

CAPITAL CITY BANK GROUP INC  
Form 10-Q  
May 09, 2012

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2012

OR

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

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

Commission File Number: 0-13358

(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of incorporation or organization)

59-2273542  
(I.R.S. Employer Identification No.)

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

32301  
(Zip Code)

(850) 402-7000  
(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.

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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 April 30, 2012, 17,191,090 shares of the Registrant's Common Stock, \$.01 par value, were outstanding.

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CAPITAL CITY BANK GROUP, INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE PERIOD ENDED MARCH 31, 2012  
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INTRODUCTORY NOTE  
Caution Concerning Forward-Looking Statements

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

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, the following sections of our Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 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 need and our ability to incur additional debt or equity financing;
- § the accuracy of our financial statement estimates and assumptions, including the estimate for our loan loss provision;
  - § continued depression of the market value of the Company that could result in an impairment of goodwill;
  - § the frequency and magnitude of foreclosure of our loans;
- § the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
  - § our 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;
- § the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
  - § restrictions on our operations, including the inability to pay dividends without our regulators' consent;
- § the effects of the health and soundness of other financial institutions, including the FDIC's need to increase Deposit Insurance Fund assessments;
  - § our ability to declare and pay dividends;
  - § changes in the securities and real estate markets;
  - § changes in monetary and fiscal policies of the U.S. Government;
  - § inflation, interest rate, market and monetary fluctuations;
  - § the 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;
- § 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;
- § the effects of security breaches and computer viruses that may affect our computer systems;
  - § changes in consumer spending and saving habits;
  - § growth and profitability of our noninterest income;
  - § changes in accounting principles, policies, practices or guidelines;

- § the limited trading activity of our common stock;
- § the concentration of ownership of our common stock;
- § anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- § other risks described from time to time in our filings with the Securities and Exchange Commission; and
- § our ability to manage the risks involved in the foregoing.

However, other factors besides those referenced 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

|                                                                                                                                                                            | Unaudited      |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------------------|
|                                                                                                                                                                            | March 31, 2012 | December 31, 2011 |
| (Dollars In Thousands, Except Share Data)                                                                                                                                  |                |                   |
| <b>ASSETS</b>                                                                                                                                                              |                |                   |
| Cash and Due From Banks                                                                                                                                                    | \$ 50,567      | \$ 54,953         |
| Federal Funds Sold and Interest Bearing Deposits                                                                                                                           | 418,678        | 330,361           |
| Total Cash and Cash Equivalents                                                                                                                                            | 469,245        | 385,314           |
| Investment Securities, Available-for-Sale                                                                                                                                  | 284,490        | 307,149           |
| Loans, Net of Unearned Income                                                                                                                                              | 1,578,884      | 1,628,683         |
| Allowance for Loan Losses                                                                                                                                                  | (31,217)       | (31,035)          |
| Loans, Net                                                                                                                                                                 | 1,547,667      | 1,597,648         |
| Premises and Equipment, Net                                                                                                                                                | 111,408        | 110,991           |
| Goodwill                                                                                                                                                                   | 84,811         | 84,811            |
| Other Intangible Assets                                                                                                                                                    | 565            | 673               |
| Other Real Estate Owned                                                                                                                                                    | 58,100         | 62,600            |
| Other Assets                                                                                                                                                               | 103,992        | 92,126            |
| Total Assets                                                                                                                                                               | \$ 2,660,278   | \$ 2,641,312      |
| <b>LIABILITIES</b>                                                                                                                                                         |                |                   |
| Deposits:                                                                                                                                                                  |                |                   |
| Noninterest Bearing Deposits                                                                                                                                               | \$ 605,774     | \$ 618,317        |
| Interest Bearing Deposits                                                                                                                                                  | 1,579,930      | 1,554,202         |
| Total Deposits                                                                                                                                                             | 2,185,704      | 2,172,519         |
| Short-Term Borrowings                                                                                                                                                      | 42,188         | 43,372            |
| Subordinated Notes Payable                                                                                                                                                 | 62,887         | 62,887            |
| Other Long-Term Borrowings                                                                                                                                                 | 42,826         | 44,606            |
| Other Liabilities                                                                                                                                                          | 75,876         | 65,986            |
| Total Liabilities                                                                                                                                                          | 2,409,481      | 2,389,370         |
| <b>SHAREOWNERS' EQUITY</b>                                                                                                                                                 |                |                   |
| Preferred Stock, \$.01 par value, 3,000,000 shares authorized; no shares outstanding                                                                                       | -              | -                 |
| Common Stock, \$.01 par value, 90,000,000 shares authorized; 17,182,090 and 17,160,274 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively | 172            | 172               |
| Additional Paid-In Capital                                                                                                                                                 | 38,101         | 37,838            |
| Retained Earnings                                                                                                                                                          | 236,299        | 237,461           |
| Accumulated Other Comprehensive Loss, Net of Tax                                                                                                                           | (23,775)       | (23,529)          |
| Total Shareowners' Equity                                                                                                                                                  | 250,797        | 251,942           |

|                                           |    |           |    |           |
|-------------------------------------------|----|-----------|----|-----------|
| Total Liabilities and Shareowners' Equity | \$ | 2,660,278 | \$ | 2,641,312 |
|-------------------------------------------|----|-----------|----|-----------|

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

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

| (Dollars in Thousands, Except Per Share Data)              | Three Months Ended March 31, |                   |
|------------------------------------------------------------|------------------------------|-------------------|
|                                                            | 2012                         | 2011              |
| <b>INTEREST INCOME</b>                                     |                              |                   |
| Interest and Fees on Loans                                 | \$ 22,005                    | \$ 23,947         |
| Taxable Exempt Securities                                  | 794                          | 852               |
| Tax Exempt Securities                                      | 106                          | 219               |
| Federal Funds Sold                                         | 225                          | 171               |
| <b>Total Interest Income</b>                               | <b>23,130</b>                | <b>25,189</b>     |
| <b>INTEREST EXPENSE</b>                                    |                              |                   |
| Deposits                                                   | 643                          | 1,258             |
| Short-Term Borrowings                                      | 8                            | 111               |
| Subordinated Notes Payable                                 | 382                          | 340               |
| Other Long-Term Borrowings                                 | 436                          | 494               |
| <b>Total Interest Expense</b>                              | <b>1,469</b>                 | <b>2,203</b>      |
| <b>NET INTEREST INCOME</b>                                 | <b>21,661</b>                | <b>22,986</b>     |
| Provision for Loan Losses                                  | 4,793                        | 4,133             |
| <b>Net Interest Income After Provision For Loan Losses</b> | <b>16,868</b>                | <b>18,853</b>     |
| <b>NONINTEREST INCOME</b>                                  |                              |                   |
| Service Charges on Deposit Accounts                        | 6,309                        | 5,983             |
| Data Processing                                            | 675                          | 974               |
| Asset Management Fees                                      | 1,015                        | 1,080             |
| Retail Brokerage Fees                                      | 758                          | 729               |
| Mortgage Banking Fees                                      | 848                          | 617               |
| Bank Card Fees                                             | 2,771                        | 2,496             |
| Gain on Sale of Visa Stock                                 | -                            | 3,172             |
| Other                                                      | 1,210                        | 1,283             |
| <b>Total Noninterest Income</b>                            | <b>13,586</b>                | <b>16,334</b>     |
| <b>NONINTEREST EXPENSE</b>                                 |                              |                   |
| Salaries and Associate Benefits                            | 16,843                       | 16,577            |
| Occupancy, Net                                             | 2,266                        | 2,396             |
| Furniture and Equipment                                    | 2,201                        | 2,226             |
| Intangible Amortization                                    | 108                          | 353               |
| Other Real Estate                                          | 3,513                        | 3,677             |
| Other                                                      | 7,666                        | 8,102             |
| <b>Total Noninterest Expense</b>                           | <b>32,597</b>                | <b>33,331</b>     |
| <b>(LOSS) INCOME BEFORE INCOME TAXES</b>                   | <b>(2,143)</b>               | <b>1,856</b>      |
| Income Tax (Benefit) Expense                               | (981)                        | 546               |
| <b>NET (LOSS) INCOME</b>                                   | <b>\$ (1,162)</b>            | <b>\$ 1,310</b>   |
| <b>BASIC NET (LOSS) INCOME PER SHARE</b>                   | <b>\$ (0.07)</b>             | <b>\$ 0.08</b>    |
| <b>DILUTED NET (LOSS) INCOME PER SHARE</b>                 | <b>\$ (0.07)</b>             | <b>\$ 0.08</b>    |
| <b>Average Basic Shares Outstanding</b>                    | <b>17,181,333</b>            | <b>17,121,602</b> |

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|                                                                                |            |            |
|--------------------------------------------------------------------------------|------------|------------|
| Average Diluted Shares Outstanding                                             | 17,181,333 | 17,130,118 |
| Other Comprehensive (Loss) Income:                                             |            |            |
| Change in Net Unrealized Gain On<br>Available-For-Sale Securities (net of tax) | (246)      | 34         |
| Total Comprehensive (Loss) Income                                              | \$ (1,408) | \$ 1,344   |

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

## CAPITAL CITY BANK GROUP, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREOWNERS' EQUITY

(Unaudited)

| (Dollars In Thousands,<br>Except Share Data)                                                          | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss, Net of<br>Taxes | Total      |
|-------------------------------------------------------------------------------------------------------|-----------------------|-----------------|----------------------------------|----------------------|----------------------------------------------------------------|------------|
| Balance, January 1, 2012                                                                              | 17,160,274            | \$ 172          | \$ 37,838                        | \$ 237,461           | \$ (23,529)                                                    | \$ 251,942 |
| <b>Comprehensive Income:</b>                                                                          |                       |                 |                                  |                      |                                                                |            |
| Net Loss                                                                                              |                       | -               | -                                | (1,162)              | -                                                              | (1,162)    |
| Change in Net Unrealized<br>Gain on Available-for-Sale<br>Securities (net of tax benefit<br>of \$150) |                       | -               | -                                | -                    | (246)                                                          | (246)      |
| Total Comprehensive Loss                                                                              |                       | -               | -                                | -                    | -                                                              | (1,408)    |
| Stock Performance Plan<br>Compensation                                                                |                       | -               | 56                               | -                    | -                                                              | 56         |
| Issuance of Common Stock                                                                              | 21,816                | -               | 207                              | -                    | -                                                              | 207        |
| Balance, March 31, 2012                                                                               | 17,182,090            | \$ 172          | \$ 38,101                        | \$ 236,299           | \$ (23,775)                                                    | \$ 250,797 |

| (Dollars In Thousands,<br>Except Share Data)                                                         | Shares<br>Outstanding | Common<br>Stock | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss, Net of<br>Taxes | Total      |
|------------------------------------------------------------------------------------------------------|-----------------------|-----------------|----------------------------------|----------------------|----------------------------------------------------------------|------------|
| Balance, January 1, 2011                                                                             | 17,100,081            | \$ 171          | \$ 36,920                        | \$ 237,679           | \$ (15,751)                                                    | \$ 259,019 |
| <b>Comprehensive Income:</b>                                                                         |                       |                 |                                  |                      |                                                                |            |
| Net Income                                                                                           |                       | -               | -                                | 1,310                | -                                                              | 1,310      |
| Change in Net Unrealized<br>Gain on Available-for-Sale<br>Securities (net of tax<br>expense of \$25) |                       | -               | -                                | -                    | 34                                                             | 34         |
| Total Comprehensive<br>Income                                                                        |                       | -               | -                                | -                    | -                                                              | 1,344      |
| Cash Dividends (\$0.10 per<br>share)                                                                 |                       | -               | -                                | (1,713)              | -                                                              | (1,173)    |
| Stock Performance Plan<br>Compensation                                                               |                       | -               | 215                              | -                    | -                                                              | 215        |
| Issuance of Common Stock                                                                             | 27,155                | -               | 413                              | -                    | -                                                              | 413        |
| Balance, March 31, 2011                                                                              | 17,127,236            | \$ 171          | \$ 37,548                        | \$ 237,276           | \$ (15,717)                                                    | \$ 259,278 |

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)                                                                  | Three Months Ended March 31, |            |
|-----------------------------------------------------------------------------------------|------------------------------|------------|
|                                                                                         | 2012                         | 2011       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                             |                              |            |
| Net (Loss) Income                                                                       | \$ (1,162)                   | \$ 1,310   |
| Adjustments to Reconcile Net (Loss) Income to<br>Cash Provided by Operating Activities: |                              |            |
| Provision for Loan Losses                                                               | 4,793                        | 4,133      |
| Depreciation                                                                            | 1,669                        | 1,753      |
| Amortization of Premiums, Discounts, and Fees (net)                                     | 827                          | 1,023      |
| Amortization of Intangible Assets                                                       | 108                          | 353        |
| Net Decrease in Loans Held-for-Sale                                                     | 7,664                        | 4,081      |
| Stock-Based Compensation                                                                | 56                           | 215        |
| Deferred Income Taxes                                                                   | 277                          | 918        |
| Loss on Sales and Write-Downs of Other Real Estate Owned                                | 2,097                        | 2,672      |
| Net (Increase) Decrease in Other Assets                                                 | (11,993)                     | 745        |
| Net Increase in Other Liabilities                                                       | 9,890                        | 3,440      |
| Net Cash Provided By Operating Activities                                               | 14,226                       | 20,643     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                             |                              |            |
| Securities Available-for-Sale:                                                          |                              |            |
| Purchases                                                                               | (18,986)                     | (24,677)   |
| Sales                                                                                   | 805                          | -          |
| Payments, Maturities, and Calls                                                         | 39,586                       | 22,090     |
| Net Decrease in Loans                                                                   | 33,479                       | 25,020     |
| Proceeds From Sales of Other Real Estate Owned                                          | 6,479                        | 8,979      |
| Purchases of Premises and Equipment                                                     | (2,086)                      | (315)      |
| Net Cash Provided By Investing Activities                                               | 59,277                       | 31,097     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                             |                              |            |
| Net Increase in Deposits                                                                | 13,185                       | 43,071     |
| Net Decrease in Short-Term Borrowings                                                   | (2,731)                      | (6,278)    |
| Increase in Other Long-Term Borrowings                                                  | 560                          | 790        |
| Repayment of Other Long-Term Borrowings                                                 | (793)                        | (841)      |
| Dividends Paid                                                                          | -                            | (1,713)    |
| Issuance of Common Stock                                                                | 207                          | 413        |
| Net Cash Provided by Financing Activities                                               | 10,428                       | 35,442     |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                        | 83,931                       | 87,182     |
| Cash and Cash Equivalents at Beginning of Period                                        | 385,314                      | 236,193    |
| Cash and Cash Equivalents at End of Period                                              | \$ 469,245                   | \$ 323,375 |
| <b>Supplemental Disclosure:</b>                                                         |                              |            |
| Loans Transferred to Other Real Estate Owned                                            | \$ 4,076                     | \$ 9,078   |
| Transfer of Current Portion of Long-Term Borrowings                                     | \$ 1,547                     | \$ -       |

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

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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. Operating results for the three-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

The consolidated statement of financial condition at December 31, 2011 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, 2011.

NOTE 2 - INVESTMENT SECURITIES

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

| (Dollars in Thousands)            | March 31, 2012 |                  |                   |              |
|-----------------------------------|----------------|------------------|-------------------|--------------|
|                                   | Amortized Cost | Unrealized Gains | Unrealized Losses | Market Value |
| U.S. Treasury                     | \$ 143,726     | \$ 1,093         | \$ -              | \$ 144,819   |
| U.S. Government Agency            | 22,715         | 45               | 35                | 22,725       |
| States and Political Subdivisions | 58,323         | 164              | 28                | 58,459       |
| Mortgage-Backed Securities        | 46,453         | 739              | 62                | 47,130       |
| Other Securities(1)               | 11,957         | -                | 600               | 11,357       |
| Total Investment Securities       | \$ 283,174     | \$ 2,041         | \$ 725            | \$ 284,490   |

| (Dollars in Thousands) | December 31, 2011 |                  |                   |              |
|------------------------|-------------------|------------------|-------------------|--------------|
|                        | Amortized Cost    | Unrealized Gains | Unrealized Losses | Market Value |

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|                                   |    |         |    |       |    |     |    |         |
|-----------------------------------|----|---------|----|-------|----|-----|----|---------|
| U.S. Treasury                     | \$ | 168,001 | \$ | 1,463 | \$ | -   | \$ | 169,464 |
| U.S. Government Agency            |    | 14,758  |    | 27    |    | 48  |    | 14,737  |
| States and Political Subdivisions |    | 58,946  |    | 186   |    | 38  |    | 59,094  |
| Mortgage-Backed Securities        |    | 51,775  |    | 809   |    | 87  |    | 52,497  |
| Other Securities(1)               |    | 11,957  |    | -     |    | 600 |    | 11,357  |
| Total Investment Securities       | \$ | 305,437 | \$ | 2,485 | \$ | 773 | \$ | 307,149 |

(1) Includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of \$6.5 million and \$4.8 million, respectively, at March 31, 2012 and December 31, 2011.

Securities with an amortized cost of \$153.8 million and \$102.1 million at March 31, 2012 and December 31, 2011, respectively, were pledged to secure public deposits and for other purposes.

The Company's subsidiary, Capital City Bank, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta, is required to own capital stock in the FHLB of Atlanta 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 March 31, 2012, the Company's investment securities had the following maturity distribution based on contractual maturities:

| (Dollars in Thousands)           | Amortized Cost | Market Value |
|----------------------------------|----------------|--------------|
| Due in one year or less          | \$ 118,346     | \$ 118,646   |
| Due after one through five years | 151,800        | 153,329      |
| Due after five through ten years | 1,071          | 1,158        |
| Due over ten years               | -              | -            |
| No Maturity                      | 11,957         | 11,357       |
| Total Investment Securities      | \$ 283,174     | \$ 284,490   |

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

**Other Than Temporarily Impaired Securities.** The following table summarizes the investment securities with unrealized losses aggregated by major security type and length of time in a continuous unrealized loss position:

| (Dollars in Thousands)                         | Less Than<br>12 Months |                      | Greater Than<br>12 Months |                      | Total           |                      |
|------------------------------------------------|------------------------|----------------------|---------------------------|----------------------|-----------------|----------------------|
|                                                | Market<br>Value        | Unrealized<br>Losses | Market<br>Value           | Unrealized<br>Losses | Market<br>Value | Unrealized<br>Losses |
| U.S. Treasury                                  | \$ -                   | \$ -                 | \$ -                      | \$ -                 | \$ -            | \$ -                 |
| U.S. Government Agency<br>States and Political | 9,210                  | 35                   | -                         | -                    | 9,210           | 35                   |
| Subdivisions                                   | 12,687                 | 28                   | -                         | -                    | 12,687          | 28                   |
| Mortgage-Backed Securities                     | 7,309                  | 55                   | 1,412                     | 7                    | 8,721           | 62                   |
| Other Securities                               | -                      | -                    | 600                       | 600                  | 600             | 600                  |
| Total Investment Securities                    | \$ 29,206              | \$ 118               | \$ 2,012                  | \$ 607               | \$ 31,218       | \$ 725               |

| (Dollars in Thousands)                         | Less Than<br>12 Months |                      | Greater Than<br>12 Months |                      | Total           |                      |
|------------------------------------------------|------------------------|----------------------|---------------------------|----------------------|-----------------|----------------------|
|                                                | Market<br>Value        | Unrealized<br>Losses | Market<br>Value           | Unrealized<br>Losses | Market<br>Value | Unrealized<br>Losses |
| U.U.S. Treasury                                | \$ 9,698               | \$ 48                | \$ -                      | \$ -                 | \$ 9,698        | \$ 48                |
| U.S. Government Agency<br>States and Political | -                      | -                    | -                         | -                    | -               | -                    |
| Subdivisions                                   | 14,597                 | 38                   | -                         | -                    | 14,597          | 38                   |
| Mortgage-Backed Securities                     | 11,612                 | 87                   | 37                        | -                    | 11,649          | 87                   |

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|                             |           |        |        |        |           |        |
|-----------------------------|-----------|--------|--------|--------|-----------|--------|
| Other Securities            | -         | -      | 600    | 600    | 600       | 600    |
| Total Investment Securities | \$ 35,907 | \$ 173 | \$ 637 | \$ 600 | \$ 36,544 | \$ 773 |

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.

At March 31, 2012, the Company had securities of \$283.2 million with net pre-tax unrealized gains of \$1.3 million on these securities, of which \$31.2 million have unrealized losses totaling \$0.7 million. Approximately \$0.1 million of these securities have been in a loss position for less than 12 months. These securities are primarily in a loss position because they were acquired when the general level of interest rates was lower than that on March 31, 2012. The Company believes that the losses in these 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 has the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2012. One preferred bank stock issue for \$0.6 million has been in a loss position for greater than 12 months. The Company continues to closely monitor the fair value of this security as the subject bank continues to experience negative operating trends.

### NOTE 3 – LOANS, NET

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

| (Dollars in Thousands)                 | March 31,<br>2012 | December<br>31, 2011 |
|----------------------------------------|-------------------|----------------------|
| Commercial, Financial and Agricultural | \$ 132,119        | \$ 130,879           |
| Real Estate-Construction               | 30,238            | 18,892               |
| Real Estate-Commercial Mortgage        | 624,528           | 639,140              |
| Real Estate-Residential(1)             | 361,433           | 385,621              |
| Real Estate-Home Equity                | 240,800           | 244,263              |
| Real Estate-Loans Held-for-Sale        | 13,561            | 21,225               |
| Consumer                               | 176,205           | 188,663              |
| Loans, Net of Unearned Income          | \$ 1,578,884      | \$ 1,628,683         |

(1) Includes loans in process with outstanding balances of \$6.6 million and \$12.5 million for March 31, 2012 and December 31, 2011, respectively.

Net deferred fees included in loans were \$1.6 million at March 31, 2012 and December 31, 2011, respectively.

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:

| (Dollars in Thousands)                 | 30-59<br>DPD | 60-89<br>DPD | Over 90<br>DPD | Total<br>Past Due | Total<br>Current | Total<br>Loans |
|----------------------------------------|--------------|--------------|----------------|-------------------|------------------|----------------|
| March 31, 2012                         |              |              |                |                   |                  |                |
| Commercial, Financial and Agricultural | \$ 596       | \$ 32        | \$ -           | \$ 628            | \$ 130,683       | \$ 132,119     |
| Real Estate - Construction             | 310          | -            | -              | 310               | 33,302           | 34,554         |
| Real Estate - Commercial Mortgage      | 1,640        | 13           | -              | 1,653             | 580,594          | 624,528        |
| Real Estate - Residential              | 3,238        | 471          | 12             | 3,721             | 334,957          | 364,123        |
| Real Estate - Home Equity              | 879          | 245          | 13             | 1,137             | 235,565          | 240,800        |

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|                                           |              |              |                |                   |                  |                |
|-------------------------------------------|--------------|--------------|----------------|-------------------|------------------|----------------|
| Consumer                                  | 1,459        | 310          | -              | 1,769             | 180,445          | 182,760        |
| Total Past Due Loans                      | \$ 8,122     | \$ 1,071     | \$ 25          | \$ 9,218          | \$ 1,495,546     | \$ 1,578,884   |
| (Dollars in Thousands)                    | 30-59<br>DPD | 60-89<br>DPD | Over 90<br>DPD | Total<br>Past Due | Total<br>Current | Total<br>Loans |
| December 31, 2011                         |              |              |                |                   |                  |                |
| Commercial, Financial<br>and Agricultural | \$ 307       | \$ 49        | \$ 46          | \$ 402            | \$ 129,722       | \$ 130,879     |
| Real Estate -<br>Construction             | -            | -            | -              | -                 | 26,034           | 26,367         |
| Real Estate -<br>Commercial Mortgage      | 3,070        | 646          | -              | 3,716             | 592,604          | 639,140        |
| Real Estate - Residential                 | 7,983        | 3,031        | 58             | 11,072            | 350,133          | 386,877        |
| Real Estate - Home<br>Equity              | 1,139        | 500          | 95             | 1,734             | 238,246          | 244,263        |
| Consumer                                  | 2,355        | 345          | 25             | 2,725             | 197,272          | 201,157        |
| Total Past Due Loans                      | \$ 14,854    | \$ 4,571     | \$ 224         | \$ 19,649         | \$ 1,534,011     | \$ 1,628,683   |

Nonaccrual Loans. Loans are generally placed on non-accrual status if principal or interest payments become 90 days past due and/or management deems the collectability of the principal and/or interest to be doubtful. 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:

|                                        | March 31, 2012 |              | December 31, 2011 |              |
|----------------------------------------|----------------|--------------|-------------------|--------------|
|                                        | Nonaccrual     | Over 90 Days | Nonaccrual        | Over 90 Days |
| (Dollars in Thousands)                 |                |              |                   |              |
| Commercial, Financial and Agricultural | \$ 808         | \$ -         | \$ 755            | \$ 46        |
| Real Estate - Construction             | 943            | -            | 334               | -            |
| Real Estate - Commercial Mortgage      | 46,886         | -            | 42,820            | -            |
| Real Estate - Residential              | 25,445         | 12           | 25,671            | 58           |
| Real Estate - Home Equity              | 4,098          | 13           | 4,283             | 95           |
| Consumer                               | 546            | -            | 1,160             | 25           |
| Total Nonaccrual Loans                 | \$ 78,726      | \$ 25        | \$ 75,023         | \$ 224       |

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:

|                                        | Unpaid Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Related Allowance |
|----------------------------------------|--------------------------|---------------------------------------|------------------------------------|-------------------|
| (Dollars in Thousands)                 |                          |                                       |                                    |                   |
| March 31, 2012:                        |                          |                                       |                                    |                   |
| Commercial, Financial and Agricultural | \$ 1,809                 | \$ 1,000                              | \$ 809                             | \$ 241            |
| Real Estate - Construction             | 1,266                    | 82                                    | 1,184                              | 123               |
| Real Estate - Commercial Mortgage      | 69,898                   | 33,982                                | 35,916                             | 5,543             |
| Real Estate - Residential              | 33,826                   | 5,868                                 | 27,958                             | 4,789             |
| Real Estate - Home Equity              | 3,355                    | 652                                   | 2,703                              | 580               |
| Consumer                               | 46                       | 15                                    | 31                                 | 26                |
| Total                                  | \$ 110,200               | \$ 41,599                             | \$ 68,601                          | \$ 11,302         |
| December 31, 2011:                     |                          |                                       |                                    |                   |
| Commercial, Financial and Agricultural | \$ 1,653                 | \$ 671                                | \$ 982                             | \$ 311            |
| Real Estate - Construction             | 511                      | -                                     | 511                                | 68                |
| Real Estate - Commercial Mortgage      | 65,624                   | 19,987                                | 45,637                             | 5,828             |
| Real Estate - Residential              | 36,324                   | 6,897                                 | 29,427                             | 4,702             |
| Real Estate - Home Equity              | 3,527                    | 645                                   | 2,882                              | 239               |
| Consumer                               | 143                      | 90                                    | 53                                 | 26                |
| Total                                  | \$ 107,782               | \$ 28,290                             | \$ 79,492                          | \$ 11,174         |



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

| (Dollars in Thousands)                 | Three Months Ended March 31,      |                             |                                   |                             |
|----------------------------------------|-----------------------------------|-----------------------------|-----------------------------------|-----------------------------|
|                                        | 2012                              |                             | 2011                              |                             |
|                                        | Average<br>Recorded<br>Investment | Total<br>Interest<br>Income | Average<br>Recorded<br>Investment | Total<br>Interest<br>Income |
| Commercial, Financial and Agricultural | \$ 1,731                          | \$ 20                       | \$ 1,540                          | \$ 34                       |
| Real Estate - Construction             | 889                               | 4                           | 2,561                             | 8                           |
| Real Estate - Commercial Mortgage      | 67,761                            | 481                         | 46,064                            | 315                         |
| Real Estate - Residential              | 35,075                            | 235                         | 34,757                            | 288                         |
| Real Estate - Home Equity              | 3,441                             | 25                          | 3,308                             | 26                          |
| Consumer                               | 95                                | 4                           | 141                               | 14                          |
| Total                                  | \$ 108,992                        | \$ 769                      | \$ 88,371                         | \$ 685                      |

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 defer cash payments required as part of the loan agreement through either a principal moratorium or extension of the loan term. 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.

The following table presents loans classified as TDRs:

| (Dollars in Thousands)                 | March 31, 2012 |             | December 31, 2011 |             |
|----------------------------------------|----------------|-------------|-------------------|-------------|
|                                        | Accruing       | Nonaccruing | Accruing          | Nonaccruing |
| Commercial, Financial and Agricultural | \$ 956         | \$ 200      | \$ 694            | \$ -        |
| Real Estate - Construction             | 323            | -           | 178               | -           |
| Real Estate - Commercial Mortgage      | 21,199         | 11,382      | 20,062            | 12,029      |
| Real Estate - Residential              | 13,977         | 1,192       | 15,553            | 947         |
| Real Estate - Home Equity              | 897            | -           | 1,161             | -           |
| Consumer                               | 21             | -           | 27                | -           |
| Total TDRs                             | \$ 37,373      | \$ 12,774   | \$ 37,675         | \$ 12,976   |

Loans classified as TDRs during the three months ended March 31, 2012 are presented in the table below. The modifications made during the reporting period involved either an extension of the loan term or a principal moratorium and the financial impact of these modifications was not material.

| (Dollars in Thousands)                 | Number of<br>Contracts | Pre-Modified           | Post-Modified          |
|----------------------------------------|------------------------|------------------------|------------------------|
|                                        |                        | Recorded<br>Investment | Recorded<br>Investment |
| Commercial, Financial and Agricultural | 4                      | \$ 656                 | \$ 660                 |
| Real Estate - Construction             | -                      | -                      | -                      |
| Real Estate - Commercial Mortgage      | 13                     | 4,565                  | 4,695                  |
| Real Estate - Residential              | 8                      | 859                    | 909                    |
| Real Estate - Home Equity              | -                      | -                      | -                      |

|            |    |    |       |    |       |
|------------|----|----|-------|----|-------|
| Consumer   | -  |    | -     |    | -     |
| Total TDRs | 25 | \$ | 6,080 | \$ | 6,264 |

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Loans modified as TDRs within the previous 12 months that have subsequently defaulted during the three months ended March 31, 2012 are presented in the table below.

| (Dollars in Thousands)                 | Number<br>of<br>Contracts | Post-Modified<br>Recorded<br>Investment |
|----------------------------------------|---------------------------|-----------------------------------------|
| Commercial, Financial and Agricultural | -                         | \$ -                                    |
| Real Estate - Construction             | -                         | -                                       |
| Real Estate - Commercial Mortgage      | 3                         | 1,562                                   |
| Real Estate - Residential              | 7                         | 1,038                                   |
| Real Estate - Home Equity              | 1                         | 157                                     |
| Consumer                               | -                         | -                                       |
| Total TDRs                             | 11                        | \$ 2,757                                |

**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 reviews and approves 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 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 categories 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/perm 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. 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 Commercial Mortgage –** Loans in this category consists of commercial mortgage loans secured by property that is either owner-occupied or investment in nature. These loans are primarily made based on identified cash flows of the borrower or project with consideration given to underlying real estate collateral and personal

guarantees. Lending policy establishes debt service coverage ratios and loan to value ratios specific to the property type. Collateral values are determined based upon third party appraisals and evaluations.

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

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

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

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

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

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

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

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

| (Dollars in Thousands) | Commercial,<br>Financial,<br>Agriculture | Real Estate | Consumer | Total      |
|------------------------|------------------------------------------|-------------|----------|------------|
| March 31, 2012         |                                          |             |          |            |
| Special Mention        | \$ 9,835                                 | \$ 48,931   | \$ 54    | \$ 58,820  |
| Substandard            | 10,300                                   | 207,959     | 1,037    | 219,296    |
| Doubtful               | 37                                       | 6,221       | -        | 6,258      |
| Total Criticized Loans | \$ 20,172                                | \$ 263,111  | \$ 1,091 | \$ 284,374 |

| (Dollars in Thousands) | Commercial,<br>Financial,<br>Agriculture | Real Estate | Consumer | Total      |
|------------------------|------------------------------------------|-------------|----------|------------|
| December 31, 2011      |                                          |             |          |            |
| Special Mention        | \$ 4,883                                 | \$ 43,787   | \$ 79    | \$ 48,749  |
| Substandard            | 9,804                                    | 202,734     | 1,699    | 214,237    |
| Doubtful               | 111                                      | 7,763       | -        | 7,874      |
| Total Criticized Loans | \$ 14,798                                | \$ 254,284  | \$ 1,778 | \$ 270,860 |

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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 for the three months ended March 31, 2012 and 2011. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

| (Dollars in<br>Thousands)                         | Commercial,<br>Financial,<br>Agricultural | Real Estate<br>Construction | Real Estate<br>Commercial<br>Mortgage | Real Estate<br>Residential | Real<br>Estate<br>Home<br>Equity | Consumer | Unallocated | Total     |
|---------------------------------------------------|-------------------------------------------|-----------------------------|---------------------------------------|----------------------------|----------------------------------|----------|-------------|-----------|
| <b>March 31, 2012</b>                             |                                           |                             |                                       |                            |                                  |          |             |           |
| Beginning<br>Balance                              | \$ 1,534                                  | \$ 1,133                    | \$ 10,660                             | \$ 12,518                  | \$ 3,392                         | \$ 1,887 | \$ 911      | \$ 31,035 |
| Provision for Loan<br>Losses                      | 158                                       | 628                         | 1,166                                 | 1,511                      | 1,207                            | 41       | 82          | 4,793     |
| Charge-Offs                                       | (268)                                     | -                           | (1,532)                               | (1,967)                    | (892)                            | (732)    | -           | (5,391)   |
| Recoveries                                        | 69                                        | -                           | 138                                   | 163                        | 18                               | 392      | -           | 780       |
| Net Charge-Offs                                   | (199)                                     | -                           | (1,394)                               | (1,804)                    | (874)                            | (340)    | -           | (4,611)   |
| Ending Balance                                    | \$ 1,493                                  | \$ 1,761                    | \$ 10,432                             | \$ 12,225                  | \$ 2,725                         | \$ 1,588 | \$ 993      | \$ 31,217 |
| Period-end<br>amount allocated<br>to:             |                                           |                             |                                       |                            |                                  |          |             |           |
| Loans Individually<br>Evaluated for<br>Impairment | 241                                       | \$ 123                      | \$ 5,543                              | \$ 4,789                   | \$ 580                           | \$ 26    | \$ -        | \$ 11,302 |
| Loans Collectively<br>Evaluated for<br>Impairment | 1,252                                     | 1,638                       | 4,889                                 | 7,436                      | 2,145                            | 1,562    | 993         | 19,915    |
| Ending Balance                                    | \$ 1,493                                  | \$ 1,761                    | \$ 10,432                             | \$ 12,225                  | \$ 2,725                         | \$ 1,588 | \$ 993      | \$ 31,217 |
| <b>March 31, 2011</b>                             |                                           |                             |                                       |                            |                                  |          |             |           |
| Beginning<br>Balance                              | 1,544                                     | \$ 2,060                    | \$ 8,645                              | \$ 17,046                  | \$ 2,522                         | \$ 2,612 | \$ 1,007    | \$ 35,436 |
| Provision for Loan<br>Losses                      | 553                                       | (566)                       | 1,810                                 | 1,887                      | 1,065                            | (554)    | (62)        | 4,133     |
| Charge-Offs                                       | (721)                                     | -                           | (430)                                 | (3,456)                    | (989)                            | (620)    | -           | (6,216)   |
| Recoveries                                        | 63                                        | 9                           | 12                                    | 60                         | 36                               | 340      | -           | 520       |
| Net Charge-Offs                                   | (658)                                     | 9                           | (418)                                 | (3,396)                    | (953)                            | (280)    | -           | (5,696)   |
| Ending Balance                                    | \$ 1,439                                  | \$ 1,503                    | \$ 10,037                             | \$ 15,537                  | \$ 2,634                         | \$ 1,778 | \$ 945      | \$ 33,873 |
| Period-end<br>amount allocated<br>to:             |                                           |                             |                                       |                            |                                  |          |             |           |
| Loans Individually<br>Evaluated for<br>Impairment | 174                                       | 481                         | 5,508                                 | 7,165                      | 1,212                            | 58       | -           | \$ 14,598 |

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|                                                   |          |          |           |           |          |          |        |           |
|---------------------------------------------------|----------|----------|-----------|-----------|----------|----------|--------|-----------|
| Loans Collectively<br>Evaluated for<br>Impairment | 1,265    | 1,022    | 4,529     | 8,372     | 1,422    | 1,720    | 945    | 19,275    |
| Ending Balance                                    | \$ 1,439 | \$ 1,503 | \$ 10,037 | \$ 15,537 | \$ 2,634 | \$ 1,778 | \$ 945 | \$ 33,873 |

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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:

|                                                | Commercial,<br>Financial,<br>Agricultural | Real Estate<br>Construction | Real Estate<br>Commercial<br>Mortgage | Real Estate<br>Residential | Real<br>Estate<br>Home<br>Equity | Consumer   | Unallocated | Total        |
|------------------------------------------------|-------------------------------------------|-----------------------------|---------------------------------------|----------------------------|----------------------------------|------------|-------------|--------------|
| (Dollars in<br>Thousands)<br>March 31,<br>2012 |                                           |                             |                                       |                            |                                  |            |             |              |
| Individually<br>Evaluated<br>for<br>Impairment | \$ 1,809                                  | \$ 1,266                    | \$ 69,898                             | \$ 33,826                  | \$ 3,355                         | \$ 46      | \$ -        | \$ 110,200   |
| Collectively<br>Evaluated<br>for<br>Impairment | \$ 130,310                                | \$ 33,288                   | \$ 554,630                            | \$ 330,298                 | \$ 237,445                       | \$ 182,713 | \$ -        | \$ 1,468,684 |
| Total                                          | \$ 132,119                                | \$ 34,554                   | \$ 624,528                            | \$ 364,124                 | \$ 240,800                       | \$ 182,759 | \$ -        | \$ 1,578,884 |
| March 31,<br>2011                              |                                           |                             |                                       |                            |                                  |            |             |              |
| Individually<br>Evaluated<br>for<br>Impairment | \$ 1,397                                  | \$ 2,589                    | \$ 49,758                             | \$ 31,734                  | \$ 3,338                         | \$ 138     | \$ -        | \$ 88,954    |
| Collectively<br>Evaluated<br>for<br>Impairment | \$ 152,563                                | \$ 33,025                   | \$ 618,825                            | \$ 377,568                 | \$ 245,407                       | \$ 198,452 | \$ -        | \$ 1,625,840 |
| Total                                          | \$ 153,960                                | \$ 35,614                   | \$ 668,583                            | \$ 409,302                 | \$ 248,745                       | \$ 198,590 | \$ -        | \$ 1,714,794 |

#### NOTE 4 - INTANGIBLE ASSETS

The Company had net intangible assets of \$85.4 million and \$85.5 million at March 31, 2012 and December 31, 2011, respectively. Intangible assets were as follows:

|                                  | March 31, 2012  |                             | December 31, 2011 |                             |
|----------------------------------|-----------------|-----------------------------|-------------------|-----------------------------|
| (Dollars in Thousands)           | Gross<br>Amount | Accumulated<br>Amortization | Gross<br>Amount   | Accumulated<br>Amortization |
| Core Deposit Intangibles         | \$ 47,176       | \$ 46,978                   | \$ 47,176         | \$ 46,918                   |
| Goodwill                         | 84,811          | -                           | 84,811            | -                           |
| Customer Relationship Intangible | 1,867           | 1,500                       | 1,867             | 1,452                       |
| Total Intangible Assets          | \$ 133,854      | \$ 48,478                   | \$ 133,854        | \$ 48,370                   |

Net Core Deposit Intangibles: As of March 31, 2012 and December 31, 2011, the Company had net core deposit intangibles of \$0.2 million and \$0.3 million, respectively. Amortization expense for the first three months of 2012 and 2011 was approximately \$0.1 million and \$0.3 million, respectively. Estimated annual amortization expense for

2012 is \$0.2 million. All of our core deposit intangibles will be fully amortized in January 2013.

Goodwill: As of March 31, 2012 and December 31, 2011, the Company had goodwill of \$84.8 million.

Goodwill is tested for impairment on an annual basis, or more often if impairment indicators exist. A goodwill impairment test consists of two steps. Step One compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess.

As of March 31, 2012, the book value of the Company's equity exceeded its market capitalization, and as such the Company performed goodwill impairment testing. The Step One test indicated that the carrying amount (including goodwill) of the Company's reporting unit exceeded its estimated fair value. The Step Two test indicated the estimated fair value of our reporting unit's implied goodwill exceeded its carrying amount. Based on the results of the Step Two analysis, the Company concluded that goodwill was not impaired as of March 31, 2012. The Company will continue to evaluate goodwill for impairment as defined by ASC Topic 350.

Other: As of March 31, 2012 and December 31, 2011, the Company had a customer relationship intangible asset, net of accumulated amortization, of \$0.4 million, respectively. This intangible asset was recorded as a result of the March 2004 acquisition of trust customer relationships. Amortization expense for the first three months of 2012 and 2011 was approximately \$48,000. Estimated annual amortization expense is approximately \$0.2 million based on use of a 10-year useful life.

## NOTE 5 - DEPOSITS

The composition of the Company's interest bearing deposits were as follows:

| (Dollars in Thousands)          | March 31,<br>2012 | December<br>31, 2011 |
|---------------------------------|-------------------|----------------------|
| NOW Accounts                    | \$ 845,149        | \$ 828,990           |
| Money Market Accounts           | 283,224           | 276,910              |
| Savings Deposits                | 172,262           | 158,462              |
| Other Time Deposits             | 279,295           | 289,840              |
| Total Interest Bearing Deposits | \$ 1,579,930      | \$ 1,554,202         |

## NOTE 6 - EMPLOYEE BENEFIT PLANS

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

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

| (Dollars in Thousands)             | Three Months Ended<br>March 31, |          |
|------------------------------------|---------------------------------|----------|
|                                    | 2012                            | 2011     |
| Service Cost                       | \$ 1,750                        | \$ 1,550 |
| Interest Cost                      | 1,375                           | 1,325    |
| Expected Return on Plan Assets     | (1,700)                         | (1,650)  |
| Prior Service Cost Amortization    | 100                             | 125      |
| Net Loss Amortization              | 850                             | 550      |
| Net Periodic Benefit Cost          | \$ 2,375                        | \$ 1,900 |
| Discount Rate                      | 5.00%                           | 5.55%    |
| Long-Term Rate of Return on Assets | 8.00%                           | 8.00%    |

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

| (Dollars in Thousands)          | Three Months Ended<br>March 31, |         |
|---------------------------------|---------------------------------|---------|
|                                 | 2012                            | 2011    |
| Service Cost                    | \$ -                            | \$ -    |
| Interest Cost                   | 46                              | 40      |
| Prior Service Cost Amortization | 48                              | 45      |
| Net Gain Amortization           | (98)                            | (98)    |
| Net Periodic Benefit Cost       | \$ (4)                          | \$ (13) |
| Discount Rate                   | 5.00%                           | 5.55%   |



## NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

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

| (Dollars in<br>Thousands)          | March 31, 2012   |                   |                   | December 31, 2011 |                   |                   |
|------------------------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                    | Fixed            | Variable          | Total             | Fixed             | Variable          | Total             |
| Commitments to<br>Extend Credit(1) | \$ 48,425        | \$ 249,751        | \$ 298,176        | \$ 38,432         | \$ 257,081        | \$ 295,513        |
| Standby Letters of<br>Credit       | 13,385           | -                 | 13,385            | 10,920            | -                 | 10,920            |
| <b>Total</b>                       | <b>\$ 61,810</b> | <b>\$ 249,751</b> | <b>\$ 311,561</b> | <b>\$ 49,352</b>  | <b>\$ 257,081</b> | <b>\$ 306,433</b> |

(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"). 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.

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## NOTE 8 – FAIR VALUE MEASUREMENTS

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

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

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

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

The Company reviews the prices supplied by the independent pricing service, as well as their underlying pricing methodologies, for reasonableness to ensure such prices are aligned with traditional pricing matrices. 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 fairly generic and is easily obtained. From time to time, the Company will validate, on a sample basis, prices supplied by the independent pricing service by comparison to prices obtained from third-party sources or derived using internal models.

**Fair Value Swap.** The Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses and related carrying cost obligations required under the contract.



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

| (Dollars in Thousands)            | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | Total Fair Value |
|-----------------------------------|----------------|----------------|----------------|------------------|
| March 31, 2012                    |                |                |                |                  |
| ASSETS:                           |                |                |                |                  |
| Securities available for sale:    |                |                |                |                  |
| U.S. Treasury                     | \$ 144,819     | \$ -           | \$ -           | \$ 144,819       |
| U.S. Government Agency            | -              | 22,725         | -              | 22,725           |
| States and Political Subdivisions | -              | 58,459         | -              | 58,459           |
| Mortgage-Backed Securities        | -              | 47,130         | -              | 47,130           |
| Other Securities                  | -              | 11,357         | -              | 11,357           |
| LIABILITIES:                      |                |                |                |                  |
| Fair Value Swap                   | -              | -              | 25             | 25               |
| December 31, 2011                 |                |                |                |                  |
| ASSETS:                           |                |                |                |                  |
| Securities available for sale:    |                |                |                |                  |
| U.S. Treasury                     | \$ 169,464     | \$ -           | \$ -           | \$ 169,464       |
| U.S. Government Agency            | 14,737         | -              | -              | 14,737           |
| States and Political Subdivisions | -              | 59,094         | -              | 59,094           |
| Mortgage-Backed Securities        | -              | 52,497         | -              | 52,497           |
| Other Securities                  | -              | 11,357         | -              | 11,357           |
| LIABILITIES:                      |                |                |                |                  |
| Fair Value Swap                   | -              | -              | 572            | 572              |

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

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

**Impaired Loans.** Loans deemed to be impaired are valued based upon the lower of cost or the fair value of the underlying collateral or discounted cash flow analysis. 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. The inputs used in performing discounted cash flow analyses are not observable and therefore is considered a Level 3 input. Impaired loans had a carrying value of \$110.2 million with a valuation allowance of \$11.3 million at March 31, 2012 and \$107.8 million and \$11.2 million, respectively, at December 31, 2011.

**Loans Held for Sale.** Loans held for sale were \$13.6 million and \$21.2 million as of March 31, 2012 and December 31, 2011, respectively. These loans are carried at the lower of cost or fair value and are adjusted to fair value on a non-recurring basis. Fair value is based on observable markets rates for comparable loan products, which is considered a Level 2 fair value measurement.

**Other Real Estate Owned.** During the first three months of 2012, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for possible loan losses based on the

fair value of the foreclosed asset. The fair value of the foreclosed asset is determined by an independent valuation or professional appraisal in conformance with banking regulations. The fair value of foreclosed assets is estimated using Level 3 inputs due to the volatility of the real estate market, and judgment and estimation involved in the real estate valuation process. Foreclosed assets measured at fair value upon initial recognition totaled \$4.1 million during the three months ended March 31, 2012. The Company disposed of \$7.9 million in foreclosed assets and recognized subsequent write-downs totaling \$0.7 million for properties that were re-valued during the three months ended March 31, 2012. The carrying value of foreclosed assets was \$58.1 million at March 31, 2012.

#### Assets and Liabilities Disclosed at Fair Value

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

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

**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 and interest rate 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:

| March 31, 2012                          |                |                |                |                |
|-----------------------------------------|----------------|----------------|----------------|----------------|
| (Dollars in Thousands)                  | Carrying Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| <b>ASSETS:</b>                          |                |                |                |                |
| Cash                                    | \$ 50,567      | \$ 50,567      | \$ -           | \$ -           |
| Short-Term Investments                  | 418,678        | 418,678        | -              | -              |
| Investment Securities                   | 284,490        | 144,819        | 139,671        | -              |
| Loans, Net of Allowance for Loan Losses | 1,547,667      | -              | -              | 1,386,286      |
| <b>LIABILITIES:</b>                     |                |                |                |                |
| Deposits                                | \$ 2,185,704   | \$ -           | \$ 2,186,289   | \$ -           |
| Short-Term Borrowings                   | 42,188         | -              | 40,929         | -              |
| Subordinated Notes Payable              | 62,887         | -              | 62,898         | -              |
| Long-Term Borrowings                    | 42,826         | -              | 46,032         | -              |

| December 31, 2011                       |                |                |                |                |
|-----------------------------------------|----------------|----------------|----------------|----------------|
| (Dollars in Thousands)                  | Carrying Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
| <b>ASSETS:</b>                          |                |                |                |                |
| Cash                                    | \$ 54,953      | \$ 54,953      | \$ -           | \$ -           |
| Short-Term Investments                  | 330,361        | 330,361        | -              | -              |
| Investment Securities                   | 307,149        | 184,201        | 122,948        | -              |
| Loans, Net of Allowance for Loan Losses | 1,597,648      | -              | -              | 1,485,813      |
| <b>LIABILITIES:</b>                     |                |                |                |                |
| Deposits                                | \$ 2,172,519   | \$ -           | \$ 2,173,331   | \$ -           |
| Short-Term Borrowings                   | 43,372         | -              | 42,021         | -              |
| Subordinated Notes Payable              | 62,887         | -              | 62,858         | -              |
| Long-Term Borrowings                    | 44,606         | -              | 47,770         | -              |

All non-financial instruments are excluded from the above table. The disclosures also do not include certain intangible assets such as client relationships, deposit base intangibles and goodwill. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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## NOTE 9 – ACCOUNTING STANDARDS UPDATES

ASU 2011-04, "Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." ASU 2011-04 amends Topic 820, "Fair Value Measurements and Disclosures," to converge the fair value measurement guidance in U.S. generally accepted accounting principles and International Financial Reporting Standards. ASU 2011-04 clarifies the application of existing fair value measurement requirements, changes certain principles in Topic 820 and requires additional fair value disclosures. ASU 2011-04 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial statements.

ASU 2011-05, "Comprehensive Income (Topic 220) - Presentation of Comprehensive Income." ASU 2011-05 amends Topic 220, "Comprehensive Income," to require that all non-owner changes in stockholders' equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, ASU 2011-05 requires entities to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement or statements where the components of net income and the components of other comprehensive income are presented. The option to present components of other comprehensive income as part of the statement of changes in stockholders' equity was eliminated. ASU 2011-03 became effective for the Company on January 1, 2012, however, certain provisions related to the presentation of reclassification adjustments have been deferred by ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," as further discussed below. In connection with the application of ASU 2011-05, the Company's financial statements now include one continuous statement of comprehensive income.

ASU 2011-08, "Intangibles - Goodwill and Other (Topic 350) - Testing Goodwill for Impairment." ASU 2011-08 amends Topic 350, "Intangibles – Goodwill and Other," to give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. ASU 2011-08 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial statements.

ASU 2011-12 "Comprehensive Income (Topic 220) - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASU 2011-12 defers changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments to allow the FASB time to re-deliberate whether to require presentation of such adjustments on the face of the financial statements to show the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. ASU 2011-12 allows entities to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12. ASU 2011-12 became effective for the Company on January 1, 2012, and did not have a significant impact on the Company's financial statements.



## QUARTERLY FINANCIAL DATA (UNAUDITED)

|                                                                                     | 2012       |           | 2011      |           | 2010      |           |           |           |
|-------------------------------------------------------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| (Dollars in<br>Thousands,<br>Except Per Share<br>Data)<br>Summary of<br>Operations: | First      | Fourth    | Third     | Second    | First(1)  | Fourth    | Third     | Second    |
| Interest Income                                                                     | \$ 23,130  | \$ 23,912 | \$ 24,891 | \$ 25,462 | \$ 25,189 | \$ 26,831 | \$ 27,576 | \$ 28,119 |
| Interest Expense                                                                    | 1,469      | 1,515     | 1,791     | 2,208     | 2,203     | 2,473     | 2,792     | 2,845     |
| Net Interest<br>Income                                                              | 21,661     | 22,397    | 23,100    | 23,432    | 22,986    | 24,358    | 24,784    | 25,274    |
| Provision for<br>Loan Losses                                                        | 4,793      | 7,600     | 3,718     | 3,545     | 4,133     | 3,783     | 5,668     | 5,668     |
| Net Interest<br>Income After<br>Provision for<br>Loan Losses                        | 16,868     | 14,797    | 19,382    | 19,891    | 18,853    | 20,575    | 19,449    | 19,606    |
| Noninterest<br>Income                                                               | 13,586     | 13,873    | 14,193    | 14,448    | 16,334    | 14,735    | 13,449    | 13,449    |
| Noninterest<br>Expense                                                              | 32,597     | 31,103    | 30,647    | 31,163    | 33,331    | 33,540    | 32,363    | 32,363    |
| (Loss) Income<br>Before Income<br>Taxes                                             | (2,143)    | (2,433)   | 2,928     | 3,175     | 1,856     | 1,770     | 202       | 202       |
| Income Tax<br>(Benefit)<br>Expense                                                  | (981)      | (1,898)   | 951       | 1,030     | 546       | (148)     | (199)     | (199)     |
| Net (Loss)<br>Income                                                                | \$ (1,162) | \$ (535)  | \$ 1,977  | \$ 2,145  | \$ 1,310  | \$ 1,918  | \$ 401    | \$ 401    |
| Net Interest<br>Income (FTE)                                                        | \$ 21,833  | \$ 22,560 | \$ 23,326 | \$ 23,702 | \$ 23,257 | \$ 24,654 | \$ 25,116 | \$ 25,116 |
| Per Common<br>Share:                                                                |            |           |           |           |           |           |           |           |
| Net (Loss)<br>Income Basic                                                          | \$ (0.07)  | \$ (0.03) | \$ 0.12   | \$ 0.12   | \$ 0.08   | \$ 0.12   | \$ 0.02   | \$ 0.02   |
| Net (Loss)<br>Income Diluted                                                        | (0.07)     | (0.03)    | 0.12      | 0.12      | 0.08      | 0.12      | 0.02      | 0.02      |
| Dividends<br>Declared                                                               | 0.00       | 0.00      | 0.10      | 0.10      | 0.10      | 0.10      | 0.10      | 0.10      |
| Diluted Book<br>Value                                                               | 14.60      | 14.68     | 15.20     | 15.20     | 15.13     | 15.15     | 15.25     | 15.25     |
| Market Price:                                                                       |            |           |           |           |           |           |           |           |
| High                                                                                | 9.91       | 11.11     | 11.18     | 13.12     | 13.80     | 14.19     | 14.24     | 14.24     |
| Low                                                                                 | 7.32       | 9.43      | 9.81      | 9.94      | 11.87     | 11.56     | 10.76     | 10.76     |

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|                                              |              |              |              |              |              |              |              |           |
|----------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|
| Close                                        | 7.45         | 9.55         | 10.38        | 10.26        | 12.68        | 12.60        | 12.14        |           |
| Selected Average Balances:                   |              |              |              |              |              |              |              |           |
| Loans, Net                                   | \$ 1,596,480 | \$ 1,646,715 | \$ 1,667,720 | \$ 1,704,340 | \$ 1,782,916 | \$ 1,807,483 | \$ 1,840,330 |           |
| Earning Assets                               | 2,268,307    | 2,146,463    | 2,202,927    | 2,258,231    | 2,218,602    | 2,273,198    | 2,320,310    |           |
| Total Assets                                 | 2,636,907    | 2,509,915    | 2,563,251    | 2,618,267    | 2,576,793    | 2,626,758    | 2,673,017    |           |
| Deposits                                     | 2,161,388    | 2,032,975    | 2,061,913    | 2,107,301    | 2,115,867    | 2,172,165    | 2,230,379    |           |
| Shareowners' Equity                          | 254,447      | 264,276      | 263,902      | 262,376      | 261,603      | 262,622      | 263,742      |           |
| Common Equivalent Average Shares:            |              |              |              |              |              |              |              |           |
| Basic                                        | 17,181       | 17,160       | 17,152       | 17,127       | 17,122       | 17,095       | 17,087       |           |
| Diluted                                      | 17,181       | 17,161       | 17,167       | 17,139       | 17,130       | 17,096       | 17,088       |           |
| Performance Ratios:                          |              |              |              |              |              |              |              |           |
| Return on Average Assets                     | (0.18)%      | (0.08)%      | 0.31%        | 0.33%        | 0.20%        | 0.30%        | 0.06%        |           |
| Return on Average Equity                     | (1.84)       | (0.80)       | 2.97         | 3.28         | 2.03         | 2.90         | 0.60         |           |
| Net Interest Margin (FTE)                    | 3.87         | 4.17         | 4.20         | 4.21         | 4.14         | 4.41         | 4.38         |           |
| Noninterest Income as % of Operating Revenue |              |              |              |              |              |              |              |           |
| Efficiency Ratio                             | 38.64        | 38.34        | 38.14        | 38.13        | 41.54        | 37.69        | 35.17        |           |
|                                              | 91.73        | 85.08        | 81.40        | 81.41        | 83.30        | 83.75        | 82.08        |           |
| Asset Quality:                               |              |              |              |              |              |              |              |           |
| Allowance for Loan Losses                    | \$ 31,217    | \$ 31,035    | \$ 29,658    | \$ 31,083    | \$ 33,875    | \$ 35,436    | \$ 37,720    | \$ 39,000 |
| Allowance for Loan Losses to Loans           | 1.98%        | 1.91%        | 1.79%        | 1.84%        | 1.98%        | 2.01%        | 2.10%        |           |
| Nonperforming Assets ("NPA's")               | 136,826      | 137,623      | 114,592      | 122,092      | 129,318      | 123,637      | 125,376      | 126,800   |
| NPA's to Total Assets                        | 5.14         | 5.21         | 4.54         | 4.70         | 4.86         | 4.72         | 4.86         |           |
| NPA's to Loans + OREO                        | 8.36         | 8.14         | 6.67         | 6.98         | 7.31         | 6.81         | 6.77         |           |
| Allowance to Non-Performing Loans            | 39.65        | 41.37        | 55.54        | 50.89        | 45.80        | 53.94        | 50.86        |           |
| Net Charge-Offs to Average Loans             | 1.16         | 1.50         | 1.22         | 1.49         | 1.33         | 1.35         | 1.40         |           |
| Capital Ratios:                              |              |              |              |              |              |              |              |           |

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|                        |        |        |        |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|--------|--------|
| Tier 1 Capital Ratio   | 14.17% | 13.96% | 14.05% | 13.83% | 13.46% | 13.24% | 12.93% |
| Total Capital Ratio    | 15.54  | 15.32  | 15.41  | 15.19  | 14.82  | 14.59  | 14.29  |
| Leverage Ratio         | 9.71   | 10.26  | 10.20  | 9.95   | 9.74   | 10.10  | 9.75   |
| Tangible Capital Ratio | 6.42   | 6.51   | 7.19   | 6.96   | 6.73   | 6.82   | 6.98   |

(1) Includes a \$2.6 million (net) pre-tax gain from sale of Visa stock - \$3.2 million gain less \$0.6 million related swap liability.

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## 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 MD&A is divided into subsections entitled "Business Overview," "Financial Overview," "Results of Operations," "Financial Condition," "Market Risk and Interest Rate Sensitivity," "Liquidity and Capital Resources," "Off-Balance Sheet Arrangements," and "Critical Accounting Policies." The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2011 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, are referred to as "CCBG," "Company," "we," "us," or "our."

In this MD&A, we present an operating efficiency ratio which is not calculated based on accounting principles generally accepted in the United States ("GAAP"), but that we believe provides important information regarding our results of operations. Our calculation of the operating efficiency ratio is computed by dividing noninterest expense less intangible amortization, by the sum of tax equivalent net interest income and noninterest income. Management uses this non-GAAP measure as part of its assessment of its performance in managing noninterest expenses. We believe that excluding intangible amortization and merger expenses in our calculations better reflect our periodic expenses and is more reflective of normalized operations.

Although we believe the above-mentioned non-GAAP financial measure enhances investors' understanding of our business and performance this non-GAAP financial measure should not be considered an alternative to GAAP. In addition, there are material limitations associated with the use of this non-GAAP financial measure such as the risks that readers of our financial statements may disagree as to the appropriateness of items included or excluded in this measure and that our measure may not be directly comparable to other companies that calculate this measure differently. Our management compensates for this limitation by providing a detailed reconciliation between GAAP information and the non-GAAP financial measure as detailed below.

Reconciliation of operating efficiency ratio to efficiency ratio:

|                                           | Three Months Ended |    |                      |    |                   |    |
|-------------------------------------------|--------------------|----|----------------------|----|-------------------|----|
|                                           | March 31,<br>2012  |    | December<br>31, 2011 |    | March 31,<br>2011 |    |
| Efficiency ratio                          | 92.03              | %  | 85.37                | %  | 84.19             | %  |
| Effect of intangible amortization expense | (0.30)             | )% | (0.29)               | )% | (0.89)            | )% |
| Operating efficiency ratio                | 91.73              | %  | 85.08                | %  | 83.30             | %  |

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

#### 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 2011 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

##### Our Business

We are a bank holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly-owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 70 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, retail securities brokerage and data processing services.

Our profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest received on earning assets, such as loans and securities, and the interest paid on interest-bearing liabilities, principally deposits and borrowings. Results of operations are also affected by the provision for loan losses, operating expenses such as salaries and employee benefits, occupancy and other operating expenses including income taxes, and noninterest income such as service charges on deposit accounts, asset management and trust fees, retail securities brokerage fees, mortgage banking 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 2011 Form 10-K.

## FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

### Results of Operations

- § Net loss of \$1.2 million, or \$0.07 per diluted share for the first quarter of 2012 compared to a net loss of \$0.5 million, or \$0.03 per diluted share in the fourth quarter of 2011, and net income of \$1.3 million, or \$0.08 per diluted share for the first quarter of 2011. Earnings for the first quarter of 2011 include a \$1.6 million after-tax gain from the sale of our Visa stock.
- § Total credit costs (loan loss provision plus other real estate owned (“OREO”) costs) were \$8.3 million, \$11.0 million, and \$7.8 million for the quarters ended March 31, 2012, December 31, 2011, and March 31, 2011, respectively.
- § Tax equivalent net interest income for the first quarter of 2012 totaled \$21.8 million, a \$0.7 million, or 3.2%, decrease from the fourth quarter of 2011 and a \$0.7 million, or 3.0%, decline from the first quarter of 2011. The decrease compared to both prior periods was due to a reduction in loan income primarily attributable to declining loan balances and unfavorable asset repricing, partially offset by a reduction in interest expense and a lower level of foregone interest on loans.
- § Noninterest income for the first quarter of 2012 totaled \$13.6 million, a decrease of \$0.3 million, or 2.1%, from the fourth quarter of 2011 and \$2.7 million, or 16.8%, from the first quarter of 2011. The decline from the fourth quarter of 2011 was driven by a \$0.2 million reduction in deposit fees and a \$0.1 million decrease in trust fees. Compared to the same prior year period, the unfavorable variance was primarily due to a \$3.2 million gain from the sale of our Visa stock realized in the first quarter of 2011, partially offset by higher deposit fees, mortgage banking fees, and bank card fees.
- § Noninterest expense for the first quarter of 2012 totaled \$32.6 million, an increase of \$1.5 million, or 4.8%, over the fourth quarter of 2011 and a decrease of \$0.7 million, or 2.2%, from the first quarter of 2011. The increase compared to the fourth quarter of 2011 was due to higher compensation expense, primarily pension plan expense of \$0.6 million, stock compensation expense of \$0.5 million, and unemployment taxes of \$0.3 million. The favorable variance in noninterest expense compared to the first quarter of 2011 was attributable to a reduction in intangible amortization expense of \$0.2 million, FDIC insurance fees of \$0.3 million, advertising costs of \$0.2 million, OREO expense of \$0.2 million, and miscellaneous expense of \$0.3 million, partially offset by higher professional fees of \$0.5 million.

### Financial Condition

- § Average earning assets totaled \$2.268 billion for the first quarter of 2012, an increase of \$121.8 million, or 5.7% over the fourth quarter of 2011, and a decline of \$10.3 million, or 0.5%, from the first quarter of 2011. The increase compared to the fourth quarter of 2011 primarily reflects a higher level of deposits resulting from the seasonal influx of public funds. The slight decline from the same prior year period is attributable to the resolution of problem loans as they were charged off or transferred to the OREO category.
- § Average loans decreased \$50.2 million, or 3.1%, from the fourth quarter of 2011 and \$133.9 million, or 7.7%, from the first quarter of 2011 due to weak loan demand attributable to the lack of consumer confidence and a sluggish economy. Normal amortization and a higher level of payoffs as well as the resolution of problem loans also affected the balance of loans.

- § Average deposit balances were \$2.161 billion for the first quarter of 2012, an increase of \$128.4 million, or 6.3%, from the fourth quarter of 2011 and higher by \$36.0 million, or 1.7%, from the first quarter of 2011. Higher public funds balances, savings and noninterest bearing deposits drove the increase compared to both prior periods. We continue to experience a favorable shift in the mix of our deposits as higher cost certificates of deposit balances are replaced with lower rate non-maturity deposits and noninterest bearing demand accounts.
- § Nonperforming assets totaled \$136.8 million at March 31, 2012, a decrease of \$0.8 million from December 31, 2011 and an increase of \$7.5 million over March 31, 2011. Nonperforming assets represented 5.14% of total assets at March 31, 2012 compared to 5.21% at December 31, 2011 and 4.86% at March 31, 2011.
- § As of March 31, 2012, we are well-capitalized with a risk based capital ratio of 15.54% and a tangible common equity ratio of 6.42% compared to 15.32% and 6.51%, respectively, at December 31, 2011, and 14.82% and 6.73%, respectively, at March 31, 2011.

## RESULTS OF OPERATIONS

For the first quarter of 2012, we realized a net loss of \$1.2 million, or \$0.07 per diluted share, compared to a net loss of \$0.5 million, or \$0.03 per diluted share in the fourth quarter of 2011 and net income of \$1.3 million, or \$0.08 per diluted share for the first quarter of 2011.

Compared to the fourth quarter of 2011, performance reflects lower operating revenues of \$1.1 million, an increase in noninterest expense of \$1.5 million, and higher income taxes of \$0.9 million, partially offset by a lower loan loss provision of \$2.8 million. Compared to the first quarter of 2011, the reduction in earnings was due to lower operating revenues of \$4.1 million and a higher loan loss provision of \$0.7 million, partially offset by lower noninterest expense of \$0.7 million and income taxes of \$1.6 million. Earnings for the first quarter of 2011 reflect the sale of our Visa stock, which resulted in a net pre-tax gain of \$2.6 million.

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 |                      |                   |
|-----------------------------------------------------|--------------------|----------------------|-------------------|
|                                                     | March 31,<br>2012  | December 31,<br>2011 | March 31,<br>2011 |
| Interest Income                                     | \$ 23,130          | \$ 23,912            | \$ 25,189         |
| Taxable equivalent Adjustments                      | 172                | 163                  | 271               |
| Total Interest Income (FTE)                         | 23,302             | 24,075               | 25,460            |
| Interest Expense                                    | 1,469              | 1,515                | 2,203             |
| Net Interest Income (FTE)                           | 21,833             | 22,560               | 23,257            |
| Provision for Loan Losses                           | 4,793              | 7,600                | 4,133             |
| Taxable Equivalent Adjustments                      | 172                | 163                  | 271               |
| Net Interest Income After Provision for Loan Losses | 16,868             | 14,797               | 18,853            |
| Noninterest Income                                  | 13,586             | 13,873               | 16,334            |
| Noninterest Expense                                 | 32,597             | 31,103               | 33,331            |
| (Loss) Income Before Income Taxes                   | (2,143)            | (2,433)              | 1,856             |
| Income Tax (Benefit) Expense                        | (981)              | (1,898)              | 546               |
| Net (Loss) Income                                   | \$ (1,162)         | \$ (535)             | \$ 1,310          |
| Basic Net (Loss) Income Per Share                   | \$ (0.07)          | \$ (0.03)            | \$ 0.08           |
| Diluted Net (Loss) Income Per Share                 | \$ (0.07)          | \$ (0.03)            | \$ 0.08           |
| Return on Average Equity                            | -1.84%             | -0.80%               | 0.20%             |
| Return on Average Assets                            | -0.18%             | -0.08%               | 2.03%             |

## 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 36.

Tax equivalent net interest income for the first quarter of 2012 was \$21.8 million compared to \$22.6 million for the fourth quarter of 2011 and \$23.3 million for the first quarter of 2011.

The decrease in tax equivalent net interest income compared to the prior periods was due to a reduction in loan income primarily attributable to declining loan balances and unfavorable asset repricing, partially offset by a reduction in interest expense and a lower level of foregone interest on loans. The lower interest expense is attributable to certificates of deposit and reflects both lower balances and favorable repricing.

Tax equivalent interest income for the first quarter of 2012 was \$23.3 million compared to \$24.1 million for the fourth quarter of 2011 and \$25.5 million for the first quarter of 2011. The decrease in interest income when compared to both periods reflects unfavorable asset repricing and declining loan balances, which has been partially offset by lower foregone interest on nonaccrual loans.

Interest expense was \$1.5 million for both the first quarter of 2012 and fourth quarter of 2011, respectively, and \$2.2 million for the first quarter of 2011. Although average rates paid declined on a linked quarter basis, interest expense was flat due to the seasonal increase in public funds. Lower interest expense for the later comparison reflects a reduction in deposit rates primarily in certificates of deposit.

The net interest margin for the first quarter of 2012 was 3.87%, a decrease of 30 basis points from the fourth quarter of 2011 and a decline of 27 basis points from the first quarter of 2011. The decrease in the margin for all comparable periods is attributable to the shift in our earning asset mix and unfavorable asset repricing, partially offset by a lower average cost of funds. The shift in the earning asset mix compared to the fourth quarter of 2011 was driven by both a reduction in the loan portfolio and an increase in seasonal deposits (which are invested in overnight funds), while the shift in mix year over year was primarily attributable to the decline in the loan portfolio.

As experienced in 2010 and again throughout 2011, historically low interest rates (essentially setting a floor on deposit repricing), foregone interest, lower loan fees, unfavorable asset repricing without the flexibility to significantly adjust deposit rates, and core deposit growth (which has strengthened our liquidity position, but contributed to an unfavorable shift in our earning asset mix), have all placed pressure on our net interest margin. Our current strategy as well as historic 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 consistently resulted in our net interest margins significantly exceeding those of our peer group comparisons. Given the unfavorable asset repricing and low rate environment, we anticipate continued pressure on the margin during the remainder of 2012.

#### Provision for Loan Losses

The provision for loan losses for the first quarter of 2012 was \$4.8 million compared to \$7.6 million in the fourth quarter of 2011 and \$4.1 million for the first quarter of 2011. The decrease in the loan loss provision compared to fourth quarter of 2011 primarily reflects a lower level of reserves for impaired loan additions. The higher level of loan loss provision compared to the first quarter of 2011 reflects a higher level of general reserves. Net charge-offs for the first quarter of 2012 totaled \$4.6 million, or 1.16% (annualized), of average loans compared to \$6.2 million, or 1.50%, for the fourth quarter of 2011 and \$5.7 million, or 1.33%, in the first quarter of 2011. At quarter-end, the allowance for loan losses of \$31.2 million was 1.98% of outstanding loans (net of overdrafts) and provided coverage of 40% of nonperforming loans compared to 1.91% and 41%, respectively, at December 31, 2011, and 1.98% and 46%, respectively, at March 31, 2011.

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

| (Dollars in Thousands, except per share data) | Three Months Ended |                      |                   |
|-----------------------------------------------|--------------------|----------------------|-------------------|
|                                               | March 31,<br>2012  | December<br>31, 2011 | March 31,<br>2011 |
| <b>CHARGE-OFFS</b>                            |                    |                      |                   |
| Commercial, Financial and Agricultural        | \$ 268             | \$ 634               | \$ 721            |
| Real Estate – Construction                    | -                  | 25                   | -                 |
| Real Estate – Commercial Mortgage             | 1,532              | 2,443                | 430               |
| Real Estate – Residential                     | 1,967              | 2,755                | 3,456             |
| Real Estate – Home Equity                     | 892                | 205                  | 989               |
| Consumer                                      | 732                | 879                  | 620               |
| Total Charge-offs                             | 5,391              | 6,941                | 6,216             |
| <b>RECOVERIES</b>                             |                    |                      |                   |
| Commercial, Financial and Agricultural        | 69                 | 242                  | 63                |
| Real Estate – Construction                    | -                  | -                    | 9                 |
| Real Estate – Commercial Mortgage             | 138                | 87                   | 12                |

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|                                                                                                      |          |          |          |
|------------------------------------------------------------------------------------------------------|----------|----------|----------|
| Real Estate – Residential                                                                            | 163      | 34       | 60       |
| Real Estate – Home Equity                                                                            | 18       | 13       | 36       |
| Consumer                                                                                             | 392      | 342      | 340      |
| Total Recoveries                                                                                     | 780      | 718      | 520      |
|                                                                                                      |          |          |          |
| Net Charge-offs                                                                                      | \$ 4,611 | \$ 6,223 | \$ 5,696 |
|                                                                                                      |          |          |          |
| Net Charge-offs ( Annualized) as a percent of Average Loans<br>Outstanding, Net of Unearned Interest | 1.16%    | 1.50%    | 1.33%    |

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## Noninterest Income

Noninterest income for the first quarter of 2012 totaled \$13.6 million, a decrease of \$0.3 million, or 2.1%, from the fourth quarter of 2011 and \$2.7 million, or 16.8%, from the first quarter of 2011. The decline from the fourth quarter of 2011 was driven by a \$0.2 million reduction in deposit fees and a \$0.1 million decrease in trust fees. The unfavorable variance compared to the first quarter of 2011 was solely attributable to a \$3.2 million gain from the sale of our Visa stock in the first quarter of 2011. Higher deposit fees of \$0.3 million, mortgage banking fees of \$0.2 million, and bank card fees of \$0.3 million, partially offset by lower data processing fees of \$0.3 million, also contributed to the variance.

Noninterest income represented 38.64% of operating revenues in the first quarter of 2012 compared to 38.34% in the fourth quarter of 2011 and 41.54% in the first quarter of 2011. The decrease from the first quarter of 2011 reflects the impact of the gain realized from the sale of Visa stock.

The table below reflects the major components of noninterest income.

| (Dollars in Thousands)              | Three Months Ended |                      |                   |
|-------------------------------------|--------------------|----------------------|-------------------|
|                                     | March 31,<br>2012  | December<br>31, 2011 | March 31,<br>2011 |
| Noninterest Income:                 |                    |                      |                   |
| Service Charges on Deposit Accounts | \$ 6,309           | \$ 6,530             | \$ 5,983          |
| Data Processing Fees                | 675                | 743                  | 974               |
| Asset Management Fees               | 1,015              | 1,124                | 1,080             |
| Retail Brokerage Fees               | 758                | 776                  | 729               |
| Mortgage Banking Fees               | 848                | 845                  | 617               |
| Interchange Fees(1)                 | 1,526              | 1,399                | 1,360             |
| ATM/Debit Card Fees(1)              | 1,245              | 1,098                | 1,136             |
| Gain on Visa Stock                  | -                  | -                    | 3,172             |
| Other                               | 1,210              | 1,358                | 1,283             |
| <b>Total Noninterest Income</b>     | <b>\$ 13,586</b>   | <b>\$ 13,873</b>     | <b>\$ 16,334</b>  |

(1) Together referred to as "Bank Card Fees"

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

**Service Charges on Deposit Accounts.** Deposit service charge fees decreased \$221,000, or 3.4%, from the fourth quarter of 2011 and increased \$326,000, or 5.4%, from the first quarter of 2011. The decline from the fourth quarter of 2011 reflects a seasonal variance in the use of our overdraft product. Compared to the first quarter of 2011, the increase was attributable to a reduction in overdraft charge-offs.

**Data Processing Fees.** Fees from data processing services decreased by \$68,000, or 9.1%, from the fourth quarter of 2011 and \$299,000, or 30.7%, from the first quarter of 2011. The decline from the fourth quarter of 2011 primarily reflects lower processing volume for our state government contract. Compared to the first quarter of 2011, the decrease was due to a reduction in the number of banks that we provide processing services to as two of our user banks were acquired and discontinued service in early 2011.

**Retail Brokerage Fees.** Fees from the sale of retail investment and insurance products decreased \$18,000, or 2.3%, from the fourth quarter of 2011 and increased \$29,000, or 4.0%, over from first quarter of 2011. The change for each

period reflects lower/higher trading activity by clients, respectively.

**Mortgage Banking Fees.** Mortgage banking fees increased \$3,000, or 0.4%, over the fourth quarter of 2011 and \$231,000, or 37.4%, over the first quarter of 2011 attributable to increased home purchase activity in our markets and to a lesser extent increased refinance activity due to the lower rate environment. The mix of refinance and home purchase new loan production for the first quarter of 2012 was 41% and 59%, respectively.

**Asset Management Fees.** Fees from asset management activities decreased \$109,000, or 9.7%, from the fourth quarter of 2011 and \$65,000, or 6.0%, from the first quarter of 2011. The decrease for both periods reflects fluctuation in asset values for accounts under discretionary management for which fees are based on the account value at quarter-end. Compared to the fourth quarter of 2011, a lower level of estate fees also contributed to the change. At March 31, 2012, assets under management totaled \$688.6 million compared to \$660.6 million at December 31, 2011 and \$732.3 million at March 31, 2011.

**Bank Card Fees.** Bank Card Fees (including interchange fees and ATM/debit card fees) increased \$274,000, or 11.0%, over the fourth quarter of 2011 and \$275,000, or 11.0%, over the first quarter of 2011. The increase for both periods reflects higher card utilization as well as growth in active cards due to an increase in the number of deposit accounts.

**Other.** Other income decreased by \$148,000, or 10.9%, from the fourth quarter of 2011 and \$3.2 million, or 72.8%, from the first quarter of 2011. The decline from the fourth quarter of 2011 was attributable to a lower level of gains from the sale of OREO properties. The reduction from the first quarter of 2011 reflects the \$3.2 million gain realized from the sale of our Visa stock.

### Noninterest Expense

Noninterest expense for the first quarter of 2012 totaled \$32.6 million, an increase of \$1.5 million, or 4.8%, over the fourth quarter of 2011 and a decrease of \$0.7 million, or 2.2%, from the first quarter of 2011. The increase compared to the fourth quarter of 2011 was due to higher compensation expense, primarily pension plan expense of \$0.6 million, stock compensation expense of \$0.5 million, and unemployment taxes of \$0.3 million. The decrease in noninterest expense compared to the first quarter of 2011 was attributable to a reduction in intangible amortization expense of \$0.2 million, FDIC insurance fees of \$0.3 million, advertising costs of \$0.2 million, OREO expense of \$0.2 million, and miscellaneous expense of \$0.3 million, partially offset by higher professional fees of \$0.5 million.

The table below reflects the major components of noninterest expense.

| (Dollars in Thousands)      | March 31,<br>2012 | Three<br>Months<br>Ended<br>December 31,<br>2011 | March 31,<br>2011 |
|-----------------------------|-------------------|--------------------------------------------------|-------------------|
| <b>Noninterest Expense:</b> |                   |                                                  |                   |
| Salaries                    | \$ 12,742         | \$ 12,363                                        | \$ 12,936         |
| Associate Benefits          | 4,101             | 2,897                                            | 3,641             |
| <b>Total Compensation</b>   | <b>16,843</b>     | <b>15,260</b>                                    | <b>16,577</b>     |
| <br>Premises                | <br>2,266         | <br>2,284                                        | <br>2,396         |
| Equipment                   | 2,201             | 2,097                                            | 2,226             |
| <b>Total Occupancy</b>      | <b>4,467</b>      | <b>4,381</b>                                     | <b>4,622</b>      |
| <br>Legal Fees              | <br>1,104         | <br>968                                          | <br>1,107         |
| Professional Fees           | 1,321             | 1,126                                            | 845               |
| Processing Services         | 963               | 933                                              | 950               |
| Advertising                 | 395               | 769                                              | 558               |
| Travel and Entertainment    | 184               | 273                                              | 211               |
| Printing and Supplies       | 289               | 351                                              | 348               |
| Telephone                   | 479               | 453                                              | 441               |
| Postage                     | 445               | 448                                              | 474               |
| Insurance - Other           | 1,033             | 969                                              | 1,380             |
| Intangible Amortization     | 108               | 107                                              | 353               |
| Other Real Estate Owned     | 3,513             | 3,425                                            | 3,677             |
| Miscellaneous               | 1,453             | 1,640                                            | 1,788             |
| <b>Total Other</b>          | <b>11,287</b>     | <b>11,462</b>                                    | <b>12,132</b>     |

|                           |    |        |    |        |    |        |
|---------------------------|----|--------|----|--------|----|--------|
| Total Noninterest Expense | \$ | 32,597 | \$ | 31,103 | \$ | 33,331 |
|---------------------------|----|--------|----|--------|----|--------|

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

Compensation. Total compensation expense increased \$1.6 million, or 10.4%, over the fourth quarter of 2011 and \$266,000, or 1.6%, over the first quarter of 2011. The increase compared to the fourth quarter of 2011 reflects higher salary expense of \$379,000 and associate benefit expense of \$1.2 million. The increase in salary expense was primarily due to higher unemployment tax expense reflective of a higher rate due to continued high unemployment levels in Florida. Associate benefit expense increased due to higher pension expense of \$645,000 and stock compensation expense of \$500,000. The increase in expense for our pension plan was due to the utilization of a lower discount rate in 2012 reflective of lower long-term bond interest rates. The increase in stock compensation reflects the adjustment to our stock compensation expense accrual in the fourth quarter of 2011 due to not meeting the award criteria. Compared to the first quarter of 2011 the increase was attributable to higher associate benefit expense of \$460,000 partially offset by lower salary expense of \$194,000. Higher pension expense drove the increase in associate benefit expense attributable to the aforementioned decrease in the discount rate. Salary expense decreased due to lower expense for our cash incentive plans.

**Occupancy.** Occupancy expense (including premises and equipment) totaled \$4.5 million for the first quarter of 2012, an increase of \$86,000, or 2.0%, over the fourth quarter of 2011 driven by higher property tax expense. Compared to the first quarter of 2011, occupancy expense decreased by \$155,000, or 3.4%, due to lower depreciation expense for furniture, fixtures, and equipment, and a reduction in maintenance & repair expense and utility expense.

**Other.** Other noninterest expense decreased \$175,000, or 1.5%, from the fourth quarter of 2011 and \$845,000, or 7.0%, from the first quarter of 2011. The decrease compared to the fourth quarter of 2011 reflects lower advertising expense of \$374,000 and miscellaneous expense of \$186,000 partially offset by higher expense for professional fees of \$195,000, legal fees of \$136,000, and OREO expense of \$88,000. Advertising expense declined due to improved cost controls over advertising for our free checking account products. Lower expense related to the swap liability for our Visa stock sale drove the reduction in miscellaneous expense. The increase in professional fees reflects higher audit and consulting fees. The increase in legal fees primarily reflects a seasonal increase in corporate governance and SEC reporting legal support. Compared to the first quarter of 2011, the favorable variance was attributable to lower intangible amortization expense of \$246,000, FDIC insurance fees of \$347,000, advertising costs of \$163,000, OREO expense of \$164,000, and miscellaneous expense of \$334,000, partially offset by higher professional fees of \$476,000. The reduction in intangible amortization expense reflects the full amortization of certain core deposit intangibles from past acquisitions. FDIC insurance fees declined due to a lower premium rate reflective of the revised rate structure implemented in mid-2011. Advertising expense declined due to improved cost controls over advertising for our free checking account products. The reduction in OREO expense was attributable to a lower level of OREO valuation adjustments. A swap liability recorded in the first quarter of 2011 related to the sale of our Visa stock drove the reduction in miscellaneous expense. The increase in professional fees reflects higher audit and consulting fees.

Our operating efficiency ratio (expressed as noninterest expense, excluding intangible amortization expense, as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 91.73% for the first quarter of 2012 compared to 85.08% for the fourth quarter of 2011 and 83.30% for the first quarter of 2011. The increase in this ratio over the fourth quarter of 2011 was primarily driven by lower net interest income and higher noninterest expense. The increase compared to the first quarter of 2011 reflects the gain on sale of Visa stock and to a lesser extent lower net interest income.

## Income Taxes

We realized an income tax benefit of \$1.0 million in the first quarter of 2012 compared to a benefit of \$1.9 million for the fourth quarter of 2011. The reduced tax benefit was primarily attributable to the favorable resolution of certain tax contingencies in the fourth quarter of 2011. Compared to the first quarter of 2011 we realized an increased tax benefit of \$1.5 million due to our lower operating profit in the first quarter of 2012.

## FINANCIAL CONDITION

Average assets totaled approximately \$2.637 billion for the first quarter of 2012, an increase of \$127.0 million, or 5.1%, over the fourth quarter of 2011 and a decrease of \$6.0 million, or 0.2%, from the first quarter of 2011. Average earning assets were \$2.268 billion for the first quarter of 2012, an increase of \$121.8 million, or 5.7%, from the fourth quarter of 2011, and a decline of \$10.3 million, or 0.5%, from the first quarter of 2011. We discuss these variances in more detail below.

## Investment Securities

In the first quarter of 2012, our average investment portfolio decreased \$9.1 million, or 3.0%, from the prior quarter and decreased \$6.6 million, or 2.2%, from the first quarter of 2011. As a percentage of average earning assets, the investment portfolio represented 13.2% in the first quarter of 2012, compared to 14.3% in the prior quarter and 13.4%

in the first quarter of 2011. The decrease in the average balance of the investment portfolio compared to the prior periods was attributable to declines in all asset classes except SBA investments. SBA investments adjust monthly or quarterly to the prime rate, and have the full faith and credit guarantee of the U.S. Government. Specific declines resulted from allowing a portion of U.S. Treasury securities to mature without being replaced, in addition to a limited availability of high-quality municipal bond investments. When appropriate, we will continue to look to deploy a portion of the overnight funds position in the investment portfolio during the remainder of 2012.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. As of March 31, 2012, all securities are classified as available-for-sale, which offers management full flexibility in managing our liquidity and interest rate sensitivity without adversely impacting our regulatory capital levels. It is neither management's intent nor practice to participate in the trading of investment securities for the purpose of recognizing gains and therefore we do not maintain a trading portfolio. Securities in the available-for-sale portfolio are recorded at fair value with unrealized gains and losses associated with these securities recorded net of tax, in the accumulated other comprehensive income (loss) component of shareowners' equity.

At March 31, 2012, the investment portfolio maintained a net pre-tax unrealized gain of \$1.3 million compared to \$1.7 million and \$1.1 million at December 31, 2011 and March 31, 2011, respectively. The decrease in the unrealized gain compared to the fourth quarter of 2011 was primarily attributable to declines in U.S. Treasuries. The increase in unrealized gains compared to the first quarter of 2011 resulted primarily from increases in mortgage-backed securities. Approximately 69 positions totaling \$30.6 million of our investment securities have an unrealized loss totaling \$0.1 million. All positions have been in a loss position for less than 12 months with the exception of one GNMA mortgage-backed security (“MBS”) which has an immaterial loss. The remaining positions consist of municipal bonds rated “AA-“ or better, Small Business Administration (“SBA”) investments, and GNMA MBS. The SBA and GNMA investments carry the full faith and credit of the U.S. Government. These positions are not considered impaired, and are expected to mature at par or better. Excluded from these figures is a \$0.6 million unrealized loss on a preferred stock investment held at the holding company that maintained a zero book value as of March 31, 2012 and December 31, 2011. No additional impairment was recorded during the first quarter of 2012, but we continue to closely monitor the fair value of this security as the issuer of this security continues to experience negative operating trends.

The average maturity of the total portfolio at March 31, 2012 was 1.41 years compared to 1.39 years and 1.67 years for the December 31, 2011 and March 31 2011, respectively. The average life of the total portfolio in the first quarter of 2012 extended slightly compared to the previous quarter, as relatively longer municipal bonds were purchased, partially offset by MBSs and U.S. Treasuries experiencing shorter average lives. Compared to the prior year, the total portfolio shortened as both MBS and U.S. Treasuries experienced shorter average lives as not all maturities were replaced.

## Loans

Average loans declined (a portion of which is attributable to problem loan resolution) by \$50.2 million, or 3.0%, from the fourth quarter of 2011 and \$133.9 million, or 7.7%, from the comparable period in 2011. Loan balances continued to decline throughout the portfolio, driven primarily by a reduction in the commercial real estate, residential and commercial loan categories. Our core loan portfolio continues to be impacted by a normal amortization and a higher level of payoffs that have outpaced our new loan production. New loan production continues to be impacted by weak loan demand attributable to the lack of consumer confidence and a sluggish economy. In addition to lower production and normal amortization and payoffs, the reduction in the portfolio is also attributable to gross charge-offs and the transfer of loans to the OREO category.

During the first quarter of 2012, loan charge-offs and loans transferred to OREO accounted for \$9.5 million, or 19%, of the net reduction in total loans of \$50.2 million from the fourth quarter of 2011. Compared to the first quarter of 2011, loan resolution accounted for \$57.8 million, or 43%, of the net reduction in loans of \$133.9 million. The problem loan resolutions and reductions in portfolio balances previously noted are based on “as of” balances, not averages.

Efforts to stimulate new loan growth are ongoing and we have recently introduced new lending programs in our business and commercial real estate lending areas to mitigate the significant impact that consumer and business deleveraging is having on our portfolio. While we strive to identify opportunities to increase loans outstanding and enhance our loan portfolio’s overall contribution to earnings, we will only do so by adhering to sound lending principles applied in a prudent and consistent manner. Thus, we will not relax our underwriting standards in order to achieve designated growth goals and, where appropriate, have adjusted our standards to reflect risks inherent in the current economic environment.

## Nonperforming Assets

Nonperforming assets (nonaccrual loans and OREO) totaled \$136.8 million at the end of the first quarter of 2012, a decrease of \$0.8 million from the fourth quarter of 2011 and an increase of \$7.5 million over the first quarter of 2011. Nonaccrual loans totaled \$78.7 million at the end of the first quarter of 2012, an increase of \$3.7 million and \$4.8 million, respectively, over the same prior periods. Compared to the fourth quarter of 2011, gross additions to nonaccrual status slowed significantly and were less than the quarterly average realized in 2011. The addition of one large commercial real estate loan drove the increase over both prior periods. Past due loans at the end of the first quarter of 2012 declined to \$9.2 million, our lowest level since 2003. The balance of OREO totaled \$58.1 million at the end of the first quarter of 2012, a decrease of \$4.5 million from the fourth quarter of 2011 and an increase of \$2.7 million over the first quarter of 2011. OREO sales picked up momentum in the first quarter of 2012 as we sold properties totaling \$7.9 million, our second highest quarterly sales total since the economic downturn began. Nonperforming assets represented 5.14% of total assets at March 31, 2012 compared to 5.21% at December 31, 2011 and 4.86% at March 31, 2011.

| (Dollars in Thousands)                    | March 31, 2012 | December 31,<br>2011 | March 31, 2011 |
|-------------------------------------------|----------------|----------------------|----------------|
| Nonaccruing Loans:                        |                |                      |                |
| Commercial, Financial and Agricultural    | \$ 808         | \$ 755               | \$ 682         |
| Real Estate - Construction                | 943            | 334                  | 1,872          |
| Real Estate - Commercial Mortgage         | 46,886         | 42,820               | 36,001         |
| Real Estate - Residential                 | 25,445         | 25,671               | 30,183         |
| Real Estate - Home Equity                 | 4,098          | 4,283                | 4,502          |
| Consumer                                  | 546            | 1,160                | 714            |
| Total Nonperforming Loans ("NPLs")(1)     | \$ 78,726      | \$ 75,023            | \$ 73,954      |
| Other Real Estate Owned                   | 58,100         | 62,600               | 55,364         |
| Total Nonperforming Assets ("NPAs")       | \$ 136,826     | \$ 137,623           | \$ 129,318     |
| Past Due Loans 30 – 89 Days               | \$ 9,193       | \$ 19,425            | \$ 19,391      |
| Past Due Loans 90 Days or More (accruing) | 25             | 224                  | -              |
| Performing TDR's                          | 37,373         | 37,675               | 24,028         |
| Nonperforming TDR's(1)                    | 12,774         | 12,976               | 323            |
| Nonperforming Loans/Loans                 | 4.99%          | 4.61%                | 4.31%          |
| Nonperforming Assets/Total Assets         | 5.14           | 5.21                 | 4.86           |
| Nonperforming Assets/Loans Plus OREO      | 8.36           | 8.14                 | 7.31           |
| Nonperforming Assets/Capital(2)           | 48.52          | 48.63                | 44.11          |
| Allowance/Nonperforming Loans             | 39.65%         | 41.37%               | 45.80%         |

(1) Nonperforming TDR's are included in the Nonaccrual/NPL totals

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

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

| (Dollars in Thousands)      | Three Months Ended March 31, |            |
|-----------------------------|------------------------------|------------|
|                             | 2012                         | 2011       |
| NPA Beginning Balance:      | \$ 137,623                   | \$ 123,637 |
| Change in Nonaccrual Loans: |                              |            |
| Beginning Balance           | 75,023                       | 65,700     |
| Additions                   | 19,684                       | 31,094     |
| Charge -Offs                | (5,391)                      | (5,696)    |
| Transferred to OREO         | (4,076)                      | (9,078)    |
| Paid Off/Payments           | (2,029)                      | (4,210)    |
| Restored to Accrual         | (4,485)                      | (3,856)    |
| Ending Balance              | 78,726                       | 73,954     |
| Change in OREO:             |                              |            |
| Beginning Balance           | 62,600                       | 57,936     |
| Additions                   | 4,076                        | 9,078      |
| Valuation Write-downs       | (685)                        | (1,178)    |
| Sales                       | (7,891)                      | (10,472)   |
| Ending Balance              | 58,100                       | 55,364     |

|                    |            |            |
|--------------------|------------|------------|
| NPA Net Change     | (797)      | 5,681      |
| NPA Ending Balance | \$ 136,826 | \$ 129,318 |

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## Allowance for Loan Losses

We maintain an allowance for loan losses at a level sufficient to provide for the estimated loan 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 \$31.2 million at March 31, 2012 compared to \$31.0 million at December 31, 2011 and \$33.9 million at March 31, 2011. The allowance for loan losses was 1.98% of outstanding loans and provided coverage of 40% of nonperforming loans at March 31, 2012 compared to 1.91% and 41%, respectively, at December 31, 2011 and 1.98% and 46%, respectively, at March 31, 2011. Compared to the fourth quarter of 2011, the allowance remained flat as our loan loss provision approximated net loan charge-offs. The decline in the allowance from the first quarter of 2011 was driven by a lower level of impaired loan reserves which generally reflects the changing mix of our impaired loan portfolio that is now less exposed to the residential construction and land categories. It is management's opinion that the allowance at March 31, 2012 is adequate to absorb losses inherent in the loan portfolio at quarter-end.

## Deposits

Average total deposits were \$2.161 billion for the first quarter of 2012, an increase of \$128.4 million, or 6.3%, from the fourth quarter of 2011 and higher by \$36.0 million, or 1.7%, from the first quarter of 2011. The increase in deposits when compared to both periods was driven primarily by higher public funds balances, savings and noninterest bearing deposits. This was partially offset by a reduction of certificates of deposit. Although public funds are seasonal in nature they continue to represent a larger component of our deposit mix.

We continue to experience a favorable shift in the mix of our deposits as higher cost certificates of deposit balances are replaced with lower rate non-maturity deposits and noninterest bearing demand accounts. On average for the first quarter of 2012, noninterest bearing deposits comprised 28% of our total deposits compared to certificates of deposits, which only represented 13% of deposits. This compares to 26% and 17%, respectively, for the first quarter of 2011. 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 three alternative simulations, at least once per quarter, and report the analysis to the Board of Directors. In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

Our interest rate risk management goal is to 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, and 300 basis points ("bp"), although we may elect not to use particular scenarios that we determined are impractical in a current rate environment. It is management's goal to structure the balance sheet so that net interest earnings at risk over a 12-month period and the economic value of equity at risk do not exceed policy guidelines at the various interest rate shock levels.

We augment our 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 | +300 bp | +200 bp | +100 bp | -100 bp |
|---------------------------|---------|---------|---------|---------|
| Policy Limit (±)          | 10.0%   | 7.5%    | 5.0%    | 5.0%    |
| March 31, 2012            | 0.1%    | 1.7%    | 2.1%    | -0.6%   |
| December 31, 2011         | -3.1%   | -0.5%   | 0.9%    | -0.4%   |

The Net Interest Income at Risk position improved for the first quarter of 2012, when compared to the prior quarter-end, for all rising rate scenarios. Our largest exposure in the rising rate scenarios is at the up 300 bp level, with a measure of 0.1%, which is still within our policy limit of +/-10.0%. This is an improvement over the prior quarter reflecting higher levels of repricing assets, primarily overnight funds, partially offset by increased levels of interest bearing non-maturity deposits. All measures of net interest income at risk are within our prescribed policy limits.

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

#### ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY (1)

| Changes in Interest Rates | +300 bp | +200 bp | +100 bp | -100 bp |
|---------------------------|---------|---------|---------|---------|
| Policy Limit (±)          | 12.5%   | 10.0%   | 7.5%    | 7.5%    |
| March 31, 2012            | 3.9%    | 7.6%    | 7.1%    | -4.7%   |

|                   |      |      |      |       |
|-------------------|------|------|------|-------|
| December 31, 2011 | 4.0% | 7.8% | 7.3% | -4.9% |
|-------------------|------|------|------|-------|

Our risk profile, as measured by EVE, declined for the first quarter of 2012 when compared to the fourth quarter of 2012 with the exception of the down 100 bp scenario, which reported a slightly favorable increase. In the rising rate scenarios, our largest exposure is at the up 300 bp scenario, with a measure of 3.9%, which is still within our policy limit of +/-12.5%. The decline from the prior quarter was attributable to higher Treasury and FHLB curves, reflecting declines in the market value of loans and increases in the market values of deposits and FHLB borrowings, respectively. All measures of economic value of equity are within our prescribed policy limits.

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

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

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

As of March 31, 2012, we have the ability to generate \$612.4 million in additional liquidity through all of our available resources. In addition to primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. Management recognizes the importance of maintaining liquidity and has developed a 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. The liquidity available to us is considered sufficient to meet our ongoing needs.

We view our investment portfolio 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 1.4 years and as of quarter-end had a net unrealized pre-tax gain of \$1.3 million.

Our average liquidity (defined as funds sold plus interest bearing deposits with other banks less funds purchased) of \$373.0 million during the first quarter of 2012 compared to an average net overnight funds sold position of \$191.8 million in the prior quarter and an average overnight funds sold position of \$238.1 million in the first quarter of 2011. The higher balance when compared to both periods reflects higher deposits (public funds and noninterest bearing), and a decrease in the loan and investment portfolios.

Capital expenditures are expected to approximate \$3.0 million over the next 12 months, which consist primarily of office remodeling, office equipment and furniture, and technology purchases. Management believes that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

### Borrowings

At March 31, 2012, advances from the FHLB consisted of \$44.4 million in outstanding debt consisting of 48 notes. During the first quarter of 2012, the Bank made FHLB advance payments totaling approximately \$0.8 million and obtained one new FHLB advance totaling \$0.6 million. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

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 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 will adjust annually to a variable rate of LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds of these borrowings were used to partially fund acquisitions. Under the terms of each trust preferred securities note, in the event of default or if we elect to defer interest on the note, we may not, with certain exceptions, declare or pay dividends or make distributions on our capital stock or purchase or acquire any of our capital stock. As of February 2012, in consultation with the Federal Reserve, we elected to defer the interest payments on the notes. We will, however, continue the accrual of the interest on the notes in accordance with our contractual obligations.

In accordance with the Holding Company Resolution, CCBG must receive approval from the Federal Reserve prior to incurring new debt, refinancing existing debt, or making interest payments on its trust preferred securities.

## Capital

Equity capital was \$250.8 million as of March 31, 2012, compared to \$251.9 million as of December 31, 2011 and \$259.3 million as of March 31, 2011. Our leverage ratio was 9.71%, 10.26%, and 9.74%, respectively, and our tangible capital ratio was 6.42%, 6.51%, and 6.73%, respectively, for the same periods. Our risk-adjusted capital ratio of 15.54% at March 31, 2012, exceeds the 10% threshold to be designated as “well-capitalized” under the risk-based regulatory guidelines.

During the first three months of 2012, shareowners’ equity decreased \$1.1 million, or 1.8%, on an annualized basis. During this same period, shareowners’ equity was negatively impacted by a net loss of \$1.2 million and a change in our net unrealized gain on securities of \$0.2 million. Shareowners’ equity was positively impacted by the issuance of stock totaling \$0.3 million.

At March 31, 2012, our common stock had a book value of \$14.60 per diluted share compared to \$14.68 at December 31, 2011 and \$15.13 at March 31, 2011. 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. At March 31, 2012, the net unrealized gain on investment securities available for sale was \$0.8 million and the amount of our unfunded pension liability was \$24.6 million.

State and federal regulations place certain restrictions on the payment of dividends by both CCBG and the Bank. Florida law and Federal regulations limit the amount of dividends that the Bank can pay annually to us. Pursuant to the Federal Reserve Resolutions (discussed in further detail within our 2011 Form 10-K), without prior approval, CCBG is prohibited from paying dividends to shareowners and CCB is prohibited from paying dividends to CCBG.

## OFF-BALANCE SHEET ARRANGEMENTS

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

At March 31, 2012, we had \$298.2 million in commitments to extend credit and \$13.4 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 its ability to meet on-going obligations. In the event these commitments require funding in excess of historical levels, management believes current liquidity, advances available from the FHLB and the Federal Reserve, and investment security maturities provide a sufficient source of funds to meet these commitments.



## CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2011 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 losses, (ii) valuation of goodwill and other intangible assets, and (iii) pension plans 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 in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2011 Form 10-K.

**Goodwill.** Goodwill represents the excess of the cost of acquired businesses over the fair market value of their identifiable net assets. We perform an impairment review on an annual basis during the fourth quarter or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment testing requires management to make significant judgments and estimates relating to the fair value of its reporting unit. Significant changes to our estimates, when and if they occur, could result in a non-cash impairment charge and thus have a material impact on our operating results for any particular reporting period. A goodwill impairment charge would not adversely affect the calculation of our risk based and tangible capital ratios.

Because the book value of our equity exceeded our market capitalization as of March 31, 2012, we considered the guidelines set forth in ASC Topic 350 to discern whether further testing for potential impairment was needed. Based on this assessment, we performed an interim impairment test which consists of two steps. Step One compares the estimated fair value of the reporting unit to its carrying amount. If the carrying amount exceeds the estimated fair value, Step Two is performed by comparing the fair value of the reporting unit's implied goodwill to the carrying value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the estimated fair value, an impairment charge is recorded equal to the excess. A more detailed discussion of the methodology and key assumptions utilized in this step process is included in Part II, Item 7, Critical Accounting Policies section of our 2011 Form 10-K.

The Step One test we performed indicated that the carrying amount (including goodwill) of our reporting unit exceeded its estimated fair value. The Step Two test indicated the estimated fair value of our reporting unit's implied goodwill exceeded its carrying amount by approximately 19%, therefore, we concluded that goodwill was not impaired as of March 31, 2012. Future circumstances and/or conditions may result in an impairment of our goodwill, which could have a material adverse affect on our results of operations in a future period. Such circumstances and/or conditions could include, but are not limited to, further decline in our stock price, revision to our internal financial forecasts, adverse changes in the fair value of our assets and liabilities, and/or market information indicating a decline in the fair value of comparable financial institutions used to estimate the fair value of our Company. We will continue to evaluate goodwill as defined by ASC Topic 350.

TABLE I  
AVERAGE BALANCES & INTEREST RATES

| (Taxable Equivalent<br>Basis – Dollars in<br>Thousands) | March 31, 2012      |           |       | Three Months Ended<br>December 31, 2011 |           |       | March 31, 2011      |           |       |
|---------------------------------------------------------|---------------------|-----------|-------|-----------------------------------------|-----------|-------|---------------------|-----------|-------|
|                                                         | Average<br>Balance  | Interest  | Rate  | Average<br>Balance                      | Interest  | Rate  | Average<br>Balance  | Interest  | Rate  |
| <b>ASSETS</b>                                           |                     |           |       |                                         |           |       |                     |           |       |
| Loans, Net of<br>Unearned<br>Interest(1)(2)             | \$ 1,596,480        | \$ 22,121 | 5.57% | \$ 1,646,715                            | \$ 23,032 | 5.55% | \$ 1,730,330        | \$ 24,101 | 5.65% |
| Taxable Investment<br>Securities                        | 242,481             | 794       | 1.31  | 248,217                                 | 816       | 1.31  | 231,153             | 851       | 1.48  |
| Tax-Exempt<br>Investment<br>Securities(2)               | 56,313              | 162       | 1.15  | 59,647                                  | 131       | 0.88  | 74,226              | 337       | 1.81  |
| Funds Sold                                              | 373,033             | 225       | 0.24  | 191,884                                 | 96        | 0.20  | 242,893             | 171       | 0.28  |
| Total Earning<br>Assets                                 | 2,268,307           | 23,302    | 4.13% | 2,146,463                               | 24,075    | 4.45% | 2,278,602           | 25,460    | 4.53% |
| Cash and Due From<br>Banks                              | 49,427              |           |       | 49,666                                  |           |       | 50,942              |           |       |
| Allowance for Loan<br>Losses                            | (31,382)            |           |       | (29,550)                                |           |       | (34,822)            |           |       |
| Other Assets                                            | 350,555             |           |       | 343,336                                 |           |       | 348,295             |           |       |
| <b>TOTAL ASSETS</b>                                     | <b>\$ 2,636,907</b> |           |       | <b>\$ 2,509,915</b>                     |           |       | <b>\$ 2,643,017</b> |           |       |
| <b>LIABILITIES</b>                                      |                     |           |       |                                         |           |       |                     |           |       |
| NOW Accounts                                            | \$ 823,406          | \$ 192    | 0.09% | \$ 700,005                              | \$ 148    | 0.08% | \$ 786,939          | \$ 261    | 0.13% |
| Money Market<br>Accounts                                | 277,558             | 75        | 0.11  | 283,677                                 | 75        | 0.11  | 278,562             | 131       | 0.19  |
| Savings Accounts                                        | 165,603             | 20        | 0.05  | 156,088                                 | 20        | 0.05  | 144,623             | 18        | 0.05  |
| Other Time<br>Deposits                                  | 284,129             | 356       | 0.50  | 299,487                                 | 456       | 0.60  | 360,575             | 848       | 0.95  |
| Total Interest<br>Bearing Deposits                      | 1,550,696           | 643       | 0.17  | 1,439,257                               | 699       | 0.19  | 1,570,699           | 1,258     | 0.32  |
| Short-Term<br>Borrowings                                | 45,645              | 8         | 0.07  | 44,573                                  | 6         | 0.05  | 87,267              | 111       | 0.52  |
| Subordinated Notes<br>Payable                           | 62,887              | 382       | 2.40  | 62,887                                  | 358       | 2.23  | 62,887              | 340       | 2.16  |
| Other Long-Term<br>Borrowings                           | 44,286              | 436       | 3.96  | 45,007                                  | 452       | 3.99  | 50,345              | 494       | 3.98  |
| Total Interest<br>Bearing Liabilities                   | 1,703,514           | 1,469     | 0.35% | 1,591,724                               | 1,515     | 0.38% | 1,771,198           | 2,203     | 0.50% |
| Noninterest Bearing<br>Deposits                         | 610,692             |           |       | 593,718                                 |           |       | 554,680             |           |       |
| Other Liabilities                                       | 68,254              |           |       | 60,197                                  |           |       | 55,536              |           |       |
| <b>TOTAL<br/>LIABILITIES</b>                            | <b>2,382,460</b>    |           |       | <b>2,245,639</b>                        |           |       | <b>2,381,414</b>    |           |       |

|                            |              |              |              |        |
|----------------------------|--------------|--------------|--------------|--------|
| SHAREOWNERS' EQUITY        |              |              |              |        |
| TOTAL SHAREOWNERS' EQUITY  |              |              |              |        |
|                            | 254,447      | 264,276      | 261,603      |        |
| TOTAL LIABILITIES & EQUITY |              |              |              |        |
|                            | \$ 2,636,907 | \$ 2,509,915 | \$ 2,643,017 |        |
| Interest Rate Spread       |              | 3.78 %       | 4.07%        | 4.03 % |
| Net Interest Income        | \$ 21,833    | \$ 22,560    | \$ 23,257    |        |
| Net Interest Margin(3)     |              | 3.87 %       | 4.17%        | 4.14 % |

(1) Average balances include nonaccrual loans. Interest income for the periods in this table were \$402,000, \$391,000, and \$366,000.

(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, 2011.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2012, the end of the period covered by this Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that as of March 31, 2012, 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 2011 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2011 Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
None.

Item 3. Defaults Upon Senior Securities  
None.

Item 4. Mine Safety Disclosure

None.

Item 5.

Other Information

None.

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Item 6. Exhibits

(A) Exhibits

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

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

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

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

101.INSXBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PREXBRL Taxonomy Extension Presentation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

## SIGNATURES

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

CAPITAL CITY BANK GROUP, INC.  
(Registrant)

/s/ J. Kimbrough Davis  
J. Kimbrough Davis  
Executive Vice President and Chief Financial  
Officer  
(Mr. Davis is the Principal Financial Officer  
and has been duly authorized to sign on behalf  
of the Registrant)

Date: May 9, 2012

| Exhibit | Description                                                                                                                                                                                    |
|---------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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                                                                                                                                           |

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