | 794   |
| Net Charge-offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Income |    | 0.20% |    | 0.10% |    | 0.20% |

### Noninterest Income

Noninterest income for the first quarter of 2019 totaled \$12.6 million, a decrease of \$0.7 million, or 5.2%, from the fourth quarter of 2018 and an increase of \$0.1 million, or 0.6%, over the first quarter of 2018. The decrease from the fourth quarter of 2018 was primarily attributable to lower deposit fees of \$0.4 million and mortgage banking fees of \$0.1 million. The increase over the first quarter of 2018 reflected higher wealth management fees partially offset by lower deposit fees. The downward trend in our deposit fees has stabilized as lower overdraft fees are now beginning to be offset by account maintenance fees reflective of our migration of our checking account product from free checking to fee checking.

Noninterest income represented 33.5% of operating revenues (net interest income plus noninterest income) for the first quarter of 2019 compared to 35.2% for the fourth quarter of 2018 and 36.4% for the first quarter of 2018. The declining trend is due to continued improvement in our net interest income which has become a larger portion of our total operating revenues.

The table below reflects the major components of noninterest income.

| <i>(Dollars in Thousands)</i>   | <b>March 31, 2019</b> | <b>Three Months Ended<br/>December 31,<br/>2018</b> | <b>March 31, 2018</b> |
|---------------------------------|-----------------------|---|-----------------------|
| Deposit Fees                    | \$ 4,775              | \$ 5,172  | \$ 4,872              |
| Bank Card Fees                  | 2,855                 | 2,830   | 2,811                 |
| Wealth Management Fees          | 2,323                 | 2,320   | 2,173                 |
| Mortgage Banking Fees           | 993                   | 1,129   | 1,057                 |
| Other                           | 1,606                 | 1,787   | 1,564                 |
| <b>Total Noninterest Income</b> | <b>\$ 12,552</b>      | <b>\$ 13,238</b>                                    | <b>\$ 12,477</b>      |

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

*Deposit Fees.* Deposit fees for the first quarter of 2019 totaled \$4.8 million, a decrease of \$0.4 million, or 7.7%, from the fourth quarter of 2018 and a decrease of \$0.1 million, or 2.0%, from the first quarter of 2018. The decrease from both prior year periods reflected lower overdraft service fees due to a reduction in accounts using this service as well as lower utilization by existing users. Over the past year, we have realized improvement in checking account maintenance fees as we migrate our deposit products from a free to fee checking account platform, which has partially offset the decline in overdraft fees.

*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 \$2.3 million for the first quarter of 2019, comparable to the fourth quarter of 2018 and an increase of \$0.2 million, or 6.9%, over the first quarter of 2018. The improvement in wealth management fees over the first quarter of 2018 reflected higher trust fees attributable to an increase in assets under management. At March 31, 2019, total assets under management were approximately \$1.675 billion compared to \$1.500 billion at December 31, 2018 and \$1.407 billion at March 31, 2018.

*Mortgage Banking Fees.* Mortgage banking fees totaled \$1.0 million for the first quarter of 2019, a decrease of \$0.1 million, or 12.0%, from the fourth quarter of 2018 and comparable to the first quarter of 2018. The decrease from the fourth quarter of 2018 more readily reflected a seasonal slowdown typically seen in the first quarter. The current pipeline is consistent with the prior year.

## **Noninterest Expense**

Noninterest expense for the first quarter of 2019 totaled \$28.2 million, an increase of \$1.7 million, or 6.4%, over the fourth quarter of 2018 and \$0.3 million, or 1.0%, over the first quarter of 2018. The increase over the fourth quarter was attributable to higher OREO expense of \$2.0 million, partially offset by lower occupancy expense of \$0.3 million. The increase in OREO expense reflected a \$2.0 million gain on the sale of a banking office in the fourth quarter of 2018. The increase compared to the first quarter of 2018 was attributable to higher compensation expense, primarily related to annual merit raises. 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>March 31, 2019</b> | <b>Three Months Ended<br/>December 31,<br/>2018</b> | <b>March 31, 2018</b> |
|----------------------------------|-----------------------|---|-----------------------|
| Salaries                         | \$ 12,285             | \$ 12,332   | \$ 11,873             |
| Associate Benefits               | 4,064                 | 3,990   | 4,038                 |
| Total Compensation               | 16,349                | 16,322  | 15,911                |
| <br>                             |                       |   |                       |
| Premises                         | 2,061                 | 2,280   | 2,209                 |
| Equipment                        | 2,448                 | 2,524   | 2,342                 |
| Total Occupancy                  | 4,509                 | 4,804   | 4,551                 |
| <br>                             |                       |   |                       |
| Legal Fees                       | 376                   | 510   | 476                   |
| Professional Fees                | 972                   | 1,168   | 1,146                 |
| Processing Services              | 1,478                 | 1,283   | 1,532                 |
| Advertising                      | 497                   | 478   | 287                   |
| Travel and Entertainment         | 204                   | 255   | 180                   |
| Printing and Supplies            | 173                   | 158   | 163                   |
| Telephone                        | 680                   | 502   | 594                   |
| Postage                          | 169                   | 155   | 206                   |
| Insurance - Other                | 391                   | 398   | 401                   |
| Other Real Estate Owned, net     | 363                   | (1,663)   | 626                   |
| Miscellaneous                    | 2,037                 | 2,135   | 1,833                 |
| Total Other                      | 7,340                 | 5,379   | 7,444                 |
| <br>                             |                       |   |                       |
| <b>Total Noninterest Expense</b> | <b>\$ 28,198</b>      | <b>\$ 26,505</b>                                    | <b>\$ 27,906</b>      |

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

*Compensation.* Compensation expense totaled \$16.3 million for the first quarter of 2019, comparable to the fourth quarter of 2018 and an increase of \$0.4 million, or 0.2%, over the first quarter of 2018. The increase over the first quarter of 2018 was primarily attributable to higher base salaries which reflected annual merit increases and to a lesser extent higher incentive based compensation.

*Occupancy.* Occupancy expense (including premises and equipment) totaled \$4.5 million for the first quarter of 2019, a decrease of \$0.3 million, or 6.1%, from the fourth quarter of 2018 and \$0.1 million, or 0.9%, from the first quarter of 2018. The decrease from both prior year periods was attributable to lower maintenance expenses for premises.

*Other.* Other noninterest expense increased \$2.0 million, or 36.5%, over the fourth quarter of 2018 and decreased \$0.1 million, or 1.4%, from the first quarter of 2018. The increase compared to the fourth quarter of 2018 was attributable to higher OREO expense of \$2.0 million attributable to a \$2.0 million gain on the sale of a banking office

in the fourth quarter of 2018. The decrease compared to the first quarter of 2018 was primarily attributable to lower OREO expense which reflected lower valuation adjustments for properties.

Our operating efficiency ratio (expressed as noninterest expense as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 75.01% for the first quarter of 2019 compared to 70.21% for the fourth quarter of 2018 and 81.07% for the first quarter of 2018. The increase compared to the fourth quarter of 2018 reflected the increase in operating expenses, specifically the \$2.0 million OREO gain in the fourth quarter of 2018. The improvement compared to the first quarter of 2018 reflected higher operating revenues.

### **Income Taxes**

We realized income tax expense of \$2.1 million for the first quarter of 2019 compared to \$2.2 million for the fourth quarter of 2018 and an income tax benefit of \$0.2 million for the first quarter of 2018. Fourth quarter of 2018 income tax expense reflected a discrete tax benefit of \$0.3 million related to a tax accounting method change for a cost segregation and depreciation analysis for various properties we own. Income tax for the first quarter of 2018 included a discrete tax benefit of \$1.5 million resulting from the effect of federal tax reform, on a pension plan contribution made in the first quarter of 2018 for the plan year 2017. Absent discrete items, we expect our effective tax rate to approximate 24% for 2019.

## FINANCIAL CONDITION

Average earning assets were \$2.705 billion for the first quarter of 2019, an increase of \$150.3 million, or 5.9%, over the fourth quarter of 2018, and an increase of \$112.3 million, or 4.3%, over the first quarter of 2018. The change in average earning assets over both periods reflected a higher level of overnight funds, which was driven by growth in total deposits.

### Investment Securities

In the first quarter of 2019, our average investment portfolio decreased \$29.4 million, or 4.3%, over the fourth quarter of 2018 and decreased \$45.2 million, or 6.4%, over the first quarter of 2018. Securities in our investment portfolio represented 24.4% of our average earning assets in the first quarter of 2019, compared to 26.9% in the fourth quarter of 2018, and 27.2% in the first quarter of 2018. Earning assets over both prior periods have increased due to higher levels of overnight funds resulting from deposit growth. In addition, not all investment securities are being replaced at maturity. For the remainder of 2019, we will continue to closely monitor liquidity levels to determine the extent to which investment cash flow may 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 2019, we purchased securities under both the AFS and HTM designations. At March 31, 2019, \$429.0 million, or 65.5%, of our investment portfolio was classified as AFS, and \$226.2 million, or 34.5%, classified as HTM. The average maturity of our total portfolio at March 31, 2019 was 2.10 years compared to 2.11 years at both December 31, 2018 and March 31, 2018.

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. HTM securities 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.

At March 31, 2019, there were 414 positions (combined AFS and HTM) with unrealized losses totaling \$3.7 million. GNMA mortgage-backed securities, U.S. treasury securities (“UST”), and Small Business Administration (“SBA”) investments carry the full faith and credit guarantee of the U.S. government, are 0% risk-weighted assets for regulatory capital purposes and constitute 96% of the \$3.7 million unrealized loss. SBA securities float monthly or

quarterly to the prime rate and are uncapped. Federal Home Loan Bank (“FHLB”) and Federal Farm Credit Bureau (“FFCB”) are direct obligations of U.S. government agencies. None of these positions with unrealized losses are considered impaired, and all are expected to mature at par. The table below provides further detail on investment securities with unrealized losses.

| <i>(Dollars in Thousands)</i>     | Less Than 12 |                   |        | 12 months or |                   |          | Total  |                   |          |
|-----------------------------------|--------------|-------------------|--------|--------------|-------------------|----------|--------|-------------------|----------|
|                                   | months       | Market Unrealized |        | Longer       | Market Unrealized |          | months | Market Unrealized |          |
|                                   |              | Count             | Value  |              | Losses            | Count    |        | Value             | Losses   |
| GNMA                              | 16           | \$ 10,219         | \$ 82  | 137          | \$ 85,679         | \$ 1,127 | 153    | \$ 95,898         | \$ 1,209 |
| UST                               | -            | -                 | -      | 48           | 232,687           | 1,999    | 48     | 232,687           | 1,999    |
| SBA                               | 63           | 35,901            | 238    | 41           | 23,326            | 150      | 104    | 59,227            | 388      |
| FHLB and FFCB                     | -            | -                 | -      | 8            | 15,728            | 80       | 8      | 15,728            | 80       |
| States and Political Subdivisions | 10           | 4,351             | 1      | 91           | 28,516            | 56       | 101    | 32,867            | 57       |
| Total                             | 89           | \$ 50,471         | \$ 321 | 325          | \$ 385,936        | \$ 3,412 | 414    | \$ 436,407        | \$ 3,733 |

## Loans

While average loans decreased slightly (\$5.2 million, or 0.3%) when compared to the fourth quarter of 2018, they grew \$132.8 million, or 8.1% when compared to the first quarter of 2018. On an “as of” basis, loans grew \$20.6 million and \$134.9 million, respectively. The average decrease compared to the fourth quarter of 2018 primarily reflected declines in all loan types except commercial real estate and consumer loans. During the first quarter 2019, we purchased principal balances of \$10.3 million in commercial real estate loans and \$4.4 million in residential real estate loan pools, which partially offset the decline in quarterly loan production. Average growth over the first quarter of 2018 was experienced in all loan categories, with the exception of home equity loans. A portion of this growth compared to the first quarter 2018 was attributable to \$36.8 million in principal balances of several loan pool purchases (\$22.1 million in 2018 and \$14.7 million in the first quarter of 2019). All loan purchases are individually reviewed and evaluated in accordance with our credit underwriting standards.



We continue to make minor modifications on some of our lending programs to try to mitigate the impact that consumer and business deleveraging has had on our portfolio. These programs, coupled with economic improvements in our anchor markets, have helped to increase overall loan growth.

We originate mortgage loans secured by 1-4 family residential properties through our Residential Real Estate line of business, a majority of which are fixed-rate loans that are sold into the secondary market to third party purchasers on a best efforts delivery basis with servicing released. A majority of our adjustable rate loans are retained in our loan portfolio.

### Nonperforming Assets

Nonperforming assets (nonaccrual loans and OREO) totaled \$6.9 million at March 31, 2019, a decrease of \$2.2 million, or 23.6%, from December 31, 2018 and \$3.7 million, or 34.7%, from March 31, 2018. Nonaccrual loans totaled \$5.0 million at March 31, 2019, a \$1.8 million decrease from December 31, 2018 and a \$2.3 million decrease from March 31, 2018. Nonaccrual loan additions totaled \$2.5 million for the first quarter of 2019 compared to \$3.1 million for the fourth quarter of 2018 and \$1.8 million for the first quarter of 2018. The balance of OREO totaled \$1.9 million at March 31, 2019, a decrease of \$0.4 million and \$1.4 million, respectively, from December 31, 2018 and March 31, 2018. For the first quarter of 2019, we added properties totaling \$0.5 million, sold properties totaling \$0.7 million, and recorded valuation adjustments totaling \$0.2 million. Nonperforming assets represented 0.23% of total assets at March 31, 2019 compared to 0.31% at December 31, 2018 and 0.36% at March 31, 2018.

| <i>(Dollars in Thousands)</i>                      | <b>March 31, 2019</b> | <b>December 31, 2018</b> | <b>March 31, 2018</b> |
|--|-----------------------|--------------------------|-----------------------|
| Nonaccruing Loans:                                 |                       |                          |                       |
| Commercial, Financial and Agricultural             | \$ 223                | \$ 267                   | \$ 567                |
| Real Estate - Construction                         | 323                   | 722                      | 608                   |
| Real Estate - Commercial Mortgage                  | 1,976                 | 2,860                    | 1,940                 |
| Real Estate - Residential                          | 1,341                 | 2,119                    | 2,398                 |
| Real Estate - Home Equity                          | 1,033                 | 584                      | 1,686                 |
| Consumer   | 151                   | 320                      | 115                   |
| Total Nonperforming Loans ("NPLs <sup>(1)</sup> ") | \$ 5,047              | \$ 6,872                 | \$ 7,314              |
| Other Real Estate Owned                            | 1,902                 | 2,229                    | 3,330                 |
| Total Nonperforming Assets ("NPAs")                | \$ 6,949              | \$ 9,101                 | \$ 10,644             |
| Past Due Loans 30 – 89 Days                        | \$ 4,682              | \$ 4,757                 | \$ 4,268              |
| Performing Troubled Debt Restructurings            | \$ 20,791             | \$ 22,084                | \$ 31,472             |
| Nonperforming Loans/Loans                          | 0.28%                 | 0.39%                    | 0.44%                 |
| Nonperforming Assets/Total Assets                  | 0.23                  | 0.31                     | 0.36                  |
| Nonperforming Assets/Loans Plus OREO               | 0.39                  | 0.51                     | 0.64                  |
| Allowance/Nonperforming Loans                      | 279.77%               | 206.79%                  | 181.26%               |

*(1) Nonaccrual TDRs totaling \$1.4 million, \$2.6 million, and \$2.2 million are included in NPLs for March 31, 2019, December 31, 2018, and March 31, 2018, respectively.*

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>2019</b>                         | <b>2018</b>      |
| <b>NPA Beginning Balance:</b> | \$ 9,101                            | \$ 11,100        |
| Change in Nonaccrual Loans:   |                                     |                  |
| Beginning Balance             | 6,872                               | 7,159            |
| Additions                     | 2,462                               | 3,774            |
| Charge-Offs                   | (907)                               | (955)            |
| Transferred to OREO           | (527)                               | (307)            |
| Paid Off/Payments             | (1,590)                             | (574)            |
| Restored to Accrual           | (1,263)                             | (1,783)          |
| Ending Balance                | 5,047                               | 7,314            |
| Change in OREO:               |                                     |                  |
| Beginning Balance             | 2,229                               | 3,941            |
| Additions                     | 527                                 | 307              |
| Valuation Write-downs         | (190)                               | (494)            |
| Sales                         | (664)                               | (424)            |
| Ending Balance                | 1,902                               | 3,330            |
| <b>NPA Net Change</b>         | <b>(2,152)</b>                      | <b>(456)</b>     |
| <b>NPA Ending Balance</b>     | <b>\$ 6,949</b>                     | <b>\$ 10,644</b> |

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

| <i>(Dollars in Thousands)</i>           | <b>Three Months Ended March 31,</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2019</b>                         | <b>2018</b>      |
| <b>TDR Beginning Balance:</b>           | \$ 24,724                           | \$ 34,489        |
| Additions                               | 105                                 | 458              |
| Charge-Offs                             | (264)                               | (370)            |
| Paid Off/Payments                       | (1,957)                             | (874)            |
| Removal Due to Change in TDR Status     | -                                   | -                |
| Transferred to OREO                     | (430)                               | -                |
| <b>TDR Ending Balance<sup>(1)</sup></b> | <b>\$ 22,178</b>                    | <b>\$ 33,703</b> |

(1) 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 losses are probable and reasonably quantifiable. 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 \$14.1 million at March 31, 2019 compared to \$14.2 million at December 31, 2018, and \$13.3 million at March 31, 2018. The allowance for loan losses was 0.78% of outstanding loans (net of overdrafts) and provided coverage of 280% of nonperforming loans at March 31, 2019 compared to 0.80% and 207%, respectively, at December 31, 2018 and 0.80% and 181%, respectively, at March 31, 2018. We believe that the allowance for loan losses was adequate to absorb losses inherent in our loan portfolio at March 31, 2019.

## Deposits

Average total deposits were \$2.565 billion for the first quarter of 2019, an increase of \$152.3 million, or 6.3% over the fourth quarter of 2018, and an increase of \$108.6 million, or 4.4% over the first quarter of 2018. The increase in average deposits compared to both prior periods reflected increases in all deposit types except money market accounts and certificates of deposit. The seasonal influx of negotiated public NOW accounts has most likely peaked for this cycle and is expected to gradually decline through the fourth quarter of 2019.

Deposit levels remain strong, and average core deposits continue to experience growth. We monitor deposit rates on an ongoing basis and adjust if necessary, as a prudent pricing discipline remains the key to managing our mix of deposits.

## 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 interest rate 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 variable and 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 present the analysis to ALCO, with the risk metrics being reported 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 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 and 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<br/>(12-month shock)</b> | <b>+400 bp</b> | <b>+300 bp</b> | <b>+200 bp</b> | <b>+100 bp</b> | <b>-100 bp</b> | <b>-200 bp</b> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| Policy Limit                                  | -15.0%         | -12.5%         | -10.0%         | -7.5%          | -7.5%          | -10.0%         |
| March 31, 2019                                | 12.4%          | 9.3%           | 6.2%           | 3.3%           | -5.8%          | -12.9%         |
| December 31, 2018                             | 8.9%           | 6.6%           | 4.3%           | 2.3%           | -5.0%          | -12.4%         |
| <b>Percentage Change<br/>(24-month shock)</b> | <b>+400 bp</b> | <b>+300 bp</b> | <b>+200 bp</b> | <b>+100 bp</b> | <b>-100 bp</b> | <b>-200 bp</b> |
| Policy Limit                                  | -17.5%         | -15.0%         | -12.5%         | -10.0%         | -10.0%         | -12.5%         |
| March 31, 2019                                | 38.3%          | 29.6%          | 20.9%          | 12.6%          | -8.6%          | -21.6%         |
| December 31, 2018                             | 37.2%          | 29.1%          | 21.0%          | 13.4%          | -6.4%          | -20.0%         |

The Net Interest Income at Risk position indicates that in the short-term, all rising rate environments will positively impact the net interest margin of the Company, while a declining rate environment of both 100 bp and 200 bp will have a negative impact on the net interest margin. Compared to the prior quarter-end, the 12-month Net Interest Income at Risk positions improved in a rising rate environment, and became less favorable in a falling rate environment. The 24-month Net Interest Income at Risk positions became slightly less favorable in all scenarios except +300 and +400 bps. Balance sheet growth was experienced during the quarter primarily due to increases in public fund deposits which resulted in higher levels of overnight funds sold that are more sensitive to falling rates.

All measures of Net Interest Income at Risk are within our prescribed policy limits over both the 12-month and 24-month periods, with the exception of rates down 200 bp. The changes under the rates down scenarios exceeded our policy limits as of March 31, 2019 due to our limited ability to lower our deposit rates the full 200 bp relative to the decline in market rate.

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 the aggregated 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> | <b>-200 bp</b> |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Policy Limit                     | -30.0%         | -25.0%         | -20.0%         | -15.0%         | -15.0%         | -20.0%         |
| March 31, 2019                   | 33.1%          | 26.5%          | 18.9%          | 10.6%          | -17.7%         | -43.7%         |
| December 31, 2018                | 24.6%          | 19.7%          | 13.9%          | 8.0%           | -13.8%         | -36.8%         |

At March 31, 2019, the economic value of equity results are favorable in all rising rate environments and are within prescribed tolerance levels with the exception of the rates down 100 bp and down 200 bp scenarios.

Quarter-over-quarter EVE comparisons declined in each of the rates down scenarios as the yield curve flattened and overnight funds increased. The EVE in each of the rates down scenarios was outside desired parameters as we have limited ability to lower our deposit rates the full 200 bp relative to the decline in market rate.

(1) *Down 300 and 400 bp scenarios have been excluded due to the 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.

At March 31, 2019, we had the ability to generate \$1.270 billion in additional liquidity through all of our available resources (this excludes \$304 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 Contingent Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. 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, Risk Oversight Committee, and the Board of Directors. At March 31, 2019, we believe the liquidity available to us was sufficient to meet our on-going needs and execute our business strategy.

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 was approximately 2.10 years and, at March 31, 2019, the available for sale portfolio had a net unrealized pre-tax loss of \$1.3 million.

Our average overnight funds position (defined as funds sold plus interest bearing deposits with other banks less funds purchased) was \$265.7 million during the first quarter of 2019 compared to \$80.8 million in the fourth quarter of 2018 and \$240.9 million in the first quarter of 2018. The increase in the average net overnight funds compared to both prior periods resulted from increases in all deposit types except money market accounts and certificates of deposit.

We expect our capital expenditures will be approximately \$7.0 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**

At March 31, 2019, fixed rate credit advances from the FHLB totaled \$9.6 million in outstanding debt consisting of 11 notes. During the first three months of 2019, the Bank made FHLB advance payments totaling approximately \$0.3 million. No advances matured or were paid off, and we did not obtain any new FHLB advances during this period. 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 quarterly 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.

## Capital

Shareowners' equity was \$309.0 million at March 31, 2019, compared to \$302.6 million at December 31, 2018 and \$288.4 million at March 31, 2018. Our leverage ratio was 10.53%, 10.89%, and 10.36%, respectively, on these dates. Further, at March 31, 2019, our risk-adjusted capital ratio was 17.09% compared to 17.13% and 17.05% at December 31, 2018 and March 31, 2018, respectively. Our common equity tier 1 ratio was 13.62% at March 31, 2019 compared to 13.58% and 13.44% at December 31, 2018 and March 31, 2018, respectively. At March 31, 2019, each of our regulatory capital ratios exceeded the threshold to be designated as "well-capitalized" under the Basel III capital standards.

During the first three months of 2019, shareowners' equity increased \$6.4 million, or 8.5%, on an annualized basis. During this same period, shareowners' equity was positively impacted by net income of \$6.4 million, a \$0.9 million decrease in the unrealized loss on investment securities, stock compensation accretion of \$0.5 million, and net adjustments totaling \$0.4 million related to transactions under our stock compensation plans. Shareowners' equity was reduced by common stock dividends totaling \$1.8 million.

At March 31, 2019, our common stock had a book value of \$18.35 per diluted share compared to \$18.00 at December 31, 2018 and \$16.87 at March 31, 2018. Book value is impacted through other comprehensive income by the net unrealized gains and losses in our available for sale investment portfolio. At March 31, 2019, the net after tax unrealized loss was \$1.1 million and compared to \$2.0 million at December 31, 2018 and \$2.8 million at March 31, 2018. Book value is also impacted by the recording of our unfunded pension liability through other comprehensive income. At March 31, 2019, the net after tax pension liability reflected in accumulated other comprehensive loss was \$26.8 million. This liability is re-measured annually on December 31<sup>st</sup> based on an actuarial calculation of our pension liability. Significant assumptions used in calculating the liability are discussed in our 2018 Form 10-K "Critical Accounting Policies" and include the weighted average discount rate used to measure the present value of the pension liability, the weighted-average expected long-term rate of return on pension plan assets, and the assumed rate of annual compensation increases, all of which will vary when re-measured. The discount rate assumption used to calculate the pension liability is subject to long-term corporate bond rates at December 31<sup>st</sup>. The estimated impact to the pension liability based on a 25 basis point increase or decrease in long-term corporate bond rates used to discount the pension obligation would decrease or increase the pension liability by approximately \$4.7 million (after-tax) using the balances from the December 31, 2018 measurement date.

In January 2019, our Board of Directors authorized the repurchase of up to 750,000 shares of our outstanding common stock through February 2024, which replaced our prior repurchase program that was set to expire in 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. At March 31, 2019, we had not repurchased any shares under our new repurchase program.

## 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, 2019, we had \$497.8 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 2018 Form 10-K. The preparation of our Consolidated Financial Statements in accordance with 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, (iii) pension benefits, and (iv) income taxes 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 2018 Form 10-K.

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

| (Dollars in Thousands)                               | March 31, 2019      |                     |                 | Three Months Ended<br>December 31, 2018 |                     |                 | March 31, 2018      |                     |
|--|---------------------|---------------------|-----------------|---|---------------------|-----------------|---------------------|---------------------|
|  | Average<br>Balances | Average<br>Interest | Average<br>Rate | Average<br>Balances                     | Average<br>Interest | Average<br>Rate | Average<br>Balances | Average<br>Interest |
| <b>Assets:</b>                                       |                     |                     |                 |   |                     |                 |                     |                     |
| Loans <sup>(1)(2)</sup>                              | \$ 1,780,406        | \$ 22,718           | 5.18%           | \$ 1,785,570                            | \$ 22,556           | 5.01%           | \$ 1,647,612        | \$ 19,636           |
| Taxable Securities <sup>(2)</sup>                    | 618,127             | 3,387               | 2.20            | 637,735                                 | 3,325               | 2.08            | 619,137             | 2,523               |
| Tax-Exempt Securities                                | 40,575              | 158                 | 1.56            | 50,362                                  | 193                 | 1.54            | 84,800              | 318                 |
| Funds Sold   | 265,694             | 1,593               | 2.43            | 80,815                                  | 461                 | 2.26            | 240,916             | 1917                |
| Total Earning Assets                                 | 2,704,802           | 27,856              | 4.17%           | 2,554,482                               | 26,535              | 4.12%           | 2,592,465           | 23,394              |
| Cash & Due From Banks                                | 53,848              |                     |                 | 52,344                                  |                     |                 | 52,711              |                     |
| Allowance For Loan Losses                            | (14,347)            |                     |                 | (14,642)                                |                     |                 | (13,651)            |                     |
| Other Assets   | 252,208             |                     |                 | 257,061                                 |                     |                 | 260,595             |                     |
| <b>TOTAL ASSETS</b>                                  | <b>\$ 2,996,511</b> |                     |                 | <b>\$ 2,849,245</b>                     |                     |                 | <b>\$ 2,892,120</b> |                     |
| <b>Liabilities:</b>                                  |                     |                     |                 |   |                     |                 |                     |                     |
| NOW Accounts   | \$ 884,277          | \$ 1,755            | 0.80%           | \$ 739,225                              | \$ 995              | 0.53%           | \$ 863,175          | \$ 659              |
| Money Market Accounts                                | 239,516             | 247                 | 0.42            | 248,486                                 | 216                 | 0.34            | 246,576             | 103                 |
| Savings Accounts                                     | 364,783             | 44                  | 0.05            | 356,723                                 | 44                  | 0.05            | 343,987             | 42                  |
| Other Time Deposits                                  | 118,839             | 53                  | 0.18            | 123,193                                 | 57                  | 0.18            | 140,359             | 64                  |
| Total Interest Bearing Deposits                      | 1,607,415           | 2,099               | 0.53            | 1,467,627                               | 1,312               | 0.37            | 1,594,097           | 868                 |
| Short-Term Borrowings                                | 11,378              | 35                  | 1.26            | 15,424                                  | 53                  | 1.36            | 8,869               | 8                   |
| Subordinated Notes Payable                           | 52,887              | 608                 | 4.60            | 52,887                                  | 572                 | 4.23            | 52,887              | 475                 |
| Other Long-Term Borrowings                           | 8,199               | 72                  | 3.55            | 9,918                                   | 85                  | 3.40            | 13,787              | 100                 |
| Total Interest Bearing Liabilities                   | 1,679,879           | 2,814               | 0.68%           | 1,545,856                               | 2,022               | 0.54%           | 1,669,640           | 1,451               |
| Noninterest Bearing Deposits                         | 957,300             |                     |                 | 944,748                                 |                     |                 | 862,009             |                     |
| Other Liabilities                                    | 52,070              |                     |                 | 56,445                                  |                     |                 | 72,969              |                     |
| <b>TOTAL LIABILITIES</b>                             | <b>2,689,249</b>    |                     |                 | <b>2,547,049</b>                        |                     |                 | <b>2,604,618</b>    |                     |
| <b>TOTAL SHAREOWNERS' EQUITY</b>                     | <b>307,262</b>      |                     |                 | <b>302,196</b>                          |                     |                 | <b>287,502</b>      |                     |
| <b>TOTAL LIABILITIES AND<br/>SHAREOWNERS' EQUITY</b> | <b>\$ 2,996,511</b> |                     |                 | <b>\$ 2,849,245</b>                     |                     |                 | <b>\$ 2,892,120</b> |                     |
| Interest Rate Spread                                 |                     |                     | 3.49%           |   |                     | 3.58%           |                     |                     |
| Net Interest Income                                  |                     | \$ 25,042           |                 |   | \$ 24,513           |                 |                     | \$ 21,943           |
| Net Interest Margin <sup>(3)</sup>                   |                     |                     | 3.75%           |   |                     | 3.81%           |                     |                     |

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

<sup>(2)</sup>Interest income includes the effects of taxable equivalent adjustments using a 25% 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, 2018.

**Item 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

At March 31, 2019, 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 at March 31, 2019, 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 2018 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2018 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**

Not Applicable.

**Item 5. Other Information**

None.



**Item 6. Exhibits**

(A) Exhibits

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



**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, 2019