

CAPITAL CITY BANK GROUP INC

Form 10-Q

November 05, 2015

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 September 30, 2015

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 32301

(Address of principal executive office)

(Zip Code)

(850) 402-7000

(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, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting 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 reporting company)

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

At October 31, 2015, 17,144,404 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 SEPTEMBER 30, 2015

TABLE OF CONTENTS

PART I – Financial Information

Page

<u>Item 1.</u>	<u>Consolidated Financial Statements (Unaudited)</u>	
	<u>Consolidated Statements of Financial Condition – September 30, 2015 and December 31, 2014</u>	4
	<u>Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2015 and 2014</u>	5
	<u>Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 30, 2015 and 2014</u>	6
	<u>Consolidated Statements of Changes in Shareowners' Equity – Nine Months Ended September 30, 2015 and 2014</u>	7
	<u>Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2015 and 2014</u>	8
	<u>Notes to Consolidated Financial Statements</u>	9

<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
----------------	--	----

<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	41
----------------	--	----

<u>Item 4.</u>	<u>Controls and Procedures</u>	41
----------------	--------------------------------	----

PART II – Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>	41
----------------	--------------------------	----

<u>Item 1A.</u>	<u>Risk Factors</u>	41
-----------------	---------------------	----

<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
----------------	--	----

<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	42
----------------	--	----

<u>Item 4.</u>	<u>Mine Safety Disclosure</u>	42
----------------	-------------------------------	----

<u>Item 5.</u>	<u>Other Information</u>	42
----------------	--------------------------	----

<u>Item 6.</u>	<u>Exhibits</u>	42
----------------	-----------------	----

<u>Signatures</u>		43
-------------------	--	----

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, 2014 (the “2014 Form 10-K”): (a) “Introductory Note” in Part I, Item 1. “Business”; (b) “Risk Factors” in Part I, Item 1A, as updated in our subsequent quarterly reports filed on Form 10-Q; and (c) “Introduction” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in Part II, Item 7, as well as:

- § our ability to successfully manage interest rate risk, liquidity risk, and other risks inherent to our industry;
- § legislative or regulatory changes, including the Dodd-Frank Act, Basel III, and the ability to repay and qualified mortgage standards;
- § the effects of security breaches and computer viruses that may affect our computer systems or fraud related to debit card products;
- § the accuracy of our financial statement estimates and assumptions, including the estimates used for our loan loss provision, goodwill, pension, and deferred tax asset valuation;
- § 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 need and our ability to incur additional debt or equity financing;
- § our ability to declare and pay dividends;
- § changes in the securities and real estate markets;
- § changes in monetary and fiscal policies of the U.S. Government;
- § inflation, interest rate, market and monetary fluctuations;
- § the 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;
- § our ability to comply with the laws of each jurisdiction where we operate;
- § the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
- § increased competition and its effect on pricing;

- § technological changes;
- § negative publicity and the impact on our reputation;
- § changes in consumer spending and saving habits;
- § growth and profitability of our noninterest income;
- § changes in accounting principles, policies, practices or guidelines;
- § the limited trading activity of our common stock;
- § the concentration of ownership of our common stock;
- § anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- § other risks described from time to time in our filings with the Securities and Exchange Commission; and
- § our ability to manage the risks involved in the foregoing

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

PART I. FINANCIAL INFORMATION**Item 1. CONSOLIDATED FINANCIAL STATEMENTS****CAPITAL CITY BANK GROUP, INC.****CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(Dollars in Thousands)	(Unaudited) September 30, 2015	December 31, 2014
ASSETS		
Cash and Due From Banks	\$ 42,917	\$ 55,467
Federal Funds Sold and Interest Bearing Deposits	167,787	329,589
Total Cash and Cash Equivalents	210,704	385,056
Investment Securities, Available for Sale, at fair value	444,071	341,548
Investment Securities, Held to Maturity, at amortized cost (fair value of \$194,840 and \$163,412)	193,964	163,581
Total Investment Securities	638,035	505,129
Loans Held For Sale	10,960	10,688
Loans, Net of Unearned Income	1,475,183	1,431,374
Allowance for Loan Losses	(14,737)	(17,539)
Loans, Net	1,460,446	1,413,835
Premises and Equipment, Net	98,218	101,899
Goodwill	84,811	84,811
Other Real Estate Owned	25,219	35,680
Other Assets	86,701	90,071
Total Assets	\$ 2,615,094	\$ 2,627,169
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	\$ 720,824	\$ 659,115
Interest Bearing Deposits	1,394,159	1,487,679
Total Deposits	2,114,983	2,146,794
Short-Term Borrowings	65,355	49,425
Subordinated Notes Payable	62,887	62,887
Other Long-Term Borrowings	29,042	31,097
Other Liabilities	69,168	64,426
Total Liabilities	2,341,435	2,354,629
SHAREOWNERS' EQUITY		
Preferred Stock, \$.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	—	—

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

Common Stock, \$.01 par value; 90,000,000 shares authorized; 17,144,401 and 17,447,223 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	171		174	
Additional Paid-In Capital	37,738		42,569	
Retained Earnings	256,265		251,306	
Accumulated Other Comprehensive Loss, Net of Tax	(20,515)	(21,509)
Total Shareowners' Equity	273,659		272,540	
Total Liabilities and Shareowners' Equity	\$ 2,615,094		\$ 2,627,169	

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

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

(Dollars in Thousands, Except Per Share Data)	Three Months		Nine Months	
	Ended September 30, 2015	2014	Ended September 30, 2015	2014
INTEREST INCOME				
Loans, including Fees	\$18,214	\$18,528	\$54,308	\$54,778
Investment Securities:				
Taxable Securities	1,330	921	3,814	2,440
Tax Exempt Securities	210	113	471	380
Federal Funds Sold and Interest Bearing Deposits	123	204	463	752
Total Interest Income	19,877	19,766	59,056	58,350
INTEREST EXPENSE				
Deposits	220	255	725	856
Short-Term Borrowings	14	17	50	54
Subordinated Notes Payable	344	333	1,014	995
Other Long-Term Borrowings	233	263	710	823
Total Interest Expense	811	868	2,499	2,728
NET INTEREST INCOME	19,066	18,898	56,557	55,622
Provision for Loan Losses	413	424	1,081	1,282
Net Interest Income After Provision For Loan Losses	18,653	18,474	55,476	54,340
NONINTEREST INCOME				
Deposit Fees	5,721	6,211	16,944	18,293
Bank Card Fees	2,826	2,707	8,412	8,234
Wealth Management Fees	1,818	2,050	5,640	5,820
Mortgage Banking Fees	1,306	911	3,496	2,274
Data Processing Fees	400	336	1,137	1,265
Other	1,157	1,136	5,241	3,597
Total Noninterest Income	13,228	13,351	40,870	39,483
NONINTEREST EXPENSE				
Compensation	16,653	15,378	49,581	46,365
Occupancy, Net	4,446	4,575	13,100	13,378
Other Real Estate Owned, Net	1,302	1,783	3,730	5,458
Other	6,763	6,871	20,582	20,848
Total Noninterest Expense	29,164	28,607	86,993	86,049
INCOME BEFORE INCOME TAXES	2,717	3,218	9,353	7,774
Income Tax Expense	1,034	1,103	2,839	435
NET INCOME	\$1,683	\$2,115	\$6,514	\$7,339
BASIC NET INCOME PER SHARE	\$0.10	\$0.12	\$0.38	\$0.42

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

DILUTED NET INCOME PER SHARE	\$0.09	\$0.12	\$0.37	\$0.42
Average Basic Shares Outstanding	17,150	17,440	17,317	17,422
Average Diluted Shares Outstanding	17,229	17,519	17,379	17,482

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)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
(Dollars in Thousands)				
NET INCOME	\$1,683	\$2,115	\$6,514	\$7,339
Other comprehensive income, before tax:				
Change in net unrealized gain/loss on securities available for sale	533	(173)	1,562	78
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	21	17	56	53
Other comprehensive income (loss), before tax	554	(156)	1,618	131
Deferred tax expense (benefit) related to other comprehensive income	214	(54)	624	56
Other comprehensive income (loss), net of tax	340	(102)	994	75
TOTAL COMPREHENSIVE INCOME	\$2,023	\$2,013	\$7,508	\$7,414

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 Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
<i>(Dollars In Thousands, Except Share Data)</i>						
Balance, January 1, 2014	17,360,960	\$ 174	\$ 41,152	\$ 243,614	\$ (8,540)	\$ 276,400
Net Income		—	—	7,339	—	7,339
Other Comprehensive Income, Net of Tax		—	—	—	75	75
Cash Dividends (\$0.0600 per share)		—	—	(1,046)	—	(1,046)
Repurchase of Common Stock	(19,600)	—	(269)	—	—	(269)
Stock Based Compensation		—	635	—	—	635
Impact of Transactions Under Compensation Plans, net	91,524	—	119	—	—	119
Balance, September 30, 2014	17,432,884	\$ 174	\$ 41,637	\$ 249,907	\$ (8,465)	\$ 283,253
	17,447,223	\$ 174	\$ 42,569	\$ 251,306	\$ (21,509)	\$ 272,540
Balance, January 1, 2015						
Net Income		—	—	6,514	—	6,514
Other Comprehensive Income, Net of Tax		—	—	—	994	994
Cash Dividends (\$0.0900 per share)		—	—	(1,555)	—	(1,555)
Repurchase of Common Stock	(405,228)	(4)	(5,978)	—	—	(5,982)
Stock Based Compensation		—	783	—	—	783
Impact of Transactions Under Compensation Plans, net	102,406	1	364	—	—	365
Balance, September 30, 2015	17,144,401	\$ 171	\$ 37,738	\$ 256,265	\$ (20,515)	\$ 273,659

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)**

(Dollars in Thousands)	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$6,514	\$7,339
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Provision for Loan Losses	1,081	1,282
Depreciation	4,908	4,869
Amortization of Premiums, Discounts, and Fees (net)	3,677	3,619
Amortization of Intangible Assets	—	32
Impairment Loss on Security	90	—
Net (Increase) Decrease in Loans Held-for-Sale	(272)	2,365
Stock Based Compensation	783	635
Deferred Income Taxes	2,882	1,280
Loss on Sales and Write-Downs of Other Real Estate Owned	2,138	3,423
Loss on Disposal of Equipment	20	12
Net Decrease in Other Assets	1,347	1,144
Net Increase (Decrease) in Other Liabilities	4,792	(2,248)
Net Cash Provided By Operating Activities	27,960	23,752
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(65,190)	(56,249)
Payments, Maturities, and Calls	33,859	30,078
Securities Available for Sale:		
Purchases	(167,438)	(159,741)
Payments, Maturities, and Calls	63,278	86,149
Net Increase in Loans	(51,385)	(42,808)
Proceeds From Sales of Other Real Estate Owned	12,122	15,043
Purchases of Premises and Equipment	(2,400)	(4,042)
Net Cash Used In Investing Activities	(177,154)	(131,570)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Decrease in Deposits	(31,811)	(102,670)
Net Increase (Decrease) in Short-Term Borrowings	15,930	(10,263)
Repayment of Other Long-Term Borrowings	(2,055)	(4,210)
Dividends Paid	(1,555)	(1,046)
Payments to Repurchase Common Stock	(5,982)	(269)
Issuance of Common Stock Under Compensation Plans	315	371
Net Cash Used In Financing Activities	(25,158)	(118,087)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(174,352)	(225,905)

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

Cash and Cash Equivalents at Beginning of Period	385,056	529,928
Cash and Cash Equivalents at End of Period	\$210,704	\$304,023
Supplemental Cash Flow Disclosures:		
Interest Paid	\$2,511	\$2,678
Income Taxes Paid	\$1,593	\$2,660
Noncash Investing and Financing Activities:		
Loans Transferred to Other Real Estate Owned	\$4,073	\$12,121
Transfer of Current Portion of Long-Term Borrowings	\$—	\$1,528

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

CAPITAL CITY BANK GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation. The consolidated financial statements in this Quarterly Report on Form 10-Q include the accounts of CCBG and its wholly-owned subsidiary, Capital City Bank (“CCB” or the “Bank” and together with the Company). All material inter-company transactions and accounts have been eliminated.

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, 2014 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, 2014.

NOTE 2 - INVESTMENT SECURITIES

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

September 30, 2015

December 31, 2014

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

	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value
Available for Sale								
U.S. Government Treasury	\$242,659	\$ 1,330	\$ —	\$243,989	\$185,830	\$ 220	\$ 19	\$186,031
U.S. Government Agency States and Political Subdivisions	104,763	428	115	105,076	95,950	289	142	96,097
Mortgage-Backed Securities	83,971	283	14	84,240	48,405	65	82	48,388
Equity Securities ⁽¹⁾	1,897	174	—	2,071	2,094	193	—	2,287
Total	8,695	—	—	8,695	8,745	—	—	8,745
	\$441,985	\$ 2,215	\$ 129	\$444,071	\$341,024	\$ 767	\$ 243	\$341,548
Held to Maturity								
U.S. Government Treasury	\$134,670	\$ 757	\$ —	\$135,427	\$76,179	\$ 144	\$ 6	\$76,317
U.S. Government Agency States and Political Subdivisions	10,060	35	—	10,095	19,807	29	19	19,817
Mortgage-Backed Securities	18,676	57	1	18,732	26,717	36	6	26,747
Total	30,558	96	68	30,586	40,878	33	380	40,531
	\$193,964	\$ 945	\$ 69	\$194,840	\$163,581	\$ 242	\$ 411	\$163,412
Total Investment Securities	\$635,949	\$ 3,160	\$ 198	\$638,911	\$504,605	\$ 1,009	\$ 654	\$504,960

Includes Federal Home Loan Bank, Federal Reserve Bank, and FNBB, Inc. stock recorded at cost of \$3.7 million, \$4.8 million, and \$0.2 million, respectively, as of September 30, 2015 and Federal Home Loan Bank, Federal Reserve Bank, and Bankers Bancorporation of Florida, Inc. stock recorded at cost of \$3.9 million, \$4.8 million, and \$0.1 million, respectively, as of December 31, 2014.

Securities with a carrying value of \$243.8 million and \$337.9 million at September 30, 2015 and December 31, 2014, 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 other 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.

Maturity Distribution. As of September 30, 2015, 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.

(Dollars in Thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	\$59,038	\$59,115	\$29,291	\$29,385
Due after one through five years	299,404	300,992	134,115	134,869
Mortgage-Backed Securities	1,897	2,071	30,558	30,586
U.S. Government Agency	72,951	73,198	—	—
Equity Securities	8,695	8,695	—	—
Total	\$441,985	\$444,071	\$193,964	\$194,840

Unrealized Losses on Investment Securities. The following table summarizes the investment securities with unrealized losses as of September 30, 2015, aggregated by major security type and length of time in a continuous unrealized loss position:

(Dollars in Thousands)	Less Than 12 Months		Greater Than 12 Months		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
September 30, 2015						
Available for Sale						
U.S. Government Agency	\$11,909	\$ 50	\$11,409	\$ 65	\$23,318	\$ 115
States and Political Subdivisions	12,690	13	604	1	13,294	14
Total	\$24,599	\$ 63	\$12,013	\$ 66	\$36,612	\$ 129
Held to Maturity						
States and Political Subdivisions	\$926	\$ 1	\$—	\$ —	\$926	\$ 1
Mortgage-Backed Securities	2,691	19	13,235	49	15,926	68
Total	\$3,617	\$ 20	\$13,235	\$ 49	\$16,852	\$ 69
December 31, 2014						
Available for Sale						
U.S. Government Treasury	\$35,838	\$ 19	\$—	\$ —	\$35,838	\$ 19
U.S. Government Agency	18,160	54	18,468	88	36,628	142
States and Political Subdivisions	16,497	77	505	5	17,002	82
Total	\$70,495	\$ 150	\$18,973	\$ 93	\$89,468	\$ 243
Held to Maturity						
U.S. Government Treasury	\$15,046	\$ 6	\$—	\$ —	\$15,046	\$ 6

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

U.S. Government Agency	10,002	19	—	—	10,002	19
States and Political Subdivisions	3,788	6	—	—	3,788	6
Mortgage-Backed Securities	15,066	149	18,155	231	33,221	380
Total	\$43,902	\$ 180	\$18,155	\$ 231	\$62,057	\$ 411

Management evaluates securities for other than temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to: 1) the length of time and the extent to which the fair value has been less than amortized cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in cost. 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.

Approximately \$12.0 million of investment securities, with an unrealized loss of approximately \$66,000, have been in a loss position for greater than 12 months. These debt securities are in a loss position because they were acquired when the general level of interest rates was lower than that on September 30, 2015. The Company believes that the unrealized losses in these debt securities are temporary in nature and that the full principal will be collected as anticipated. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired as of September 30, 2015.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	September 30, 2015	December 31, 2014
Commercial, Financial and Agricultural	\$ 169,588	\$ 136,925
Real Estate – Construction	49,475	41,596
Real Estate – Commercial Mortgage	491,734	510,120
Real Estate – Residential ⁽¹⁾	290,784	295,969
Real Estate – Home Equity	232,254	229,572
Consumer ⁽²⁾	241,348	217,192
Loans, Net of Unearned Income	\$ 1,475,183	\$ 1,431,374

⁽¹⁾ *Includes loans in process with outstanding balances of \$10.4 million and \$7.4 million as of September 30, 2015 and December 31, 2014, respectively.*

⁽²⁾ *Includes overdraft balances of \$2.5 million and \$2.4 million as of September 30, 2015 and December 31, 2014, respectively.*

Net deferred fees included in loans were \$0.9 million and \$1.5 million as of September 30, 2015 and December 31, 2014, respectively.

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

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

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

(Dollars in Thousands)	September 30, 2015		December 31, 2014	
	Nonaccrual	90 + Days	Nonaccrual	90 + Days
Commercial, Financial and Agricultural	\$60	\$ —	\$507	\$ —
Real Estate – Construction	491	—	424	—
Real Estate – Commercial Mortgage	5,844	—	5,806	—
Real Estate – Residential	4,973	—	6,737	—
Real Estate – Home Equity	1,679	—	2,544	—
Consumer	91	—	751	—
Total	\$13,138	\$ —	\$16,769	\$ —

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

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

	30-59	60-89	90 +	Total	Total	Total
<i>(Dollars in Thousands)</i>	DPD	DPD	DPD	Past Due	Current	Loans
September 30, 2015						
Commercial, Financial and Agricultural	\$281	\$3	\$ —	\$284	\$169,244	\$169,588
Real Estate – Construction	—	545	—	545	48,439	49,475
Real Estate – Commercial Mortgage	123	113	—	236	485,654	491,734
Real Estate – Residential	682	1,022	—	1,704	284,107	290,784
Real Estate – Home Equity	397	56	—	453	230,122	232,254
Consumer	883	230	—	1,113	240,144	241,348
Total	\$2,366	\$1,969	\$ —	\$4,335	\$1,457,710	\$1,475,183
December 31, 2014						
Commercial, Financial and Agricultural	\$352	\$155	\$ —	\$507	\$135,911	\$136,925
Real Estate – Construction	690	—	—	690	40,482	41,596
Real Estate – Commercial Mortgage	1,701	569	—	2,270	502,044	510,120
Real Estate – Residential	682	1,147	—	1,829	287,403	295,969
Real Estate – Home Equity	689	85	—	774	226,254	229,572
Consumer	625	97	—	722	215,719	217,192
Total	\$4,739	\$2,053	\$ —	\$6,792	\$1,407,813	\$1,431,374

Allowance for Loan Losses. The allowance for loan losses is a reserve established through a provision for loan losses charged to expense, which represents management's best estimate of probable losses within the existing portfolio of loans. 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>	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Real Estate Consumer	Total
Three Months Ended September 30, 2015							
Beginning Balance	\$ 917	\$ 360	\$ 4,275	\$ 5,654	\$ 2,536	\$ 1,494	\$15,236
Provision for Loan Losses	183	(64)	333	(545)	273	233	413
Charge-Offs	(365)	—	26	(476)	(370)	(318)	(1,503)
Recoveries	45	—	86	193	42	225	591
Net Charge-Offs	(320)	—	112	(283)	(328)	(93)	(912)
Ending Balance	\$ 780	\$ 296	\$ 4,720	\$ 4,826	\$ 2,481	\$ 1,634	\$14,737
Nine Months Ended September 30, 2015							
Beginning Balance	\$ 784	\$ 843	\$ 5,287	\$ 6,520	\$ 2,882	\$ 1,223	\$17,539
Provision for Loan Losses	708	(547)	426	(870)	506	858	1,081
Charge-Offs	(894)	—	(1,163)	(1,265)	(1,006)	(1,245)	(5,573)
Recoveries	182	—	170	441	99	798	1,690
Net Charge-Offs	(712)	—	(993)	(824)	(907)	(447)	(3,883)
Ending Balance	\$ 780	\$ 296	\$ 4,720	\$ 4,826	\$ 2,481	\$ 1,634	\$14,737
Three Months Ended September 30, 2014							
Beginning Balance	\$ 706	\$ 1,267	\$ 6,147	\$ 8,214	\$ 3,066	\$ 1,143	\$20,543
Provision for Loan Losses	387	(280)	386	(505)	331	105	424
Charge-Offs	(86)	—	(1,208)	(212)	(621)	(386)	(2,513)
Recoveries	28	2	213	93	37	266	639
Net Charge-Offs	(58)	2	(995)	(119)	(584)	(120)	(1,874)
Ending Balance	\$ 1,035	\$ 989	\$ 5,538	\$ 7,590	\$ 2,813	\$ 1,128	\$19,093
Nine Months Ended September 30, 2014							
Beginning Balance	\$ 699	\$ 1,580	\$ 7,710	\$ 9,073	\$ 3,051	\$ 982	\$23,095
Provision for Loan Losses	371	(598)	267	(385)	1,048	579	1,282
Charge-Offs	(183)	—	(2,831)	(1,638)	(1,399)	(1,212)	(7,263)
Recoveries	148	7	392	540	113	779	1,979
Net Charge-Offs	(35)	7	(2,439)	(1,098)	(1,286)	(433)	(5,284)
Ending Balance	\$ 1,035	\$ 989	\$ 5,538	\$ 7,590	\$ 2,813	\$ 1,128	\$19,093

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

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.

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
September 30, 2015							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	\$ 81	\$ —	\$ 2,001	\$ 2,004	\$ 365	\$ 4	\$4,455
Loans Collectively Evaluated for Impairment	699	296	2,719	2,822	2,116	1,630	10,282
Ending Balance	\$ 780	\$ 296	\$ 4,720	\$ 4,826	\$ 2,481	\$ 1,634	\$14,737
December 31, 2014							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	\$ 293	\$ —	\$ 2,733	\$ 2,113	\$ 638	\$ 5	\$5,782
Loans Collectively Evaluated for Impairment	491	843	2,554	4,407	2,244	1,218	11,757
Ending Balance	\$ 784	\$ 843	\$ 5,287	\$ 6,520	\$ 2,882	\$ 1,223	\$17,539
September 30, 2014							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	\$ 576	\$ 94	\$ 3,359	\$ 2,526	\$ 471	\$ 12	\$7,038
Loans Collectively Evaluated for Impairment	459	895	2,179	5,064	2,342	1,116	12,055
Ending Balance	\$ 1,035	\$ 989	\$ 5,538	\$ 7,590	\$ 2,813	\$ 1,128	\$19,093

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:

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
September 30, 2015							
Individually Evaluated for Impairment	\$ 813	\$ 468	\$ 24,170	\$ 18,079	\$ 2,702	\$ 161	\$46,393
Collectively Evaluated for Impairment	168,775	49,007	467,564	272,705	229,552	241,187	1,428,790
Total	\$ 169,588	\$ 49,475	\$ 491,734	\$ 290,784	\$ 232,254	\$ 241,348	\$1,475,183
December 31, 2014							
	\$ 1,040	\$ 401	\$ 32,242	\$ 20,120	\$ 3,074	\$ 216	\$57,093

Individually Evaluated for Impairment							
Collectively Evaluated for Impairment	135,885	41,195	477,878	275,849	226,498	216,976	1,374,281
Total	\$ 136,925	\$ 41,596	\$ 510,120	\$ 295,969	\$ 229,572	\$ 217,192	\$ 1,431,374
September 30, 2014							
Individually Evaluated for Impairment	\$ 1,489	\$ 835	\$ 37,524	\$ 22,087	\$ 2,796	\$ 271	\$ 65,002
Collectively Evaluated for Impairment	132,267	37,286	464,339	286,208	226,172	203,101	1,349,373
Total	\$ 133,756	\$ 38,121	\$ 501,863	\$ 308,295	\$ 228,968	\$ 203,372	\$ 1,414,375

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>	Unpaid Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Related Allowance
September 30, 2015				
Commercial, Financial and Agricultural	\$ 813	\$ 286	\$ 527	\$ 81
Real Estate – Construction	468	311	157	—
Real Estate – Commercial Mortgage	24,170	5,727	18,443	2,001
Real Estate – Residential	18,079	2,933	15,146	2,004
Real Estate – Home Equity	2,702	733	1,969	365
Consumer	161	61	100	4
Total	\$ 46,393	\$ 10,051	\$ 36,342	\$ 4,455
December 31, 2014				
Commercial, Financial and Agricultural	\$ 1,040	\$ 189	\$ 851	\$ 293
Real Estate – Construction	401	401	—	—
Real Estate – Commercial Mortgage	32,242	11,984	20,258	2,733
Real Estate – Residential	20,120	5,492	14,628	2,113
Real Estate – Home Equity	3,074	758	2,316	638
Consumer	216	3	213	5
Total	\$ 57,093	\$ 18,827	\$ 38,266	\$ 5,782

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

<i>(Dollars in Thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		2015		2014	
	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
Commercial, Financial and Agricultural	\$942	\$ 12	\$1,433	\$ 15	\$1,044	\$34	\$1,482	\$50
Real Estate - Construction	389	—	828	1	395	—	738	4
Real Estate - Commercial Mortgage	26,959	250	39,020	381	29,343	821	42,671	1,298
Real Estate - Residential	18,499	215	22,180	284	19,239	626	21,610	800
Real Estate - Home Equity	2,831	20	2,680	18	2,965	64	2,906	52
Consumer	166	2	293	2	186	6	314	7
Total	\$49,786	\$ 499	\$66,434	\$ 701	\$53,172	\$1,551	\$69,721	\$2,211

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 have been implemented 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 loan 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 and are 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>	Commercial, Financial, Agriculture	Real Estate	Consumer	Total Criticized Loans
September 30, 2015				
Special Mention	\$ 8,121	\$36,078	\$ 159	\$44,358
Substandard	1,200	59,659	552	61,411
Doubtful	—	—	—	—
Total Criticized Loans	\$ 9,321	\$95,737	\$ 711	\$105,769
December 31, 2014				
Special Mention	\$ 8,059	\$51,060	\$ 114	\$59,233
Substandard	2,817	79,167	1,153	83,137
Doubtful	—	—	—	—
Total Criticized Loans	\$ 10,876	\$130,227	\$ 1,267	\$142,370

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. In the limited circumstances that a loan is removed from TDR classification it is the Company's policy to also remove it from the impaired loan category, but to continue to individually evaluate loan impairment based on the contractual terms specified by the loan agreement.

The following table presents loans classified as TDRs.

<i>(Dollars in Thousands)</i>	September 30, 2015		December 31, 2014	
	Accruing	Nonaccruing	Accruing	Nonaccruing
Commercial, Financial and Agricultural	\$876	\$ —	\$838	\$ 266
Real Estate – Construction	—	—	—	—
Real Estate – Commercial Mortgage	18,526	737	26,565	1,591
Real Estate – Residential	14,400	1,682	14,940	2,532
Real Estate – Home Equity	2,000	8	1,856	356
Consumer	159	—	211	—
Total TDRs	\$35,961	\$ 2,427	\$44,410	\$ 4,745

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

(Dollars in Thousands)	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	—	\$ —	\$ —	—	\$ —	\$ —
Real Estate - Construction	—	—	—	—	—	—
Real Estate - Commercial Mortgage	—	—	—	2	515	515
Real Estate - Residential	1	49	49	6	717	690
Real Estate - Home Equity	1	50	50	1	50	49
Consumer	—	—	—	—	—	—
Total TDRs	2	\$ 99	\$ 99	9	\$ 1,282	\$ 1,254

(Dollars in Thousands)	Three Months Ended September 30, 2014			Nine Months Ended September 30, 2014		
	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	—	\$ —	\$ —	1	\$ 51	\$ 54
Real Estate – Construction	—	—	—	—	—	—
Real Estate - Commercial Mortgage	1	303	1,125	3	947	1,769
Real Estate – Residential	2	201	182	8	1,308	1,390
Real Estate - Home Equity	5	453	438	8	701	686
Consumer	—	—	—	1	34	33
Total TDRs	8	\$ 957	\$ 1,745	21	\$ 3,041	\$ 3,932

For the three and nine months ended September 30, 2015, there were no defaults for TDR loans that had been modified within the previous 12 months. For the three and nine months ended September 30, 2014, loans modified as TDRs within the previous 12 months that have subsequently defaulted during the periods indicated are presented in the table below.

(Dollars in Thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Number of Contracts	Post-Modified Recorded Investment	Number of Contracts	Post-Modified Recorded Investment

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

	Investment ⁽¹⁾		Investment ⁽¹⁾	
Commercial, Financial and Agricultural	—	\$ —	—	\$ —
Real Estate – Construction	—	—	—	—
Real Estate - Commercial Mortgage	—	—	—	—
Real Estate – Residential	3	334	4	451
Real Estate - Home Equity	—	—	1	153
Consumer	—	—	—	—
Total TDRs	3	\$ 334	5	\$ 604

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

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

(Dollars in Thousands)	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Number of Contracts	Recorded Investment ⁽¹⁾	Number of Contracts	Recorded Investment ⁽¹⁾
Extended amortization	1	\$ 49	2	\$ 167
Interest rate adjustment	—	—	1	156
Extended amortization and interest rate adjustment	1	50	6	931
Total TDRs	2	\$ 99	9	\$ 1,254

(Dollars in Thousands)	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment ⁽¹⁾	Number of Contracts	Recorded Investment ⁽¹⁾
Extended amortization	2	\$ 158	8	\$ 1,736
Interest rate adjustment	—	—	1	156
Extended amortization and interest rate adjustment	2	231	5	488
Other	4	1,356	7	1,552
Total TDRs	8	\$ 1,745	21	\$ 3,932

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

NOTE 4 – OTHER REAL ESTATE OWNED

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

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Beginning Balance	\$ 30,167	\$ 42,579	\$ 35,680	\$ 48,071
Additions	1,242	2,854	4,072	12,121
Valuation Write-downs	(269)	(664)	(1,575)	(2,216)
Sales	(5,921)	(2,693)	(12,684)	(15,900)
Other	—	(350)	(274)	(350)

Ending Balance	\$ 25,219	\$ 41,726	\$ 25,219	\$ 41,726
----------------	-----------	-----------	-----------	-----------

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

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Gains from the Sale of Properties	\$ (31)	\$ (107)	\$ (686)	\$ (441)
Losses from the Sale of Properties	591	483	1,249	1,648
Rental Income from Properties	(13)	(81)	(244)	(356)
Property Carrying Costs	486	824	1,836	2,391
Valuation Adjustments	269	664	1,575	2,216
Total	\$ 1,302	\$ 1,783	\$ 3,730	\$ 5,458

As of September 30, 2015, the Company had \$2.1 million of loans secured by residential real estate in the process of foreclosure.

NOTE 5 - EMPLOYEE BENEFIT PLANS

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

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

(Dollars in Thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Service Cost	\$1,715	\$1,500	\$5,145	\$4,500
Interest Cost	1,438	1,400	4,313	4,200
Expected Return on Plan Assets	(1,955)	(1,875)	(5,865)	(5,625)
Prior Service Cost Amortization	77	75	232	225
Net Loss Amortization	891	325	2,673	975
Net Periodic Cost	\$2,166	\$1,425	\$6,498	\$4,275
Discount Rate	4.15 %	5.00 %	4.15 %	5.00 %
Long-Term Rate of Return on Assets	7.50 %	7.50 %	7.50 %	7.50 %

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

(Dollars in Thousands)	Three Months		Nine Months	
	Ended		Ended September	
	September 30,		30,	
	2015	2014	2015	2014
Interest Cost	\$34	\$28	\$101	\$84
Prior Service Cost Amortization	2	40	5	120
Net Gain Amortization	44	(183)	134	(549)
Net Periodic (Benefit) Cost	\$80	\$(115)	\$240	\$(345)
Discount Rate	4.15 %	5.00 %	4.15 %	5.00 %

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

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

(Dollars in Thousands)	September 30, 2015			December 31, 2014		
	Fixed	Variable	Total	Fixed	Variable	Total
Commitments to Extend Credit ⁽¹⁾	\$55,147	\$303,795	\$358,942	\$33,633	\$278,438	\$312,071
Standby Letters of Credit	6,299	—	6,299	8,307	—	8,307
Total	\$61,446	\$303,795	\$365,241	\$41,940	\$278,438	\$320,378

(1) *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 believes that its member banks are required to indemnify it for potential future settlement of certain litigation (the "Covered Litigation") that relates to several antitrust lawsuits challenging the practices of Visa and MasterCard International. In 2008, the Company, as a member of the Visa U.S.A. network, obtained Class B shares of Visa, Inc. upon its initial public offering. Since its initial public offering, Visa, Inc. has funded a litigation reserve for the Covered Litigation resulting in a reduction in the Class B shares held by the Company. During the first quarter of 2011, the Company sold its remaining Class B shares resulting in a \$3.2 million pre-tax gain. Associated with this sale, the Company entered into a swap contract with the purchaser of the shares that requires a payment to the counterparty in the event that Visa, Inc. makes subsequent revisions to the conversion ratio for its Class B shares.

In December 2013, a settlement agreement was approved by the court in resolution of the aforementioned Covered Litigation matter. Visa's share of the settlement is to be paid from the litigation reserve account, which was further funded during the third quarter of 2014 resulting in a payment of \$161,000 to the counterparty. Fixed charges included in the 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 \$63,000. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

NOTE 7 – FAIR VALUE MEASUREMENTS

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

Level 1 Inputs - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, prepayment speeds, credit risks, etc.) or inputs that are derived principally from, or corroborated, by market data by correlation or other means.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

<i>(Dollars in Thousands)</i>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2015				
ASSETS:				
Securities Available for Sale:				
U.S. Treasury	\$243,989	\$—	\$ —	\$243,989
U.S. Government Agency States and Political Subdivisions	—	105,076 84,240	—	105,076 84,240
Mortgage-Backed Securities	—	2,071	—	2,071
Equity Securities	—	8,695	—	8,695
LIABILITIES:				
December 31, 2014				
ASSETS:				
Securities Available for Sale:				
U.S. Treasury	\$186,031	\$—	\$ —	\$186,031
U.S. Government Agency State and Political Subdivisions	—	96,097 48,388	—	96,097 48,388
Mortgage-Backed Securities	—	2,287	—	2,287
Equity Securities	—	8,745	—	8,745

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 \$11.1 million with a valuation allowance of \$0.8 million as of September 30, 2015 and \$13.6 million and \$2.0 million, respectively, as of December 31, 2014.

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 nine months of 2015, 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 Federal Funds Sold/Interest Bearing Deposits. The carrying amount of cash and federal funds sold/interest bearing deposits is used to approximate fair value, given the short time frame to maturity and as such assets do not present unanticipated credit concerns.

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

Loans. The loan portfolio is segregated into categories and the fair value of each loan category is calculated using present value techniques based upon projected cash flows and estimated discount rates that reflect the credit, interest rate, and liquidity risks inherent in each loan category. The calculated present values are then reduced by an allocation of the allowance for loan losses against each respective loan category.

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

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

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

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

(Dollars in Thousands)	September 30, 2015			
	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	\$42,917	\$42,917	\$—	\$—
Federal Funds Sold and Interest Bearing Deposits	167,787	167,787	—	—
Investment Securities, Available for Sale	444,071	243,989	200,082	—
Investment Securities, Held to Maturity	193,964	135,427	59,413	—
Loans Held for Sale	10,960	—	10,960	—
Loans, Net of Allowance for Loan Losses	1,460,446	—	—	1,473,849
LIABILITIES:				
Deposits	\$2,114,983	\$—	\$2,065,792	\$—
Short-Term Borrowings	65,355	—	65,601	—
Subordinated Notes Payable	62,887	—	45,850	—
Long-Term Borrowings	29,042	—	29,794	—

December 31, 2014

(Dollars in Thousands)

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

	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	\$55,467	\$55,467	\$—	\$—
Federal Funds Sold and Interest Bearing Deposits	329,589	329,589	—	—
Investment Securities, Available for Sale	341,548	186,031	155,517	—
Investment Securities, Held to Maturity	163,581	76,317	87,095	—
Loans Held for Sale	10,688	—	10,688	—
Loans, Net of Allowance for Loan Losses	1,413,835	—	—	1,369,314
LIABILITIES:				
Deposits	\$2,146,794	\$—	\$2,146,510	\$—
Short-Term Borrowings	49,425	—	48,760	—
Subordinated Notes Payable	62,887	—	62,887	—
Long-Term Borrowings	31,097	—	32,313	—

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

NOTE 8 – OTHER COMPREHENSIVE INCOME (LOSS)

The amounts allocated to other comprehensive income (loss) 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>	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three Months Ended September 30, 2015			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	\$ 533	\$ (206)	\$ 327
Amortization of losses on securities transferred from available for sale to held to maturity	21	(8)	13
Total Other Comprehensive Income	\$ 554	\$ (214)	\$ 340
Nine Months Ended September 30, 2015			
Investment Securities:			
Change in net unrealized gain/ loss on securities available for sale	\$ 1,562	\$ (602)	\$ 960
Amortization of losses on securities transferred from available for sale to held to maturity	56	(22)	34
Total Other Comprehensive Income	\$ 1,618	\$ (624)	\$ 994
<i>(Dollars in Thousands)</i>	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three Months Ended September 30, 2014			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	\$ (173)	\$ 61	\$ (112)
Amortization of losses on securities transferred from available for sale to held to maturity	17	(7)	10
Total Other Comprehensive Loss	\$ (156)	\$ 54	\$ (102)
Nine Months Ended September 30, 2014			
Investment Securities:			
Change in net unrealized gain/ loss on securities available for sale	\$ 78	\$ (36)	\$ 42
Amortization of losses on securities transferred from available for sale to held to maturity	53	(20)	33
Total Other Comprehensive Income	\$ 131	\$ (56)	\$ 75

Accumulated other comprehensive loss was comprised of the following components:

<i>(Dollars in Thousands)</i>	Securities Available for Sale	Retirement Plans	Accumulated Other Comprehensive Loss
Balance as of January 1, 2015	\$ 59	\$(21,568)	\$ (21,509)
Other comprehensive income during the period	994	—	994
Balance as of September 30, 2015	\$ 1,053	\$(21,568)	\$ (20,515)
Balance as of January 1, 2014	\$ (132)	\$(8,408)	\$ (8,540)
Other comprehensive income during the period	75	—	75
Balance as of September 30, 2014	\$ (57)	\$(8,408)	\$ (8,465)

NOTE 9 – ACCOUNTING STANDARDS UPDATES

ASU 2014-04 “*Receivables – Troubled Debt Restructurings by Creditors (Topic 310-40) – Reclassification of Residential Real Estate Collateralized Consumer Loans Upon Foreclosure.*” ASU 2014-04 provides guidance regarding the reclassification of residential real estate collateralized consumer mortgage loans upon foreclosures. The guidance requires reclassification of a consumer mortgage loan to other real estate owned upon obtaining legal title to the residential property, which could occur either through foreclosure or through a deed in lieu of foreclosure or similar legal agreement. The existence of a borrower redemption right will not prevent the lender from reclassifying a loan to real estate once the lender obtains legal title to the property. In addition, entities are required to disclose the amount of foreclosed residential real estate properties and the recorded investment in residential real estate mortgage loans in the process of foreclosure on both an interim and annual basis. The guidance may be applied prospectively or on a modified retrospective basis in fiscal years, and interim periods within those fiscal years, beginning after December 15, 2014. The adoption of this pronouncement did not have a significant impact on the Company’s financial statements.

ASU 2015-03, “*Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs*” ASU 2015-03 requires companies to present debt issuance costs the same way they currently present debt discounts, as a direct deduction from the carrying value of that debt liability. ASU 2015-03 will be effective for the Company on January 1, 2016, though early adoption is permitted. ASU 2015-03 is not expected to have a significant impact on the Company’s financial statements.

ASU 2015-05, “*Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) – Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.*” ASU 2015-05 provides guidance to evaluate accounting for fees paid by a customer in cloud computing arrangement. The new guidance clarifies that if a cloud computing arrangement includes a software license, the customer should account for the license consistent with its accounting for other software licenses. If the arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 will be effective for the Company on January 1, 2016, though early adoption is permitted. ASU 2015-05 is not expected to have a significant impact on our financial statements.

ASU 2015-14, “*Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date.*” ASU 2015-14 updates the effective date of ASU 2014-09 for all entities by one year. This makes ASU 2014-09 effective for the company on January 1, 2018. The Company does not believe this pronouncement will have a significant impact on its financial statements.

ASU 2015-15, “*Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements – Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting.*” ASU 2015-15 states that given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowing on the line-of-credit

arrangement. The Company does not believe this pronouncement will have a significant impact on its financial statements.

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 2015 compares with prior periods. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, are 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 2014 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 63 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

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

A detailed discussion regarding the economic conditions in our markets and our long-term strategic objectives is included as part of the MD&A section of our 2014 Form 10-K.

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in Thousands, Except Per Share Data)	2015			2014			
	Third	Second	First	Fourth	Third	Second	First
Summary of Operations:							
Interest Income	\$ 19,877	\$ 19,833	\$ 19,346	\$ 19,871	\$ 19,766	\$ 19,348	\$ 19,236
Interest Expense	811	849	839	852	868	910	950
Net Interest Income	19,066	18,984	18,507	19,019	18,898	18,438	18,286
Provision for Loan Losses	413	375	293	623	424	499	359
Net Interest Income After Provision for Loan Losses	18,653	18,609	18,214	18,396	18,474	17,939	17,927
Noninterest Income	13,228	14,794	12,848	13,053	13,351	13,347	12,785
Noninterest Expense	29,164	28,439	29,390	28,309	28,607	29,076	28,366
Income Before Income Taxes	2,717	4,964	1,672	3,140	3,218	2,210	2,346
Income Tax Expense (Benefit)	1,034	1,119	686	1,219	1,103	737	(1,405)
Net Income	1,683	3,845	986	1,921	2,115	1,473	3,751
Net Interest Income (FTE)	\$ 19,253	\$ 19,119	\$ 18,611	\$ 19,124	\$ 19,020	\$ 18,567	\$ 18,424
Per Common Share:							
Net Income Basic	\$0.10	\$0.22	\$0.06	\$0.11	\$0.12	\$0.08	\$0.22
Net Income Diluted	0.09	0.22	0.06	0.11	0.12	0.08	0.22
Dividends Declared	0.03	0.03	0.03	0.03	0.02	0.02	0.02
Diluted Book Value	15.91	15.80	15.59	15.53	16.18	16.08	16.02
Market Price:							
High	15.75	16.32	16.33	16.00	14.98	14.71	14.59
Low	14.39	13.94	13.16	13.00	13.26	12.60	11.56
Close	14.92	15.27	16.25	15.54	13.54	14.53	13.28
Selected Average Balances:							
Loans, Net	\$ 1,483,657	\$ 1,473,954	\$ 1,448,617	\$ 1,426,756	\$ 1,421,327	\$ 1,411,988	\$ 1,395,506
Earning Assets	2,310,823	2,328,012	2,306,485	2,212,781	2,209,429	2,260,885	2,268,320
Total Assets	2,639,692	2,670,701	2,648,551	2,549,736	2,530,571	2,578,993	2,598,307
Deposits	2,137,433	2,178,399	2,163,376	2,077,365	2,062,881	2,109,563	2,124,960
Shareowners' Equity	274,956	274,421	275,304	286,029	284,130	282,346	279,729
Common Equivalent Average Shares:							
Basic	17,150	17,296	17,508	17,433	17,440	17,427	17,399
Diluted	17,229	17,358	17,555	17,530	17,519	17,488	17,439

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

Performance Ratios:

Return on Average Assets	0.25	%	0.58	%	0.15	%	0.30	%	0.33	%	0.23	%	0.59	%
Return on Average Equity	2.43		5.62		1.45		2.66		2.95		2.09		5.44	
Net Interest Margin (FTE)	3.31		3.29		3.27		3.43		3.42		3.29		3.29	
Noninterest Income as % of Operating Revenue	40.96		43.80		40.98		40.70		41.40		41.99		41.15	
Efficiency Ratio	89.79		83.85		93.42		87.98		88.37		91.11		90.89	

Asset Quality:

Allowance for Loan Losses	\$ 14,737		\$ 15,236		\$ 16,090		17,539		\$ 19,093		\$ 20,543		\$ 22,110	
Allowance for Loan Losses to Loans	0.99	%	1.03	%	1.10	%	1.22	%	1.34	%	1.45	%	1.57	%
Nonperforming Assets (“NPAs”)	38,357		45,487		50,625		52,449		65,208		68,249		78,594	
NPAs to Total Assets	1.47		1.71		1.88		2.00		2.61		2.66		2.98	
NPAs to Loans + OREO	2.54		3.00		3.38		3.55		4.45		4.67		5.42	
Allowance to Non-Performing Loans	112.17		99.46		95.83		104.60		81.31		80.03		63.98	
Net Charge-Offs to Average Loans	0.24		0.33		0.49		0.61		0.52		0.59		0.39	

Capital Ratios:

Tier 1 Capital Ratio	16.36	%	15.83	%	16.16	%	16.67	%	16.88	%	16.85	%	16.85	%
Total Risk-Based Capital Ratio	17.24		16.72		17.11		17.76		18.08		18.10		18.10	
Common Equity Tier 1 ⁽¹⁾	12.76		12.34		12.57		NA		NA		NA		NA	
Tangible Capital Ratio	7.46		7.29		7.26		7.38		8.22		7.93		7.66	
Leverage Ratio	10.71		10.53		10.73		10.99		10.97		10.70		10.47	

(1)

Not applicable prior to January 1, 2015.

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Results of Operations

- Net income of \$1.7 million, or \$0.09 per diluted share, for the third quarter of 2015 compared to net income of \$3.8 million, or \$0.22 per diluted share, in the second quarter of 2015, and net income of \$2.1 million, or \$0.12 per diluted share for the third quarter of 2014. For the nine month period ended September 30, 2015, we realized net income of \$6.5 million, or \$0.37 per diluted share, compared to net income of \$7.3 million, or \$0.42 per diluted share, for the comparable period of 2014. Earnings for the second quarter of 2015 were favorably impacted by bank owned life insurance (“BOLI”) proceeds of \$1.7 million, or \$0.10 per share. For the nine month period ended September 30, 2014, earnings were favorably impacted by a tax benefit of \$2.2 million, or \$0.13 per share, related to an adjustment to our reserve for uncertain tax positions.
- Tax equivalent net interest income for the third quarter of 2015 was \$19.3 million compared to \$19.1 million for the second quarter of 2015 and \$19.0 million for the third quarter of 2014. For the first nine months of 2015, tax equivalent net interest income totaled \$57.0 million compared to \$56.0 million in 2014. The increase over the second quarter of 2015 was driven by one additional calendar day and a positive shift in earning asset mix due to growth in the loan and investment portfolios. Compared to both prior year periods, the increase reflects a favorable shift in earning asset mix due to growth in the loan and investment portfolios as well as a slight reduction in interest expense.
- Total credit costs (loan loss provision plus other real estate owned (“OREO”) expenses) were \$1.7 million, \$1.3 million, and \$2.2 million for the quarters ended September 30, 2015, June 30, 2015, and September 30, 2014, respectively. Total credit costs for the nine month period of 2015 were \$4.8 million compared to \$6.7 million for the same period of 2014. The increase compared to the second quarter of 2015 was due to a net loss from the sale of OREO properties versus a net gain in the second quarter of 2015. Compared to the prior year periods, lower carrying costs and valuation adjustments drove the decrease reflective of lower OREO balances and improvement in property values.
- Noninterest income for the third quarter of 2015 totaled \$13.2 million, a decrease of \$1.6 million, or 10.6%, compared to the second quarter of 2015, and a decrease of \$0.1 million, or 0.9%, from the third quarter of 2014. The decrease from the second quarter of 2015 was primarily due to the aforementioned BOLI proceeds of \$1.7 million, partially offset by higher mortgage banking fees. Compared to the third quarter of 2014, the decrease was driven by lower deposit fees and wealth management fees, partially offset by an increase in mortgage banking fees. For the first nine months of 2015, noninterest income totaled \$40.9 million, a \$1.4 million, or 3.5%, increase over the same period of 2014 attributable to higher other income (BOLI proceeds) and mortgage banking fees, partially offset by lower deposit fees.
- Noninterest expense for the third quarter of 2015 totaled \$27.9 million, an increase of \$0.4 million, or 1.3%, over the second quarter of 2015 and \$1.0 million, or 3.9%, over the third quarter of 2014. Compared to the second quarter of 2015, the increase primarily reflects higher OREO expense and compensation expense reflecting a true-up of pension expense in the third quarter. Compared to the third quarter of 2014, the increase

was primarily driven by higher compensation expense (primarily pension) and was partially offset by a reduction in OREO expense. For the first nine months of 2015, noninterest expense totaled \$83.3 million, an increase of \$2.7 million, or 3.3%, from the same period of 2014 primarily attributable to higher compensation expense (primarily pension), partially offset by declines in OREO expense, legal fees and occupancy expenses.

Financial Condition

- Average earning assets were \$2.311 billion for the third quarter of 2015, a decrease of \$17.2 million, or 0.7%, from the second quarter of 2015 and an increase of \$98.0 million, or 4.4%, over the fourth quarter of 2014. The change in earning assets from the second quarter of 2015 reflects a lower level of funds sold (deposits with banks plus federal funds sold) attributable to a seasonal reduction in public fund deposits. The increase compared to the fourth quarter of 2014 reflects a higher level of investments and loans, which was funded through a reduction in funds sold.
- Average gross loans increased by \$9.7 million, or 0.7%, over the second quarter of 2015 and have grown by \$56.9 million, or 4.0%, when compared to the fourth quarter of 2014. Loan growth in 2015 has been broad-based, including commercial, tax-free, construction, home equity, and continued growth in auto finance.
- Nonperforming assets totaled \$38.4 million at the end of the third quarter of 2015, a decrease of \$7.1 million from the second quarter of 2015 and \$14.1 million from the fourth quarter of 2014. Nonperforming assets represented 1.47% of total assets at September 30, 2015 compared to 1.71% at June 30, 2015 and 2.00% at December 31, 2014.
- As of September 30, 2015, we were well-capitalized with a risk based capital ratio of 17.24% and a tangible common equity ratio of 7.46% compared to 16.72% and 7.29%, respectively, at June 30, 2015 and 17.76% and 7.38%, respectively, at December 31, 2014. All of our regulatory capital ratios significantly exceed the threshold to be well-capitalized under the Basel III capital standards.

RESULTS OF OPERATIONS**Net Income**

For the third quarter of 2015, we realized net income of \$1.7 million, or \$0.09 per diluted share, compared to net income of \$3.8 million, or \$0.22 per diluted share for the second quarter of 2015, and \$2.1 million, or \$0.12 per diluted share, for the third quarter of 2014. For the first nine months of 2015, we realized net income of \$6.5 million, or \$0.37 per diluted share, compared to net income of \$7.3 million, or \$0.42 per diluted share for the same period of 2014.

Compared to the second quarter of 2015, performance reflects lower noninterest income of \$1.6 million and higher noninterest expense of \$0.7 million, partially offset by higher net interest income of \$0.1 million and lower income tax expense of \$0.1 million.

Compared to the third quarter of 2014, the decrease in earnings was due to higher noninterest expense of \$0.6 million and lower net interest income of \$0.1 million, partially offset by higher net interest income of \$0.2 million and lower income tax expense of \$0.1 million.

The decrease in earnings for the first nine months of 2015 versus the comparable period of 2014 was attributable to higher income tax expense of \$2.4 million and higher noninterest expense of \$0.9 million, partially offset by higher net interest income of \$1.0 million, noninterest income of \$1.3 million and a \$0.2 million reduction in the loan loss provision.

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

(Dollars in Thousands, except per share data)	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Interest Income	\$19,877	\$19,833	\$19,766	\$59,056	\$58,350
Taxable Equivalent Adjustments	187	135	122	426	389
Total Interest Income (FTE)	20,064	19,968	19,888	59,482	58,739
Interest Expense	811	849	868	2,499	2,728
Net Interest Income (FTE)	19,253	19,119	19,020	56,983	56,011
Provision for Loan Losses	413	375	424	1,081	1,282
Taxable Equivalent Adjustments	187	135	122	426	389

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

Net Interest Income After provision for Loan Losses	18,653	18,609	18,474	55,476	54,340
Noninterest Income	13,228	14,794	13,351	40,870	39,483
Noninterest Expense	29,164	28,439	28,607	86,993	86,049
Income Before Income Taxes	2,717	4,964	3,218	9,353	7,774
Income Tax Expense	1,034	1,119	1,103	2,839	435
Net Income	\$1,683	\$3,845	\$2,115	\$6,514	\$7,339
Basic Net Income Per Share	\$0.10	\$0.22	\$0.12	\$0.38	\$0.42
Diluted Net Income Per Share	\$0.09	\$0.22	\$0.12	\$0.37	\$0.42

Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets less interest expense paid on interest bearing liabilities. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and investments, the majority of which are 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 40.

Tax equivalent net interest income for the third quarter of 2015 was \$19.3 million compared to \$19.1 million for the second quarter of 2015 and \$19.0 million for the third quarter of 2014. For the nine months ended September 30, 2015, tax equivalent net interest income totaled \$57.0 million compared to \$56.0 million for the same period of 2014. The increase in tax equivalent net interest income compared to the second quarter 2015 reflects one additional calendar day and a positive shift in earning asset mix due to growth in the investment and loan portfolios, partially offset by a decline in yields. The increase in tax equivalent net interest income compared to the prior year-to-date and third quarter of 2014 reflects a positive shift in earning asset mix, partially offset by a decline in yields.

Pressure on net interest income continues primarily as a result of the low rate environment. Despite favorable volume variances in both the loan and investment portfolios, the low rate environment continues to negatively impact the loan yields and, going forward, will likely have minimal to no impact on our cost of funds. Increased competition in all markets has also unfavorably impacted the pricing for loans.

The net interest margin for the third quarter of 2015 was 3.31%, an increase of two basis points over the second quarter of 2015, and a decrease of 11 basis points from the third quarter of 2014. The increase in the margin compared to the second quarter of 2015 was attributable to growth in our investment portfolio and a reduction in foregone interest. The decrease in margin compared to the third quarter of 2014 is primarily driven by a higher level of earning assets relative to the increase in interest income.

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

Provision for Loan Losses

The provision for loan losses for the third quarter of 2015 was \$0.4 million comparable to both the second quarter of 2015 and the third quarter of 2014. For the first nine months of 2015, the loan loss provision totaled \$1.1 million compared to \$1.3 million for the same period of 2014. The lower provision reflects continued favorable problem loan migration and improvement in key credit metrics partially offset by growth in the loan portfolio. Net charge-offs for the third quarter of 2015 totaled \$0.9 million, or 0.24% (annualized), of average loans compared to \$1.2 million, or 0.33% (annualized), for the second quarter of 2015 and \$1.9 million, or 0.52% (annualized), for the third quarter of 2014. For the first nine months of 2015, net charge-offs totaled \$3.9 million, or 0.35% (annualized), of average loans compared to \$5.3 million, or 0.50%, for the same period of 2014.

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

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

(Dollars in Thousands, except per share data)	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
CHARGE-OFFS					
Commercial, Financial and Agricultural	\$365	\$239	\$86	\$894	\$183
Real Estate - Construction	—	—	—	—	—
Real Estate - Commercial Mortgage	(26)	285	1,208	1,163	2,831
Real Estate - Residential	476	484	212	1,265	1,638
Real Estate - Home Equity	370	454	621	1,006	1,399
Consumer	318	351	386	1,245	1,212
Total Charge-offs	1,503	1,813	2,513	5,573	7,263
RECOVERIES					
Commercial, Financial and Agricultural	45	82	28	182	148
Real Estate - Construction	—	—	2	—	7
Real Estate - Commercial Mortgage	86	54	213	170	392
Real Estate - Residential	193	200	93	441	540
Real Estate - Home Equity	42	33	37	99	113
Consumer	225	215	266	798	779
Total Recoveries	591	584	639	1,690	1,979
Net Charge-offs	\$912	\$1,229	\$1,874	\$3,883	\$5,284
Net Charge-offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Income	0.24 %	0.33 %	0.52 %	0.35 %	0.50 %

Noninterest Income

Noninterest income for the third quarter of 2015 totaled \$13.2 million, a decrease of \$1.6 million, or 10.6%, from the second quarter of 2015 and a decrease of \$0.1 million, or 0.9%, from the third quarter of 2014. The decrease from the second quarter of 2015 reflects BOLI proceeds of \$1.7 million that are reflected in other income for the second quarter. Mortgage banking fees increased \$0.1 million over the second quarter of 2015. The decrease from the third quarter of 2014 was attributable to lower deposit fees of \$0.5 million and wealth management fees of \$0.2 million, partially offset by higher mortgage banking fees of \$0.4 million and bank card fees of \$0.1 million. For the first nine months of 2015, noninterest income totaled \$40.9 million, a \$1.4 million, or 3.5%, increase from the same period of 2014 reflective of higher other income of \$1.6 million (BOLI proceeds) and mortgage banking fees of \$1.2 million, partially offset by lower deposit fees of \$1.3 million.

Noninterest income represented 41.0% of operating revenues (net interest income plus noninterest income) in the third quarter of 2015 compared to 43.8% in the second quarter of 2015 and 41.4% in the third quarter of 2014. For the first nine months of 2015, noninterest income represented 42.0% of operating revenues compared to 41.5% for the same period of 2014.

The table below reflects the major components of noninterest income.

(Dollars in Thousands)	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Deposit Fees	\$5,721	\$5,682	\$6,211	\$16,944	\$18,293
Bank Card Fees	2,826	2,844	2,707	8,412	8,234
Wealth Management Fees	1,818	1,776	2,050	5,640	5,820
Mortgage Banking Fees	1,306	1,203	911	3,496	2,274
Data Processing Fees	400	364	336	1,137	1,265
Other	1,157	2,925	1,136	5,241	3,597
Total Noninterest Income	\$13,228	\$14,794	\$13,351	\$40,870	\$39,483

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

Deposit Fees. Deposit fees for the third quarter of 2015 totaled \$5.7 million, comparable to the second quarter of 2015 and a decrease of \$0.5 million, or 7.9%, from the third quarter of 2014. For the first nine months of 2015, deposit fees totaled \$16.9 million, a decrease of \$1.3 million, or 7.4%, from the comparable period of 2014. Compared to the second quarter of 2015, higher overdraft fees were offset by higher losses on charged off checking accounts. The decreases from the three and nine-month periods of 2014 were attributable to a lower level of overdraft/insufficient

funds fees generally reflective of improved financial management by our clients.

Bank Card Fees. Bank card fees (including interchange fees and ATM/debit card fees) totaled \$2.8 million for the third quarter of 2015, comparable to the second quarter of 2015, and a \$0.1 million, or 4.4%, increase over the third quarter of 2014. For the first nine months of 2015, bank card fees totaled \$8.4 million, which represented an increase of \$0.2 million, or 2.2%, over the same period of 2014. Higher card spend by our clients drove the increase over the three and nine-month periods of 2014.

Wealth Management Fees. Wealth management fees, which include both trust fees (i.e., managed accounts, trusts/estates, and retirement plans) and retail brokerage fees (i.e., investment and insurance products) totaled \$1.8 million for the third quarter of 2015, comparable to the second quarter of 2015 and a decrease of \$0.2 million, or 11.3%, from the third quarter of 2014. For the first nine months of 2015, wealth management fees totaled \$5.6 million, a decrease of \$0.2 million, or 3.1%, from the same period of 2014. The decreases from both the three and nine-month periods of 2014 were due to lower retail brokerage fees reflective of a reduction in assets under management. At September 30, 2015, total assets under management were approximately \$1.182 billion compared to \$1.278 billion at December 31, 2014 and \$1.254 billion at September 30, 2014.

Mortgage Banking Fees. Mortgage banking fees totaled \$1.3 million for the third quarter of 2015, an increase of \$0.1 million, or 8.6%, over the second quarter of 2015 and \$0.04 million, or 43.4%, over the third quarter of 2014. For the first nine months of 2015, fees totaled \$3.5 million, an increase of \$1.2 million, or 53.7%, over the same period of 2014. The increase compared to all prior periods was due to higher new loan production reflective of increased home purchase activity and a higher margin on sold loans.

Data Processing Fees. Data processing fees increased by \$36,000, or 9.9%, over the second quarter of 2015 and \$64,000, or 19.0%, over the third quarter of 2014. For the first nine months of 2015, fees declined by \$128,000, or 10.1%, compared to same period of 2014. The increase over the second quarter of 2015 and third quarter of 2014 was attributable to a one-time de-conversion fee for a client that discontinued processing in the third quarter of 2015. The decrease compared to the nine month period of 2014 was attributable to lower fees from a government processing contract that was discontinued in mid-2014.

Other. Other income totaled \$1.2 million for the third quarter of 2015, a decrease of \$1.8 million, or 60.4%, from the second quarter of 2015 and comparable to the third quarter of 2014. For the first nine months of 2015, other income increased \$1.7 million, or 45.7%, compared to the same period of 2014. The decrease from the second quarter of 2015 and nine month period of 2014 was due to \$1.7 million in tax-free BOLI proceeds received during the second quarter of 2015.

Noninterest Expense

Noninterest expense for the third quarter of 2015 totaled \$29.2 million, an increase of \$0.7 million, or 2.5%, over the second quarter of 2015 reflective of higher OREO expense of \$0.4, compensation expense of \$0.2 million, and occupancy expense of \$0.2 million, partially offset by a decrease in other expense (excluding OREO) of \$0.1 million. Compared to the third quarter of 2014, noninterest expense increased by \$0.6 million, or 1.9%, attributable to higher compensation expense of \$1.3 million, partially offset by lower OREO expense of \$0.5 million, other expense (excluding OREO expenses) of \$0.1 million, and occupancy expense of \$0.1 million. For the first nine months of 2015, noninterest expense totaled \$87.0 million, an increase of \$0.9 million, or 1.1%, over the same period of 2014 attributable to higher compensation expense of \$3.2 million, partially offset by lower OREO expense of \$1.7 million, other expense (excluding OREO expenses) of \$0.3 million, and occupancy expense of \$0.3 million. Expense management is an important part of our culture and strategic focus and we continue to make progress on reducing core operating costs and removing problem asset resolution costs from our system. During 2015, we increased our intensity in evaluating opportunities to optimize our delivery infrastructure, including banking office operations and on-line platforms, and other process improvement initiatives.

The table below reflects the major components of noninterest expense.

(Dollars in Thousands)	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Salaries	\$11,808	\$12,435	\$12,104	\$36,758	\$36,590
Associate Benefits	4,845	3,969	3,274	12,823	9,775
Total Compensation	16,653	16,404	15,378	49,581	46,365
Premises	2,298	2,181	2,525	6,755	6,767
Equipment	2,148	2,077	2,050	6,345	6,611
Total Occupancy	4,446	4,258	4,575	13,100	13,378
Legal Fees	599	691	766	1,994	2,584
Professional Fees	849	1,022	847	2,916	2,876
Processing Services	1,695	1,642	1,512	5,116	4,467
Advertising	342	305	478	987	1,167
Travel and Entertainment	237	227	228	674	670
Printing and Supplies	223	184	216	612	712

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

Telephone	471	479	474	1,485	1,421
Postage	238	235	274	754	886
Insurance – Other	677	702	738	2,084	2,200
Other Real Estate	1,302	931	1,783	3,730	5,458
Miscellaneous	1,432	1,359	1,338	3,960	3,865
Total Other	8,065	7,777	8,654	24,312	26,306

Total Noninterest Expense \$29,164 \$28,439 \$28,607 \$86,993 \$86,049

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

Compensation. Compensation expense totaled \$16.7 million for the third quarter of 2015, an increase of \$0.2 million, or 1.5%, over the second quarter of 2015. Compared to the third quarter of 2014, total compensation expense increased \$1.3 million, or 8.3%. The increase over both periods is primarily due to a higher level of required 2015 pension expense upon finalization of actuarial work, partially offset by lower salary expense, primarily reflecting higher deferred loan cost which is recorded as an offset to salary expense. For the first nine months of 2015, compensation expense totaled \$49.6 million, an increase of \$3.2 million, or 6.9%, from the same period of 2014 driven by a \$3.0 million increase in associate benefit expense and higher salary expense of \$0.2 million. The increase in associate benefit expense reflects the aforementioned increase in pension costs and the increase in salary expense was attributable to higher commissions expense and base salary expense (annual merit raises) partially offset by higher deferred loan cost.

Occupancy. Occupancy expense (including premises and equipment) totaled \$4.4 million for the third quarter of 2015, an increase of \$0.2 million, or 4.4%, over the second quarter of 2015 driven by higher utility expense reflective of a seasonal increase in usage as well as an increase in equipment related costs. Compared to the third quarter of 2014, occupancy expense decreased \$0.1 million, or 2.8%, attributable to lower premises expense, primarily non-routine building maintenance costs incurred in the third quarter of 2014. For the first nine months of 2015, occupancy expense totaled \$13.1 million, a \$0.3 million, or 2.1%, decrease from the same period of 2014 driven by lower equipment maintenance costs and software related expenses.

Other. Other noninterest expense increased \$0.3 million, or 3.7%, over the second quarter of 2015 and decreased \$0.6 million, or 6.8%, from the third quarter of 2014. The increase compared to the second quarter of 2015 was driven by higher OREO expense of \$0.4 million, partially offset by lower professional fees of \$0.1 million. The increase in OREO expense was attributable to a higher level of net losses from the sale of properties, primarily due to gains on sale which were substantially higher in the second quarter of 2015. Lower consulting and audit fees drove the reduction in professional fees. Compared to the third quarter of 2014, the decrease was attributable to lower OREO expense of \$0.5 million, legal fees of \$0.2 million and advertising expense of \$0.1 million, partially offset by higher processing services of \$0.2 million. The decrease in OREO expense was attributable to lower carrying costs and property valuation adjustments. Strong sales have reduced the number of properties in our ORE portfolio thus reducing the cost to manage and maintain properties. The reduction in valuations adjustments reflects improving property values. Lower legal support needed for problem loan resolutions drove the reduction in legal fees. The decrease in advertising generally reflects a reduction in media advertising activity. Processing services increased due to the implementation of our new online/mobile banking platform in early 2015. For the first nine months of 2015, other expense declined \$2.0 million, or 7.6%, from the same period of 2014, reflective of lower OREO expense of \$1.7 million, legal fees of \$0.6 million, advertising of \$0.2 million, and postage of \$0.1 million, partially offset by higher processing fees of \$0.6 million. The year-to-date variances are attributable to the same factors as noted above for the third quarter. Additionally, postage declined due to the continued migration of clients to paperless statements as well as internal efforts to reduce paper costs.

Our operating efficiency ratio (expressed as noninterest expense as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 89.79% for the third quarter of 2015 compared to 83.85% for the second quarter of 2015 and 88.37% for the third quarter of 2014. For the first nine months of 2015, this ratio was 88.90% compared to 90.11% for the comparable period of 2014. The aforementioned receipt of BOLI proceeds in the second quarter of 2015 was the primary reason for the change in this ratio for the three and nine-month period of 2015.

Income Taxes

We realized income tax expense of \$1.0 million (38% effective rate) for the third quarter of 2015 compared to \$1.1 million (23% effective rate) for the second quarter of 2015 and \$1.1 million (34% effective rate) for the third quarter of 2014. Income tax expense for the third quarter of 2015 includes a \$0.2 million valuation reserve for state tax credits that we expect to expire unused. For the first nine months of 2015, income tax expense totaled \$2.8 million. The proceeds from the aforementioned discrete BOLI transaction realized in the second quarter of 2015 were tax-exempt, therefore income tax expense for the three and nine-months of 2015 was favorably impacted. Income taxes for the nine months of 2014 were favorably impacted by a \$2.2 million state tax benefit that was recognized in the first

quarter of 2014 and was attributable to an adjustment in our reserve for uncertain tax positions associated with prior year matters. Absent future discrete events, we anticipate our effective income tax rate will normalize within a range of 34%-35%.

FINANCIAL CONDITION

Average assets totaled approximately \$2.640 billion for the third quarter of 2015, a decrease of \$31.0 million, or 1.2%, from the second quarter of 2015, and an increase of \$90.0 million, or 3.5%, over the fourth quarter of 2014. Average earning assets totaled approximately \$2.311 billion for the third quarter of 2015, a decrease of \$17.2 million, or 0.7%, from the second quarter of 2015, and an increase of \$98.0 million, or 4.4%, over the fourth quarter of 2014. The change in earning assets from the second quarter 2015 reflects a reduction in funds sold (driven by lower levels of public fund deposits), partially offset by higher investment and loan balances. The increase compared to the fourth quarter of 2014 reflects a higher level of investments and loans, which was funded through growth in deposits.

Investment Securities

In the third quarter of 2015, our average investment portfolio increased \$19.3 million, or 3.1%, over the second quarter of 2015 and increased \$138.8 million, or 27.9%, over the fourth quarter of 2014. As a percentage of average earning assets, the investment portfolio represented 27.5% in the third quarter of 2015, compared to 26.5% in the second quarter of 2015 and 22.5% in the fourth quarter of 2014. The increase in the average balance of the investment portfolio compared to the second quarter of 2015 was primarily attributable to an increase in high quality municipal bonds. The increase compared to the fourth quarter of 2014 was primarily attributable to an increase in U.S. Treasury purchases. For the remainder of 2015, we anticipate reinvesting a majority of the cash flow from the investment portfolio back into securities. We will continue to closely monitor liquidity levels and pledging requirements to assess the need to purchase additional investments, as well as look for new investment products that are prudent relative to our risk profile and the Bank's overall investment strategy.

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-for-Maturity (“HTM”). During the third quarter of 2015, securities were purchased under both the AFS and HTM designations. As of September 30, 2015, \$435.4 million, or 69.1%, of the investment portfolio was classified as AFS, with the remaining \$194.8 million classified as HTM.

At acquisition, the classification of the security will be determined based on how the purchase will affect our asset/liability strategy and future business plans and opportunities. Such decisions will be weighed against multiple factors, 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 (loss) component of shareowners’ equity. Securities that are HTM are acquired or owned with the intent of holding them to maturity. HTM investments are measured at amortized cost. It is neither management’s current intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio.

As of September 30, 2015, the investment portfolio had a net pre-tax unrealized gain in the AFS portfolio of \$2.1 million compared to an unrealized gain of \$1.6 million and \$0.5 million as of June 30, 2015 and December 31, 2014, respectively. As of September 30, 2015, there were 108 positions (combined AFS and HTM) with unrealized losses totaling \$0.2 million. Of the 108 positions, 69 were Ginnie Mae mortgage-backed securities (GNMA), U.S. Treasuries, or SBA securities, all of which carry the full faith and credit guarantee of the U.S. Government. SBA securities float monthly or quarterly to the prime rate and are uncapped. Of these 69 positions, there were 22 GNMA positions and 22 SBA positions in an unrealized loss position for longer than 12 months, and have unrealized losses of \$49,000 and \$65,000, respectively. There were 38 municipal bonds in an unrealized loss position that were pre-refunded, or rated “AA-“or better. Two of these positions were in an unrealized loss position for longer than 12 months, and had unrealized loss of \$1,000. The remaining security was a government agency bond, which has been in an unrealized loss position for less than 12 months, and has an immaterial unrealized loss. All positions with unrealized losses are not considered impaired, and are expected to mature at par.

The average maturity of the total portfolio as of September 30, 2015 was 1.97 years compared to 2.09 years and 2.17 years as of June 30, 2015 and December 31, 2014, respectively. The average life of the total portfolio in the third quarter of 2015 was shorter compared to both prior periods mainly attributable to the natural aging of the existing portfolio, partially offset by new investments primarily with 2-4 year average maturities.

Loans

Average loans increased \$9.7 million, or 0.7%, when compared to the second quarter of 2015, and have grown \$56.9 million, or 4.0% compared to the fourth quarter of 2014. Early on the growth in loans was driven primarily by auto loans, whereas in recent quarters the growth has been broader based, including commercial, tax-free, construction, home equity as well as consumer (auto finance).

The resolution of problem loans, which includes loan charge-offs and loans transferred to OREO, totaled \$2.7 million for the third quarter of 2015, compared to \$2.9 million in the second quarter of 2015, and \$5.9 million in the fourth quarter of 2014. The problem loan resolutions are based on “as of” balances, not averages.

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

Nonperforming Assets

Nonperforming assets (nonaccrual loans and OREO) totaled \$38.4 million at the end of the third quarter of 2015, a decrease of \$7.1 million from the second quarter of 2015 and \$14.1 million from the fourth quarter of 2014. Nonaccrual loans totaled \$13.1 million at the end of the third quarter of 2015, a decrease of \$2.2 million from the second quarter of 2015 and \$3.6 million from the fourth quarter of 2014. Nonaccrual loan additions totaled \$1.9 million in the third quarter of 2015 and \$12.1 million for the first nine months of 2014, which compares to \$16.7 million for the same period of 2014. The balance of OREO totaled \$25.2 million at the end of the third quarter of 2015, a decrease of \$4.9 million and \$10.5 million, respectively, from the second quarter of 2015 and fourth quarter of 2014. For the third quarter of 2015, we added properties totaling \$1.2 million, sold properties totaling \$5.9 million and recorded valuation adjustments totaling \$0.2 million. For the first nine months of 2015, we have added properties totaling \$4.1 million, sold properties totaling \$12.7 million, recorded valuation adjustments totaling \$1.6 million, and realized miscellaneous adjustments of \$0.3 million. Nonperforming assets represented 1.47% of total assets at September 30, 2015 compared to 1.71% at June 30, 2015 and 2.00% at December 31, 2014.

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

(Dollars in Thousands)	September 30, 2015	June 30, 2015	December 31, 2014	
Nonaccruing Loans:				
Commercial, Financial and Agricultural	\$ 60	\$ 420	\$ 507	
Real Estate - Construction	491	333	424	
Real Estate - Commercial Mortgage	5,844	6,395	5,806	
Real Estate - Residential	4,973	5,978	6,737	
Real Estate - Home Equity	1,679	2,095	2,544	
Consumer	91	99	751	
Total Nonperforming Loans ("NPLs" ⁽¹⁾)	\$ 13,138	\$ 15,320	\$ 16,769	
Other Real Estate Owned	25,219	30,167	35,680	
Total Nonperforming Assets ("NPAs")	\$ 38,357	\$ 45,487	\$ 52,449	
Past Due Loans 30 – 89 Days	\$ 4,335	\$ 5,858	\$ 6,792	
Past Due Loans 90 Days or More (accruing)	—	—	—	
Performing Troubled Debt Restructurings	\$ 35,961	\$ 41,632	\$ 44,410	
Nonperforming Loans/Loans	0.88	% 1.03	% 1.16	%
Nonperforming Assets/Total Assets	1.47	1.71	2.00	
Nonperforming Assets/Loans Plus OREO	2.54	3.00	3.55	
Allowance/Nonperforming Loans	112.17	% 99.46	% 104.60	%

(1) *Nonperforming TDRs are included in the Nonaccrual/NPL totals*

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

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
NPA Beginning Balance:	\$ 45,487	\$ 68,249	\$ 52,449	\$ 85,035
Change in Nonaccrual Loans:				
Beginning Balance	15,320	25,670	16,769	36,964
Additions	1,882	4,814	12,146	16,667
Charge-Offs	(919)	(2,317)	(3,872)	(6,624)
Transferred to OREO	(1,242)	(2,822)	(2,947)	(11,139)
Paid Off/Payments	(563)	(672)	(4,176)	(5,721)
Restored to Accrual	(1,340)	(1,191)	(4,782)	(6,665)
Ending Balance	13,138	23,482	13,138	23,482
Change in OREO:				
Beginning Balance	30,167	42,579	35,680	48,071
Additions	1,242	2,854	4,072	12,121
Valuation Write-downs	(269)	(664)	(1,575)	(2,216)
Sales	(5,921)	(2,693)	(12,684)	(15,900)
Other	—	(350)	(274)	(350)
Ending Balance	25,219	41,726	25,219	41,726
NPA Net Change	(7,130)	(3,041)	(14,092)	(19,827)
NPA Ending Balance	\$ 38,357	\$ 65,208	\$ 38,357	\$ 65,208

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

(Dollars in Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
TDR Beginning Balance:	\$ 44,989	\$ 55,872	\$ 49,154	\$ 58,543
Additions	99	1,745	1,254	3,932
Charge-Offs	(289)	(869)	(1,572)	(1,687)
Paid Off/Payments	(1,707)	(1,218)	(4,027)	(3,243)
Removal Due to Change in TDR Status	(4,704)	(50)	(4,906)	(73)
Transfer to OREO	—	(2,117)	(1,515)	(4,109)
TDR Ending Balance	\$ 38,388	\$ 53,363	\$ 38,388	\$ 53,363

Allowance for Loan Losses

We maintain an allowance for loan losses at a level that management believes to be sufficient to provide for probable losses inherent in the loan portfolio as of the balance sheet date. Credit losses arise from borrowers' inability or unwillingness to repay, and from other risks inherent in the lending process, including collateral risk, operations risk, concentration risk and economic risk. All related risks of lending are considered when assessing the adequacy of the loan loss reserve. The allowance for loan losses is established through a provision charged to expense. Loans are charged against the allowance when management believes collection of the principal is unlikely. The allowance for loan losses is based on management's judgment of overall loan quality. This is a significant estimate based on a detailed analysis of the loan portfolio. The balance can and will change based on changes in the assessment of the loan portfolio's overall credit quality. We evaluate the adequacy of the allowance for loan losses on a quarterly basis.

The allowance for loan losses was \$14.7 million as of September 30, 2015 compared to \$15.2 million as of June 30, 2015 and \$19.1 million as of December 31, 2014. The allowance for loan losses was 0.99% of outstanding loans and provided coverage of 112% of nonperforming loans as of September 30, 2015 compared to 1.03% and 99%, respectively, as of June 30, 2015 and 1.22% and 105%, respectively, as of December 31, 2014. The reduction in the allowance from both prior periods was attributable to a lower level of both general reserves and impaired loan reserves. The decrease in general reserves reflects slower problem loan migration, lower loan loss experience, and continued improvement in credit metrics, partially offset by reserves for growth in the loan portfolio. The decrease in impaired loan reserves was driven by a lower level of impaired loans reflecting reduced inflow and successful resolutions as well as lower loss content. It is management's opinion that the allowance as of September 30, 2015 is adequate to absorb losses inherent in the loan portfolio at quarter-end.

Deposits

Average total deposits were \$2.137 billion for the third quarter of 2015, a decrease of \$41.0 million, or 1.9%, from the second quarter of 2015, and an increase of \$60.1 million, or 2.9%, over the fourth quarter of 2014. The decrease in deposits when compared to the second quarter of 2015 primarily reflects a lower level of public fund deposits, and to a lesser degree, certificates of deposit. The higher level of deposits when compared to the fourth quarter of 2014 is primarily attributable to increased balances of noninterest bearing, public fund NOW, and savings accounts, partially offset by a decline in money market accounts and certificates of deposit. The seasonal inflows of public funds began in the fourth quarter of 2014, peaked in the second quarter of 2015, and are expected to decline into the fourth quarter of 2015.

Deposit levels remain strong and our mix of deposits continues to improve as higher cost certificates of deposit are replaced with lower rate non-maturity deposits and noninterest bearing demand accounts. Prudent pricing discipline will continue to be the key to managing our mix of deposits. Therefore, we do not attempt to compete with higher rate paying competitors for 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 market risk and do not participate in activities that give rise to significant market risk involving exchange rates, commodity prices, or equity prices. In asset and liability management activities, our policies are designed to minimize structural interest rate risk.

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

We prepare a current base case and alternative simulations, at least once per quarter, and report the analysis to ALCO. These simulations include ramps, parallel shifts, and a flattening or steepening of the yield curve. In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

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

The balance sheet is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. Average interest rates are shocked by plus or minus 100, 200, 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. This analysis is reported to the Board of Directors. It is management’s goal to structure the balance sheet so that net interest earnings at risk over a 12-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

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

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

ESTIMATED CHANGES IN NET INTEREST INCOME ⁽¹⁾

Changes in Interest Rates	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-15.0%	-12.5%	-10.0%	-7.5%	-7.5%
September 30, 2015	4.2 %	2.2 %	0.7 %	0.4 %	-3.4%
June 30, 2015	2.4 %	0.7 %	-0.3 %	-0.2%	-3.7%

The Net Interest Income at Risk position was more favorable for all rate scenarios at the end of the third quarter of 2015 when compared to the prior quarter-end. These metrics indicate 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 100 basis points will have a slight negative impact on the net interest margin. All measures of net interest income at

risk are within our prescribed policy limits.

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

ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY ⁽¹⁾

Changes in Interest Rates	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-30.0%	-25.0%	-20.0%	-15.0%	-15.0%
September 30, 2015	31.1 %	24.7 %	17.5 %	9.5 %	-25.4%
June 30, 2015	25.9 %	20.7 %	14.6 %	8.0 %	-23.2%

As of September 30, 2015, the economic value of equity in all rate scenarios versus the base case was more favorable than it was as of June 30, 2015, with the exception of the rates down 100 bps scenario. A flattening yield curve resulted in the down 100 bp scenario becoming less favorable, as the core value of nonmaturity deposits declined further. The EVE in the rates down 100 bp scenario is outside of the desired parameters as exposure to falling rates is more extreme due to the low level of current deposit costs and limited capacity to reduce those costs relative to comparable discount benchmarks used to value them. This analysis is reported to the Board of Directors.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

As of September 30, 2015, we have the ability to generate \$1.14 billion in additional liquidity through all of our available resources. In addition to primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. We recognize the importance of maintaining liquidity and have developed a Contingency Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. A liquidity stress test is completed on a quarterly basis based on events that could potentially occur at the Bank with results reported to ALCO, our Market Risk and Oversight Committee, and the Board of Directors. The liquidity available to us is considered sufficient to meet our ongoing needs.

We view our investment portfolio primarily as a source of liquidity and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental and federal agencies, and municipal governments. The weighted average life of the portfolio is approximately 1.97 years, and as of September 30, 2015 had a net unrealized pre-tax gain of \$2.1 million in the available-for-sale portfolio.

The Bank maintained a net funds sold position (deposits with banks plus fed funds sold less fed funds purchased) of \$190.9 million during the third quarter of 2015 compared to a net funds sold position of \$237.1 million in the second quarter of 2015 and \$288.6 million in the fourth quarter of 2014. The decrease in the funds sold position compared to the second quarter of 2015 reflects growth in both the investment and loan portfolios and lower public fund balances. The decrease relative to the fourth quarter of 2014 is primarily attributable to growth in both the loan and investment portfolios, partially offset by an increase in average deposits.

Capital expenditures are estimated to approximate \$4.0 million over the next 12 months, which will consist primarily of office remodeling, office equipment/furniture, and technology purchases. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our ongoing obligations.

Borrowings

As of September 30, 2015, advances from the FHLB consisted of \$29.5 million in outstanding debt which represented 30 notes. During the first nine months of 2015, the Bank made FHLB advance payments totaling approximately \$3.6 million, which includes paying off three advances totaling \$1.5 million. No additional FHLB advances were obtained. 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. 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 90-day LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The interest payment for the CCBG Capital Trust II borrowing is due quarterly and adjusts annually to a variable rate of 90-day LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds of these borrowings were used to partially fund acquisitions.

Capital

Equity capital was \$273.7 million as of September 30, 2015, compared to \$272.0 million as of June 30, 2015 and \$272.5 million as of December 31, 2014. Our leverage ratio was 10.71%, 10.53%, and 10.99%, respectively, as of these dates. Further, as of September 30, 2015, our risk-adjusted capital ratio was 17.24% compared to 16.72% and 17.76% at June 30, 2015 and December 31, 2014, respectively. Our common equity tier 1 ratio was 12.76% as of September 30, 2015 compared to 12.34% as of June 30, 2015. This ratio is not available for 2014 as the first quarter of 2015 was the first reporting period this ratio was applicable under the Basel III capital standards. All of our capital ratios significantly exceed the threshold to be designated as “well-capitalized” under the Basel III capital standards. The reduction in our regulatory capital ratios in 2015 reflects the implementation of Basel III and the repurchase of common stock.

During the first nine months of 2015, shareowners’ equity increased \$1.1 million, or 1.2%, on an annualized basis. During this same period, shareowners’ equity was positively impacted by net income of \$6.5 million, stock compensation accretion of \$0.8 million, a \$1.0 million net increase in the unrealized gain on investment securities, and net adjustments totaling \$0.4 million related to transactions under our stock compensation plans. Shareowners’ equity was reduced by common stock dividends of \$1.6 million and share repurchases totaling \$6.0 million.

As of September 30, 2015, our common stock had a book value of \$15.91 per diluted share compared to \$15.80 as of June 30, 2015 and \$15.53 as of December 31, 2014. Book value is impacted by changes in the amount of our net unrealized gain or loss on investment securities available-for-sale and changes to the amount of our unfunded pension liability both of which are recorded through other comprehensive income. As of September 30, 2015, the net unrealized gain on investment securities available for sale was \$1.1 million and the amount of our unfunded pension liability was \$21.6 million.

In February 2014, our Board of Directors authorized the repurchase of up to 1,500,000 shares of our outstanding common stock. 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. During 2015, we have repurchased 405,228 shares at an average price of \$14.73 per share under the plan.

OFF-BALANCE SHEET ARRANGEMENTS

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

As of September 30, 2015, we had \$358.9 million in commitments to extend credit and \$6.3 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 the Company's ability to meet its ongoing 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 2014 Form 10-K. The preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States ("GAAP") and reporting practices applicable to the banking industry requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates.

We have identified accounting for (i) the allowance for loan and lease losses, (ii) valuation of goodwill, and (iii) pension benefits as our most critical accounting policies and estimates in that they are important to the portrayal of our financial condition and results, and they require our subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2014 Form 10-K.

TABLE I**AVERAGE BALANCES & INTEREST RATES**

(Dollars in Thousands)	Three Months Ended September 30,						Nine Months Ended September 30,				
	2015			2014			2015			2014	
	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate	Average Balances	Average Interest	Average Rate	Average Balances	
Assets:											
Loans ⁽¹⁾⁽²⁾	\$1,483,657	\$18,290	4.89%	\$1,421,327	\$18,590	5.19%	\$1,468,871	\$54,484	4.96%	\$1,409,700	
Taxable Securities ⁽²⁾	543,550	1,347	0.98	387,966	929	0.95	525,498	3,858	0.98	341,924	
Tax-Exempt Securities	92,685	304	1.31	82,583	165	0.80	77,673	677	1.16	97,068	
Funds Sold	190,931	123	0.26	317,553	204	0.25	243,081	463	0.26	397,302	
Total Earning Assets	2,310,823	20,064	3.45%	2,209,429	19,888	3.57%	2,315,123	59,482	3.43%	2,245,996	
Cash & Due From Banks	45,872			44,139			48,977			45,432	
Allowance For Loan Losses	(15,403)			(20,493)			(16,264)			(21,976)	
Other Assets	298,400			297,496			305,113			299,591	
TOTAL ASSETS	\$2,639,692			\$2,530,571			\$2,652,949			\$2,569,000	
Liabilities:											
NOW Accounts	\$709,130	\$60	0.03%	\$680,154	\$66	0.04%	\$754,630	\$192	0.03%	\$724,700	
Money Market Accounts	261,749	31	0.05	270,133	46	0.07	257,525	104	0.05	274,908	
Savings Accounts	258,752	32	0.05	228,741	29	0.05	251,666	93	0.05	225,212	
Other Time Deposits	183,976	97	0.21	202,802	114	0.22	189,242	336	0.24	209,171	
Total Interest Bearing Deposits	1,413,607	220	0.06	1,381,830	255	0.07	1,453,063	725	0.07	1,433,991	
Short-Term Borrowings	61,548	14	0.09	40,782	17	0.17	55,241	50	0.12	43,846	
Subordinated Note Payable	62,887	344	2.14	62,887	333	2.07	62,887	1,014	2.13	62,887	
Other Long-Term Borrowings	29,383	233	3.15	32,792	263	3.20	30,062	710	3.16	34,473	
Total Interest Bearing Liabilities	1,567,425	811	0.21%	1,518,291	868	0.23%	1,601,253	2,499	0.21%	1,575,107	
Noninterest Bearing Deposits	723,826			681,051			706,578			664,916	
Other Liabilities	73,485			47,099			70,226			46,844	
TOTAL LIABILITIES	2,364,736			2,246,441			2,378,057			2,286,900	

TOTAL SHAREOWNERS' EQUITY	274,956	284,130	274,892	282,085
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	\$2,639,692	\$2,530,571	\$2,652,949	\$2,569,000
Interest Rate Spread		3.24%	3.34%	3.23%
Net Interest Income	\$19,253	\$19,020	\$56,983	
Net Interest Margin ⁽³⁾		3.31%	3.42%	3.29%

Average balances include nonaccrual loans. Interest income periods in this table include loan fees of \$359,000 and (1) \$1.1 million for the three and nine months ended September 30, 2015 and \$437,000 and \$1.1 million for the comparable periods ended September 30, 2014.

(2) *Interest income includes the effects of taxable equivalent adjustments using a 35% tax rate.*

(3) *Taxable equivalent net interest income divided by average earning assets.*

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, 2014.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of September 30, 2015, the end of the period covered by this Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of September 30, 2015, 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 the 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 2014 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2014 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*Purchases of Equity Securities by the Issuer and Affiliated Purchasers*

The following table contains information about all purchases made by, or on behalf of, us and any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Exchange Act) of shares or other units of any class of our equity securities that is registered pursuant to Section 12 of the Exchange Act.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of our share repurchase program ⁽¹⁾	Maximum Number of shares that may yet be purchased under our share repurchase program
July 1, 2015 to July 31, 2015	—	\$ —	—	1,087,419
August 1, 2015 to August 31, 2015	11,747	\$ 14.91	11,747	1,075,672
September 1, 2015 to September 30, 2015	500	\$ 14.75	500	1,075,172
Total	12,247	\$ 14.73	12,247	1,075,172

This balance represents the number of shares that were repurchased during the third quarter of 2015 through the Capital City Bank Group, Inc. Share Repurchase Program (the “Program”), which was approved on February 27, (1)2014 for a five-year period, under which we were authorized to repurchase up to 1,500,000 shares of our common stock. The Program is flexible and shares are acquired from the public markets and other sources using free cash flow. No shares are repurchased outside of the Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

None.

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.

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

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

CAPITAL CITY BANK GROUP, INC.

(Registrant)

/s/ J. Kimbrough Davis

J. Kimbrough Davis

Executive Vice President and Chief Financial Officer

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

Date: November 5, 2015

Exhibit Index

<u>Exhibit</u>	<u>Description</u>
31.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document