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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2017

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-13358

(Exact name of registrant as specified in its charter)

Florida	**59-2273542**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
217 North Monroe Street, Tallahassee, Florida	**32301**
(Address of principal executive office)	(Zip Code)

(850) 402-7821
(Registrant's telephone number, including area code)

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

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

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

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

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

At July 31, 2017, 16,964,015 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

CAPITAL CITY BANK GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE PERIOD ENDED JUNE 30, 2017

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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 identify forward-looking statements.

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

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

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

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

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

PART I. FINANCIAL INFORMATION
Item 1.

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

(Dollars in Thousands)	**(Unaudited) June 30, 2017**	**December 31, 2016**
ASSETS		
Cash and Due From Banks	$ 72,801	$ 48,268
Federal Funds Sold and Interest Bearing Deposits	162,377	247,779
Total Cash and Cash Equivalents	235,178	296,047
Investment Securities, Available for Sale, at fair value	529,686	522,734
Investment Securities, Held to Maturity, at amortized cost (fair value of $156,510 and $176,746)	157,074	177,365
Total Investment Securities	686,760	700,099
Loans Held For Sale	8,213	10,886
Loans, Net of Unearned Income	1,621,196	1,561,289
Allowance for Loan Losses	(13,242)	(13,431)
Loans, Net	1,607,954	1,547,858
Premises and Equipment, net	92,495	95,476
Goodwill	84,811	84,811
Other Real Estate Owned	7,968	10,638
Other Assets	91,464	99,382
Total Assets	$ 2,814,843	$ 2,845,197
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 842,314	$ 791,182
Interest Bearing Deposits	1,529,619	1,621,104
Total Deposits	2,371,933	2,412,286
Short-Term Borrowings	6,105	12,749
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	15,631	14,881
Other Liabilities	86,774	77,226
Total Liabilities	2,533,330	2,570,029
SHAREOWNERS' EQUITY		
Preferred Stock, $.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	-	-
Common Stock, $.01 par value; 90,000,000 shares authorized; 16,964,015 and 16,844,698 shares	170	168

issued and outstanding at June 30, 2017 and December 31, 2016, respectively		
Additional Paid-In Capital	35,522	34,188
Retained Earnings	271,646	267,037
Accumulated Other Comprehensive Loss, net of tax	(25,825)	(26,225)
Total Shareowners’ Equity	281,513	275,168
Total Liabilities and Shareowners' Equity	$ 2,814,843	$ 2,845,197

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

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

(Dollars in Thousands, Except Per Share Data)	**Three Months Ended June 30, 2017**	**Three Months Ended June 30, 2016**	**Six Months Ended June 30, 2017**	**Six Months Ended June 30, 2016**
INTEREST INCOME				
Loans, including Fees	$ 18,720	$ 18,105	$ 36,725	$ 36,150
Investment Securities:				
Taxable	1,899	1,539	3,682	2,959
Tax Exempt	270	212	529	429
Federal Funds Sold and Interest Bearing Deposits	533	318	1,026	680
Total Interest Income	21,422	20,174	41,962	40,218
INTEREST EXPENSE				
Deposits	388	211	669	432
Short-Term Borrowings	17	38	62	48
Subordinated Notes Payable	404	343	783	730
Other Long-Term Borrowings	117	206	216	422
Total Interest Expense	926	798	1,730	1,632
NET INTEREST INCOME	20,496	19,376	40,232	38,586
Provision for Loan Losses	589	(97)	899	355
Net Interest Income After Provision For Loan Losses	19,907	19,473	39,333	38,231
NONINTEREST INCOME				
Deposit Fees	5,052	5,321	10,142	10,721
Bank Card Fees	2,870	2,855	5,673	5,708
Wealth Management Fees	2,073	1,690	3,915	3,482
Mortgage Banking Fees	1,556	1,267	2,864	2,297
Other	1,584	4,082	3,259	5,684
Total Noninterest Income	13,135	15,215	25,853	27,892
NONINTEREST EXPENSE				
Compensation	16,292	16,051	32,788	32,292
Occupancy, net	4,555	4,584	8,936	9,043
Other Real Estate Owned, net	315	1,060	898	2,485
Other	6,759	7,007	13,221	13,812
Total Noninterest Expense	27,921	28,702	55,843	57,632
INCOME BEFORE INCOME TAXES	5,121	5,986	9,343	8,491
Income Tax Expense	1,560	2,056	3,038	2,914
NET INCOME	**$ 3,561**	**$ 3,930**	**$ 6,305**	**$ 5,577**

BASIC NET INCOME PER SHARE	**$**	**0.21**	**$**	**0.22**	**$**	**0.37**	**$**	**0.32**
DILUTED NET INCOME PER SHARE	**$**	**0.21**	**$**	**0.22**	**$**	**0.37**	**$**	**0.32**
Average Common Basic Shares Outstanding		16,955		17,144		16,937		17,173
Average Common Diluted Shares Outstanding		17,016		17,196		16,993		17,215

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2017**	**2016**	**2017**	**2016**
NET INCOME	$ 3,561	$ 3,930	$ 6,305	$ 5,577
Other comprehensive income, before tax:				
Change in net unrealized gain/loss on securities available for sale	110	908	615	2,692
Amortization of unrealized losses on securities transferred from				
available for sale to held to maturity	18	20	38	39
Total Investment Securities	128	928	653	2,731
Other comprehensive income, before tax	128	928	653	2,731
Deferred tax expense related to other comprehensive income	49	358	253	1,053
Other comprehensive income, net of tax	79	570	400	1,678
TOTAL COMPREHENSIVE INCOME	$ 3,640	$ 4,500	$ 6,705	$ 7,255

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

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

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss, Net of Taxes	Total
Balance, January 1, 2016	17,156,919	$ 172	$ 38,256	$ 258,181	$ (22,257)	$ 274,352
Net Income	-	-	-	5,577	-	5,577
Other Comprehensive Income, net of tax	-	-	-	-	1,678	1,678
Cash Dividends ($0.0800 per share)	-	-	-	(1,378)	-	(1,378)
Repurchase of Common Stock	(435,461)	(4)	(6,308)	-	-	(6,312)
Stock Based Compensation	-	-	495	-	-	495
Impact of Transactions Under Compensation Plans, net	82,141	-	412	-	-	412
Balance, June 30, 2016	16,803,599	$ 168	$ 32,855	$ 262,380	$ (20,579)	$ 274,824
Balance, January 1, 2017	16,844,698	$ 168	$ 34,188	$ 267,037	$ (26,225)	$ 275,168
Net Income	-	-	-	6,305	-	6,305
Other Comprehensive Income, net of tax	-	-	-	-	400	400
Cash Dividends ($0.1000 per share)	-	-	-	(1,696)	-	(1,696)
Stock Based Compensation	-	-	869	-	-	869
Impact of Transactions Under Compensation Plans, net	119,317	2	465	-	-	467
Balance, June 30, 2017	16,964,015	$ 170	$ 35,522	$ 271,646	$ (25,825)	$ 281,513

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)

	Six Months Ended June 30,	
(Dollars in Thousands	**2017**	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 6,305	$ 5,577
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Loan Losses	899	355
Depreciation	3,352	3,435
Amortization of Premiums, Discounts, and Fees, net	3,279	3,037
Gain on Partial Retirement of Trust Preferred Securities	-	(2,487)
Net Decrease (Increase) in Loans Held-for-Sale	2,673	(414)
Stock Compensation	869	495
Net Tax Benefit From Stock-Based Compensation	(223)	-
Deferred Income Taxes	944	3,586
Loss on Sales and Write-Downs of Other Real Estate Owned	695	1,980
Loss on Disposal of Premises and Equipment	260	92
Net Decrease (Increase) in Other Assets	7,026	(6,679)
Net Increase in Other Liabilities	9,948	10,787
Net Cash Provided By Operating Activities	36,027	19,764
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(28,298)	(28,588)
Payments, Maturities, and Calls	48,096	11,513
Securities Available for Sale:		
Purchases	(87,273)	(90,322)
Payments, Maturities, and Calls	77,973	55,619
Purchases of Loans Held for Investment	(35,499)	-
Net Increase in Loans	(26,101)	(31,218)
Proceeds From Sales of Other Real Estate Owned	3,393	5,107
Purchases of Premises and Equipment	(1,534)	(2,021)
Net Cash Used In Investing Activities	(49,243)	(79,910)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Decrease) Increase in Deposits	(40,353)	21,957
Net Decrease in Short-Term Borrowings	(3,644)	(51,886)
Redemption of Subordinated Notes	-	(7,500)
Repayment of Other Long-Term Borrowings	(2,250)	(1,427)
Dividends Paid	(1,696)	(1,378)
Payments to Repurchase Common Stock	-	(6,312)
Issuance of Common Stock Under Compensation Plans	290	272
Net Cash Used In Financing Activities	(47,653)	(46,274)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(60,869)	(106,420)

Cash and Cash Equivalents at Beginning of Period		296,047		378,905
Cash and Cash Equivalents at End of Period	$	235,178	$	272,485
Supplemental Cash Flow Disclosures:				
Interest Paid	$	1,748	$	1,630
Income Taxes Paid (Refunded)	$	4,024	$	(375)
Noncash Investing and Financing Activities:				
Loans and Premises Transferred to Other Real Estate Owned	$	1,685	$	2,419
Transfer of Current Portion of Long-Term Borrowings	$	-	$	437

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

CAPITAL CITY BANK GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

NOTE 2 – INVESTMENT SECURITIES

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

	June 30, 2017				December 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value

Available for Sale								
U.S. Government Treasury	$277,718	$ 55	$ 808	$276,965	$286,867	$ 262	$ 851	$286,278
U.S. Government Agency	142,400	774	280	142,894	131,489	495	344	131,640
States and Political Subdivisions	99,899	155	76	99,978	95,197	23	381	94,839
Mortgage-Backed Securities	1,246	116	-	1,362	1,312	118	-	1,430
Equity Securities[1]	8,487	-	-	8,487	8,547	-	-	8,547
Total	$529,750	$ 1,100	$ 1,164	$529,686	$523,412	$ 898	$ 1,576	$522,734
Held to Maturity								
U.S. Government Treasury	$ 83,246	$ 1	$ 166	$ 83,081	$119,131	$ 107	$ 81	$119,157
States and Political Subdivisions	7,351	25	2	7,374	8,175	1	38	8,138
Mortgage-Backed Securities	66,477	71	493	66,055	50,059	29	637	49,451
Total	$157,074	$ 97	$ 661	$156,510	$177,365	$ 137	$ 756	$176,746
Total Investment Securities	$686,824	$ 1,197	$ 1,825	$686,196	$700,777	$ 1,035	$ 2,332	$699,480

(1) *Includes Federal Home Loan Bank, Federal Reserve Bank, and FNBB, Inc. stock recorded at cost of $3.2 million, $4.8 million, and $0.5 million, respectively, at June 30, 2017 and $3.3 million, $4.8 million, and $0.5 million, respectively, at December 31, 2016.*

Securities with an amortized cost of $249.4 million and $332.7 million at June 30, 2017 and December 31, 2016, respectively, were pledged to secure public deposits and for other purposes.

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

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

Maturity Distribution. At June 30, 2017, the Company's investment securities had the following maturity distribution based on contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities and certain amortizing U.S. government agency securities are shown separately because they are not due at a certain maturity date.

	Available for Sale		**Held to Maturity**	
(Dollars in Thousands)	**Amortized Cost**	**Market Value**	**Amortized Cost**	**Market Value**
Due in one year or less	$ 164,458	$ 164,400	$ 48,640	$ 48,584
Due after one through five years	252,755	251,947	41,957	41,871
Mortgage-Backed Securities	1,246	1,362	66,477	66,055
U.S. Government Agency	102,804	103,490	-	-
Equity Securities	8,487	8,487	-	-
Total	$ 529,750	$ 529,686	$ 157,074	$ 156,510

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

	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**	**Market Value**	**Unrealized Losses**
June 30, 2017						
Available for Sale						
U.S. Government Treasury	$ 221,874	$ 808	$ -	$ -	$221,874	$ 808
U.S. Government Agency	46,260	201	9,608	79	55,868	280
States and Political Subdivisions	37,984	69	1,063	7	39,047	76
Mortgage-Backed Securities	-	-	3	-	3	-
Total	306,118	1,078	10,674	86	316,792	1,164
Held to Maturity						
U.S. Government Treasury	78,091	166	-	-	78,091	166
States and Political Subdivisions	1,065	2	-	-	1,065	2
Mortgage-Backed Securities	34,840	441	4,067	52	38,907	493
Total	$ 113,996	$ 609	$ 4,067	$ 52	$118,063	$ 661
December 31, 2016						
Available for Sale						
U.S. Government Treasury	$ 116,704	$ 851	$ -	$ -	$116,704	$ 851
U.S. Government Agency	48,520	310	6,699	34	55,219	344
States and Political Subdivisions	81,521	380	294	1	81,815	381
Mortgage-Backed Securities	3	-	-	-	3	-
Total	246,748	1,541	6,993	35	253,741	1,576
Held to Maturity						
U.S. Government Treasury	35,210	81	-	-	35,210	81
States and Political Subdivisions	7,491	38	-	-	7,491	38
Mortgage-Backed Securities	36,710	599	4,010	38	40,720	637
Total	$ 79,411	$ 718	$ 4,010	$ 38	$ 83,421	$ 756

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

At June 30, 2017, there were 281 positions (combined Available-for-Sale and Held-to-Maturity) with an unrealized loss totaling $1.8 million. Included were 142 positions comprised of Ginnie Mae mortgage-backed securities (54), U.S. Treasuries (61), and SBA securities (27) with an unrealized loss totaling $1.5 million. Each of these positions carries the full faith and credit guarantee of the U.S. Government. SBA securities float monthly or quarterly to the prime rate and are uncapped. Of these 142 positions, there were 13 GNMA positions and six SBA positions in an unrealized loss position for longer than 12 months, with unrealized losses of $52,000 and $15,000, respectively. There were 25 agency positions with an unrealized loss of $0.2 million. Two of these 25 positions were in an unrealized loss position for longer than 12 months, and have unrealized losses of $64,000. The remaining 114 positions in an unrealized loss position were municipal bonds that were pre-refunded, or rated “AA-“or better, with unrealized losses of $78,000. Of these 114 positions, three were in an unrealized loss position greater than 12 months, with an unrealized loss of $7,000. Because the declines in the market value of these investments are attributable to changes in interest rates and not credit quality and because the Company has the present ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2017.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	**June 30, 2017**	**December 31, 2016**
Commercial, Financial and Agricultural	$ 213,544	$ 216,404
Real Estate – Construction	67,331	58,443
Real Estate – Commercial Mortgage	519,140	503,978
Real Estate – Residential[1]	319,129	281,509
Real Estate – Home Equity	230,995	236,512
Consumer	271,057	264,443
Loans, Net of Unearned Income	$ 1,621,196	$ 1,561,289

[1] *Includes loans in process with outstanding balances of $18.6 million and $9.6 million at June 30, 2017 and December 31, 2016, respectively.*

Net deferred costs included in loans were $0.7 million at June 30, 2017 and $0.5 million at December 31, 2016.

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

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

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

	June 30, 2017		December 31, 2016	
(Dollars in Thousands)	**Nonaccrual**	**90 + Days**	**Nonaccrual**	**90 + Days**
Commercial, Financial and Agricultural	$ 455	$ -	$ 468	$ -
Real Estate – Construction	363	-	311	-
Real Estate – Commercial Mortgage	2,984	-	3,410	-
Real Estate – Residential	2,485	-	2,330	-
Real Estate – Home Equity	1,496	-	1,774	-
Consumer	183	-	240	-
Total Nonaccrual Loans	$ 7,966	$ -	$ 8,533	$ -

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

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

(Dollars in Thousands)	**30-59 DPD**	**60-89 DPD**	**90 + DPD**	**Total Past Due**	**Total Current**	**Total Loans[(1)]**
June 30, 2017						
Commercial, Financial and Agricultural	$ 54	$ 51	$ -	$ 105	$ 212,984	$ 213,544
Real Estate – Construction	435	-	-	435	66,533	67,331
Real Estate – Commercial Mortgage	262	28	-	290	515,866	519,140
Real Estate – Residential	262	585	-	847	315,797	319,129
Real Estate – Home Equity	757	40	-	797	228,702	230,995
Consumer	1,002	313	-	1,315	269,559	271,057
Total Past Due Loans	$ 2,772	$ 1,017	$ -	$ 3,789	$ 1,609,441	$ 1,621,196
December 31, 2016						
Commercial, Financial and Agricultural	$ 209	$ 48	$ -	$ 257	$ 215,679	$ 216,404
Real Estate – Construction	949	282	-	1,231	56,901	58,443
Real Estate – Commercial Mortgage	835	1	-	836	499,732	503,978
Real Estate – Residential	1,199	490	-	1,689	277,490	281,509
Real Estate – Home Equity	577	51	-	628	234,110	236,512
Consumer	1,516	281	-	1,797	262,406	264,443
Total Past Due Loans	$ 5,285	$ 1,153	$ -	$ 6,438	$ 1,546,318	$ 1,561,289

(1) Total Loans include nonaccrual loans

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

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

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
Three Months Ended June 30, 2017							
Beginning Balance	$ 1,150	$ 100	$ 4,080	$ 3,376	$ 2,522	$ 2,107	$ 13,335
Provision for Loan Losses	229	14	165	(150)	(37)	368	589
Charge-Offs	(324)	-	(478)	(44)	-	(537)	(1,383)
Recoveries	40	-	58	202	39	362	701
Net Charge-Offs	(284)	-	(420)	158	39	(175)	(682)
Ending Balance	$ 1,095	$ 114	$ 3,825	$ 3,384	$ 2,524	$ 2,300	$ 13,242
Six Months Ended June 30, 2017							
Beginning Balance	$ 1,198	$ 168	$ 4,315	$ 3,445	$ 2,297	$ 2,008	$ 13,431
Provision for Loan Losses	193	(54)	(22)	(316)	251	847	899
Charge-Offs	(417)	-	(549)	(160)	(92)	(1,161)	(2,379)
Recoveries	121	-	81	415	68	606	1,291
Net Charge-Offs	(296)	-	(468)	255	(24)	(555)	(1,088)
Ending Balance	$ 1,095	$ 114	$ 3,825	$ 3,384	$ 2,524	$ 2,300	$ 13,242
Three Months Ended June 30, 2016							
Beginning Balance	$ 883	$ 101	$ 4,349	$ 4,137	$ 2,435	$ 1,708	$ 13,613
Provision for Loan Losses	420	25	(197)	(676)	21	310	(97)
Charge-Offs	(304)	-	-	(205)	(146)	(438)	(1,093)
Recoveries	49	-	237	579	81	308	1,254
Net Charge-Offs	(255)	-	237	374	(65)	(130)	161
Ending Balance	$ 1,048	$ 126	$ 4,389	$ 3,835	$ 2,391	$ 1,888	$ 13,677
Six Months Ended June 30, 2016							
Beginning Balance	$ 905	$ 101	$ 4,498	$ 4,409	$ 2,473	$ 1,567	$ 13,953
Provision for Loan Losses	396	25	(153)	(706)	139	654	355
Charge-Offs	(341)	-	(274)	(683)	(361)	(877)	(2,536)
Recoveries	88	-	318	815	140	544	1,905
Net Charge-Offs	(253)	-	44	132	(221)	(333)	(631)
Ending Balance	$ 1,048	$ 126	$ 4,389	$ 3,835	$ 2,391	$ 1,888	$ 13,677

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

(Dollars in Thousands	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
June 30, 2017							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	$ 82	$ 4	$ 1,685	$ 1,405	$ 408	$ 3	$ 3,587
Loans Collectively Evaluated for Impairment	1,013	110	2,140	1,979	2,116	2,297	9,655
Ending Balance	$ 1,095	$ 114	$ 3,825	$ 3,384	$ 2,524	$ 2,300	$ 13,242
December 31, 2016							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	$ 80	$ -	$ 2,038	$ 1,561	$ 335	$ 6	$ 4,020
Loans Collectively Evaluated for Impairment	1,118	168	2,277	1,884	1,962	2,002	9,411
Ending Balance	$ 1,198	$ 168	$ 4,315	$ 3,445	$ 2,297	$ 2,008	$ 13,431
June 30, 2016							
Period-end amount Allocated to:							
Loans Individually Evaluated for Impairment	$ 69	$ -	$ 1,953	$ 1,868	$ 318	$ 9	$ 4,217
Loans Collectively Evaluated for Impairment	979	126	2,436	1,967	2,073	1,879	9,460
Ending Balance	$ 1,048	$ 126	$ 4,389	$ 3,835	$ 2,391	$ 1,888	$ 13,677

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

(Dollars in Thousands)	**Commercial, Financial, Agricultural**	**Real Estate Construction**	**Real Estate Commercial Mortgage**	**Real Estate Residential**	**Real Estate Home Equity**	**Consumer**	**Total**
June 30, 2017							
Individually Evaluated for Impairment	$ 1,078	$ 363	$ 21,502	$ 14,879	$ 3,314	$ 140	$ 41,276
Collectively Evaluated for Impairment	212,466	66,968	497,638	304,250	227,681	270,917	1,579,920
Total	$ 213,544	$ 67,331	$ 519,140	$ 319,129	$ 230,995	$ 271,057	$1,621,196
December 31, 2016							
Individually Evaluated for Impairment	$ 1,042	$ 247	$ 23,855	$ 15,596	$ 3,375	$ 174	$ 44,289
Collectively Evaluated for Impairment	215,362	58,196	480,123	265,913	233,137	264,269	1,517,000
Total	$ 216,404	$ 58,443	$ 503,978	$ 281,509	$ 236,512	$ 264,443	$1,561,289
June 30, 2016							
Individually Evaluated for Impairment	$ 793	$ -	$ 20,589	$ 17,725	$ 2,872	$ 206	$ 42,185
Collectively Evaluated for Impairment	206,312	46,930	464,740	273,467	232,522	254,318	1,478,289
Total	$ 207,105	$ 46,930	$ 485,329	$ 291,192	$ 235,394	$ 254,524	$1,520,474

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.

(Dollars in Thousands)	**Unpaid Principal Balance**	**Recorded Investment With No Allowance**	**Recorded Investment With Allowance**	**Related Allowance**
June 30, 2017				
Commercial, Financial and Agricultural	$ 1,078	$ 351	$ 727	$ 82
Real Estate – Construction	363	298	65	4
Real Estate – Commercial Mortgage	21,502	7,378	14,124	1,685
Real Estate – Residential	14,879	2,547	12,332	1,405
Real Estate – Home Equity	3,314	1,538	1,776	408
Consumer	140	82	58	3
Total	$ 41,276	$ 12,194	$ 29,082	$ 3,587
December 31, 2016				
Commercial, Financial and Agricultural	$ 1,042	$ 565	$ 477	$ 80
Real Estate – Construction	247	-	247	-
Real Estate – Commercial Mortgage	23,855	8,954	14,901	2,038
Real Estate – Residential	15,596	2,509	13,087	1,561
Real Estate – Home Equity	3,375	1,871	1,504	335
Consumer	174	65	109	6
Total	$ 44,289	$ 13,964	$ 30,325	$ 4,020

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
(Dollars in Thousands)	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income	Average Recorded Investment	Total Interest Income
Commercial, Financial and Agricultural	$ 1,158	$ 11	$ 802	$ 12	$ 1,119	$ 23	$ 813	$ 25
Real Estate – Construction	363	1	-	-	324	2	32	-
Real Estate – Commercial Mortgage	22,281	220	20,694	216	22,806	443	20,745	455
Real Estate – Residential	14,789	174	17,973	196	15,058	353	18,172	405
Real Estate – Home Equity	3,414	27	3,042	29	3,401	54	3,076	56
Consumer	142	2	206	2	153	4	224	4
Total	$ 42,147	$ 435	$ 42,717	$ 455	$ 42,861	$ 879	$ 43,062	$ 945

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

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

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

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

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

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

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

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

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

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

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

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

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

(Dollars in Thousands)	**Commercial, Financial, Agriculture**	**Real Estate**	**Consumer**	**Total Criticized Loans**
June 30, 2017				
Special Mention	$ 9,637	$ 16,630	$ 230	$ 26,497
Substandard	1,737	39,066	519	41,322
Doubtful	-	-	-	-
Total Criticized Loans	$ 11,374	$ 55,696	$ 749	$ 67,819
December 31, 2016				
Special Mention	$ 3,300	$ 23,183	$ 216	$ 26,699
Substandard	1,158	39,800	549	41,507
Doubtful	-	-	-	-
Total Criticized Loans	$ 4,458	$ 62,983	$ 765	$ 68,206

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

The following table presents loans classified as TDRs.

	June 30, 2017		December 31, 2016	
(Dollars in Thousands)	**Accruing**	**Nonaccruing**	**Accruing**	**Nonaccruing**
Commercial, Financial and Agricultural	$ 848	$ -	$ 772	$ 40
Real Estate – Construction	-	66	-	-
Real Estate – Commercial Mortgage	18,834	1,430	20,673	1,259
Real Estate – Residential	13,110	905	13,969	444
Real Estate – Home Equity	2,505	80	2,647	-
Consumer	139	-	172	-
Total TDRs	$ 35,436	$ 2,481	$ 38,233	$ 1,743

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

	Three Months Ended June 30, 2017			**Six Months Ended June 30, 2017**		
(Dollars in Thousands)	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	-	$ -	$ -	-	$ -	$ -
Real Estate – Construction	-	-	-	1	64	65
Real Estate – Commercial Mortgage	-	-	-	-	-	-
Real Estate – Residential	1	215	182	1	215	182
Real Estate – Home Equity	-	-	-	1	56	55
Consumer	-	-	-	-	-	-
Total TDRs	1	$ 215	$ 182	3	$ 335	$ 302

	Three Months Ended June 30, 2016			**Six Months Ended June 30, 2016**		
(Dollars in Thousands)	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	-	$ -	$ -	-	$ -	$ -
Real Estate – Construction	-	-	-	-	-	-
Real Estate – Commercial Mortgage	-	-	-	1	332	332
Real Estate – Residential	1	90	90	6	589	590
Real Estate – Home Equity	-	-	-	4	188	189
Consumer	-	-	-	-	-	-
Total TDRs	1	$ 90	$ 90	11	$ 1,109	$ 1,111

For the three and six months ended June 30, 2017, there were no loans modified as TDRs within the previous 12 months that have substantially defaulted. For the three and six months ended June 30, 2016, loans modified as TDRs within the previous 12 months that have substantially defaulted during periods indicated are presented in the table below.

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
(Dollars in Thousands)	Number of Contracts	Post-Modified Recorded Investment[1]	Number of Contracts	Post-Modified Recorded Investment[1]
Commercial, Financial and Agricultural	-	$ -	-	$ -
Real Estate – Construction	-	-	-	-
Real Estate – Commercial Mortgage	-	-	-	-
Real Estate – Residential	1	98	1	98
Real Estate – Home Equity	-	-	1	3
Consumer	-	-	1	35
Total TDRs	1	$ 98	3	$ 136

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

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

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
(Dollars in Thousands)	Number of Contracts	Recorded Investment[1]	Number of Contracts	Recorded Investment[1]
Extended amortization	-	$ -	-	$ -
Interest rate adjustment	1	182	3	302
Extended amortization and interest rate adjustment	-	-	-	-
Total TDRs	1	$ 182	3	$ 302

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
(Dollars in Thousands)	Number of Contracts	Recorded Investment[1]	Number of Contracts	Recorded Investment[1]
Extended amortization	1	$ 90	1	$ 90
Interest rate adjustment	-	-	-	-
Extended amortization and interest rate adjustment	-	-	10	1,021
Total TDRs	1	$ 90	11	$ 1,111

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

NOTE 4 – OTHER REAL ESTATE OWNED

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2017**	**2016**	**2017**	**2016**
Beginning Balance	$ 9,501	$ 17,450	$ 10,638	$ 19,290
Additions	144	1,218	1,685	2,419
Valuation Write-downs	(275)	(678)	(769)	(1,513)
Sales	(1,209)	(3,368)	(3,320)	(5,574)
Other	(193)	-	(266)	-
Ending Balance	$ 7,968	$ 14,622	$ 7,968	$ 14,622

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2017**	**2016**	**2017**	**2016**
Gains from the Sale of Properties	$ (162)	$ (166)	$ (268)	$ (294)
Losses from the Sale of Properties	93	392	195	761
Rental Income from Properties	(22)	(32)	(54)	(32)
Property Carrying Costs	131	188	257	537
Valuation Adjustments	275	678	768	1,513
Total	$ 315	$ 1,060	$ 898	$ 2,485

As of June 30, 2017, the Company had $0.7 million of loans secured by residential real estate in the process of foreclosure**.**

NOTE 5 - EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in Thousands)	**2017**	**2016**	**2017**	**2016**
Service Cost	$ 1,688	$ 1,613	$ 3,376	$ 3,226
Interest Cost	1,437	1,397	2,874	2,794
Expected Return on Plan Assets	(2,006)	(1,934)	(4,012)	(3,870)
Prior Service Cost Amortization	56	69	112	139
Net Loss Amortization	953	801	1,906	1,602
Net Periodic Benefit Cost	$ 2,128	$ 1,946	$ 4,256	$ 3,891
Discount Rate	4.21%	4.52%	4.21%	4.52%
Long-term Rate of Return on Assets	7.25%	7.50%	7.25%	7.50%

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

	Three Months Ended June 30,		Six Months Ended June 30,	

(Dollars in Thousands)	**2017**	**2016**	**2017**	**2016**
Interest Cost	$ 48	$ 40	$ 96	$ 80
Net Loss Amortization	149	190	298	380
Net Periodic Benefit Cost	$ 197	$ 230	$ 394	$ 460
Discount Rate	3.92%	4.13%	3.92%	4.13%

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

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

	June 30, 2017			December 31, 2016		
(Dollars in Thousands)	**Fixed**	**Variable**	**Total**	**Fixed**	**Variable**	**Total**
Commitments to Extend Credit [1]	$ 85,974	$ 366,887	$ 452,861	$ 69,993	$ 332,420	$ 402,413
Standby Letters of Credit	4,762	-	4,762	4,768	-	4,768
Total	$ 90,736	$ 366,887	$ 457,623	$ 74,761	$ 332,420	$ 407,181

(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 member banks are required to indemnify it for potential future settlement of certain litigation (the "Covered Litigation") that relates to several antitrust lawsuits challenging the practices of Visa and MasterCard International. In 2008, the Company, as a member of the Visa U.S.A. network, obtained Class B shares of Visa, Inc. upon its initial public offering. Since its initial public offering, Visa, Inc. has funded a litigation reserve for the Covered Litigation resulting in a reduction in the Class B shares held by the Company. During the first quarter of 2011, the Company sold its remaining Class B shares resulting in a $3.2 million pre-tax gain. Associated with this sale, the Company entered into a swap contract with the purchaser of the shares that requires a payment to the counterparty in the event that Visa, Inc. makes subsequent revisions to the conversion ratio for its Class B shares. Fixed charges included in the swap liability are payable quarterly until the litigation reserve is fully liquidated and at which time the aforementioned swap contract will be terminated. Quarterly fixed payments approximate $85,000. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

NOTE 7 – FAIR VALUE MEASUREMENTS

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

Fair Value Swap. The Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents the amount due and payable to the counterparty based upon the revised share conversion rate, if any, during the period. At June 30, 2017, there were no amounts payable.

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

(Dollars in Thousands)	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
June 30, 2017				
Securities Available for Sale:				
U.S. Government Treasury	$ 276,965	$ -	$ -	$ 276,965
U.S. Government Agency	-	142,894	-	142,894
States and Political Subdivisions	-	99,978	-	99,978
Mortgage-Backed Securities	-	1,362	-	1,362
Equity Securities	-	8,487	-	8,487
December 31, 2016				
Securities Available for Sale:				
U.S. Government Treasury	$ 286,278	$ -	$ -	$ 286,278
U.S. Government Agency	-	131,640	-	131,640
States and Political Subdivisions	-	94,839	-	94,839

Mortgage-Backed Securities	-	1,430	-	1,430
Equity Securities	-	8,547	-	8,547

Assets Measured at Fair Value on a Non-Recurring Basis

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

Impaired Loans. Impairment for collateral dependent loans is measured using the fair value of the collateral less selling costs. The fair value of collateral is determined by an independent valuation or professional appraisal in conformance with banking regulations. Collateral values are estimated using Level 3 inputs due to the volatility in the real estate market, and the judgment and estimation involved in the real estate appraisal process. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. Valuation techniques are consistent with those techniques applied in prior periods. Impaired collateral dependent loans had a carrying value of $7.9 million with a valuation allowance of $0.8 million at June 30, 2017 and $6.3 million and $0.6 million, respectively, at December 31, 2016.

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

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

Assets and Liabilities Disclosed at Fair Value

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

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

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

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

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

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

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

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

	June 30, 2017			
(Dollars in Thousands)	**Carrying Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
ASSETS:				
Cash	$ 72,801	$ 72,801	$ -	$ -
Short-Term Investments	162,377	162,377	-	-
Investment Securities, Available for Sale	529,686	276,965	252,721	-
Investment Securities, Held to Maturity	157,074	83,081	73,429	-
Loans Held for Sale	8,213	-	8,213	-
Loans, Net of Allowance for Loan Losses	1,607,954	-	-	1,601,137
LIABILITIES:				
Deposits	$ 2,371,933	$ -	$ 2,305,776	$ -
Short-Term Borrowings	6,105	-	6,141	-
Subordinated Notes Payable	52,887	-	40,960	-
Long-Term Borrowings	15,631	-	15,847	-

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

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

NOTE 8 – OTHER COMPREHENSIVE INCOME

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

(Dollars in Thousands)	**Before Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**
Three Months Ended June 30, 2017			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	$ 110	$ (42)	$ 68
Amortization of losses on securities transferred from available for sale to held to maturity	18	(7)	11
Total Other Comprehensive Loss	$ 128	$ (49)	$ 79
Six Months Ended June 30, 2017			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	$ 615	$ (238)	$ 377
Amortization of losses on securities transferred from available for sale to held to maturity	38	(15)	23
Total Other Comprehensive Income	$ 653	$ (253)	$ 400

(Dollars in Thousands)	**Before Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**
Three Months Ended June 30, 2016			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	$ 908	$ (350)	$ 558
Amortization of losses on securities transferred from available for sale to held to maturity	20	(8)	12
Total Other Comprehensive Income	$ 928	$ (358)	$ 570
Six Months Ended June 30, 2016			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	$ 2,692	$ (1,038)	$ 1,654
Amortization of losses on securities transferred from available for sale to held to maturity	39	(15)	24
Total Other Comprehensive Income	$ 2,731	$ (1,053)	$ 1,678

Accumulated other comprehensive loss was comprised of the following components:

(Dollars in Thousands)	**Securities Available for Sale**	**Retirement Plans**	**Accumulated Other Comprehensive Loss**
Balance as of January 1, 2017	$ (583)	$ (25,642)	$ (26,225)
Other comprehensive income during the period	400	-	400
Balance as of June 30, 2017	$ (183)	$ (25,642)	$ (25,825)
Balance as of January 1, 2016	$ (127)	$ (22,130)	$ (22,257)
Other comprehensive income during the period	1,678	-	1,678
Balance as of June 30, 2016	$ 1,551	$ (22,130)	$ (20,579)

NOTE 9 – ACCOUNTING STANDARDS UPDATES

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

ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements." ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. ASU 2016-13 will be effective for the Company on January 1, 2020. The Company is currently evaluating the potential impact of ASU 2016-13 on its financial statements.

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

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

ASU 2017-07, "Compensation – Retirement Benefits (Topic 715)." ASU 2017-07 requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. ASU 2017-07 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

ASU 2017-09, "Compensation – Stock Compensation (Topic 718)." ASU 2017-09 clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Modification accounting is required only if the fair value, or calculated intrinsic value if it is used to measure the award, the vesting conditions, or the classification of the award as equity or liability changes as a result of the change in terms or conditions. ASU 2017-09 is effective for the Company on January 1, 2018 and is not expected to have a significant impact on its financial statements.

ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815)." ASU 2017-11 has two parts (i) Accounting for Certain Financial Instruments with Down Round Features and (ii) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. Part (i) changes the classification analysis of certain equity-linked financial instruments with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. Part (ii) re-characterizes the indefinite deferral of certain provisions of Topic 480 that are now presented as pending continent in the Codification, to a scope exception. Those amendments do not have an accounting effect. ASU 2017-11 is effective for the Company on January 1, 2019 and is not expected to have a significant impact on its financial statements.

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

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

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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

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

BUSINESS OVERVIEW

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

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

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

NON-GAAP FINANCIAL MEASURE

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

		2017			**2016**		
(Dollars in Thousands)		Second	First	Fourth	Third	Second	First
Shareowners' Equity (GAAP)		$ 281,513	$ 278,059	$ 275,168	$ 276,624	$ 274,824	$ 276,83
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,811	84,811	84,81
Tangible Shareowners' Equity (non-GAAP)	A	196,702	193,248	190,357	191,813	190,013	192,02
Total Assets (GAAP)		2,814,843	2,895,531	2,845,197	2,753,154	2,767,636	2,792,18
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,811	84,811	84,81
Tangible Assets (non-GAAP)	B	$ 2,730,032	$ 2,810,720	$ 2,760,386	$ 2,668,343	$ 2,682,825	$ 2,707,37
Tangible Common Equity Ratio (non-GAAP)	A/B	7.21%	6.88%	6.90%	7.19%	7.08%	7.09

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2017		2016			
(Dollars in Thousands, Except (Per Share Data)	Second	First	Fourth	Third	Second	First
Summary of Operations:						
Interest Income	$ 21,422	$ 20,540	$ 20,832	$ 20,104	$ 20,174	$ 20,044
Interest Expense	926	804	773	784	798	834
Net Interest Income	20,496	19,736	20,059	19,320	19,376	19,210
Provision for Loan Losses	589	310	464	-	(97)	452
Net Interest Income After Provision for Loan Losses	19,907	19,426	19,595	19,320	19,473	18,758
Noninterest Income(2)	13,135	12,718	12,778	13,011	15,215	12,677
Noninterest Expense	27,921	27,922	27,560	28,022	28,702	28,930
Income Before Income Taxes	5,121	4,222	4,813	4,309	5,986	2,505
Income Tax Expense	1,560	1,478	1,517	1,436	2,056	858
Net Income	3,561	2,744	3,296	2,873	3,930	1,647
Net Interest Income (FTE)	$ 20,799	$ 20,006	$ 20,335	$ 19,603	$ 19,617	$ 19,421
Per Common Share:						
Net Income Basic	$ 0.21	$ 0.16	$ 0.20	$ 0.18	$ 0.22	$ 0.10
Net Income Diluted	0.21	0.16	0.20	0.17	0.22	0.10
Cash Dividends Declared	0.05	0.05	0.05	0.04	0.04	0.04
Diluted Book Value	16.54	16.38	16.23	16.39	16.31	16.04
Market Price:						
High	22.39	21.79	23.15	15.35	15.96	15.88
Low	17.68	19.22	14.29	13.32	13.16	12.83
Close	20.42	21.39	20.48	14.77	13.92	14.59
Selected Average Balances:						
Loans, Net	$1,608,629	$1,585,561	$1,573,264	$1,555,889	$1,531,777	$1,507,508
Earning Assets	2,502,030	2,529,207	2,423,388	2,417,943	2,447,777	2,440,718
Total Assets	2,817,479	2,845,140	2,743,463	2,734,465	2,767,854	2,763,746
Deposits	2,373,423	2,407,278	2,306,917	2,288,741	2,276,553	2,258,600
Shareowners' Equity	281,661	278,489	278,943	277,407	279,532	277,464
Common Equivalent Average Shares:						
Basic	16,955	16,919	16,809	16,804	17,144	17,202
Diluted	17,016	16,944	16,913	16,871	17,196	17,235
Performance Ratios:						
Return on Average Assets	0.51%	0.39%	0.48%	0.42%	0.57%	0.24%
Return on Average Equity	5.07	4.00	4.70	4.12	5.65	2.39
Net Interest Margin (FTE)	3.33	3.21	3.34	3.23	3.22	3.20
Noninterest Income as % of Operating Revenue	39.05	39.19	38.91	40.24	43.99	39.76
Efficiency Ratio	82.28	85.33	83.23	85.92	82.40	90.13
Asset Quality:						

Allowance for Loan Losses	$ 13,242	$ 13,335	$ 13,431	$ 13,744	$ 13,677	$ 13,613
Allowance for Loan Losses to Loans	0.81%	0.84%	0.86%	0.88%	0.89%	0.90%
Nonperforming Assets ("NPAs")	$ 15,934	$ 17,799	$ 19,171	$ 21,352	$ 22,836	$ 26,499
NPAs to Total Assets	0.57%	0.61%	0.67%	0.78%	0.83%	0.95%
NPAs to Loans plus OREO	0.97	1.11	1.21	1.35	1.48	1.73
Allowance to Non-Performing Loans	166.23	160.70	157.40	159.56	166.50	150.44
Net Charge-Offs to Average Loans	0.17	0.10	0.20	(0.02)	(0.04)	0.21
Capital Ratios:						
Tier 1 Capital	15.58%	15.68%	15.51%	15.48%	15.63%	16.39%
Total Capital	16.32	16.44	16.28	16.28	16.44	17.20
Common Equity Tier 1	12.72	12.77	12.61	12.55	12.65	12.82
Leverage	10.20	9.95	10.23	10.12	9.98	10.34
Tangible Common Equity[1]	7.21	6.88	6.90	7.19	7.08	7.09

[1]*Non-GAAP financial measure. See non-GAAP reconciliation on page 29.*
[2]*Includes $2.5 million gain on partial retirement of trust preferred securities in second quarter, 2016.*

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Results of Operations

- Net income of $3.6 million, or $0.21 per diluted share, for the second quarter of 2017 compared to net income of $2.7 million, or $0.16 per diluted share, for the first quarter of 2017, and net income of $3.9 million, or $0.22 per diluted share for the second quarter of 2016. For the first six months of 2017, we realized net income of $6.3 million, or $0.37 per diluted share, compared to net income of $5.6 million, or $0.32 per diluted share, for the same period of 2016.

- Tax equivalent net interest income for the second quarter of 2017 was $20.8 million compared to $20.0 million for the first quarter of 2017 and $19.6 million for the second quarter of 2016. For the first six months of 2017, tax equivalent net interest income totaled $40.8 million compared to $39.0 million for the comparable period in 2016. Growth in tax equivalent net interest income compared to respective prior periods reflected rising interest rates and a favorable shift in our earning asset mix driven by loan growth.

- Provision for loan losses was $0.6 million for the second quarter of 2017 compared to $0.3 million for the first quarter of 2017 and negative $0.1 million for the second quarter of 2016. For the first six months of 2017, the loan loss provision totaled $0.9 million compared to $0.4 million for the same period of 2016. The increase in the loan loss provision compared to all prior periods was primarily due to growth in the loan portfolio.

- Noninterest income for the second quarter of 2017 totaled $13.1 million, an increase of $0.4 million, or 3.3%, over the first quarter of 2017 and a decrease of $2.0 million, or 13.7%, from the second quarter of 2016. For the first six months of 2017, noninterest income totaled $25.9 million, a $2.0 million, or 7.3%, decrease from the same period of 2016. The increase over the first quarter of 2017 was attributable to higher wealth management fees and mortgage banking fees. The decrease from both prior year periods was primarily due to a $2.5 million gain from the partial retirement of our trust preferred securities ("TRUPs") in the second quarter of 2016.

- Noninterest expense for the second quarter of 2017 totaled $27.9 million comparable to the first quarter of 2017 and a decrease of $0.8 million, or 2.7%, from the second quarter of 2016. The decrease from the second quarter of 2016 was due to lower other real estate owned ("OREO") expense. For the first six months of 2017, noninterest expense totaled $55.8 million, a decrease of $1.7 million, or 3.1%, from the same period of 2016 due to lower OREO expense and other expense (primarily legal fees and FDIC insurance), partially offset by higher compensation expense (primarily stock compensation).

Financial Condition

- Average earning assets were $2.502 billion for the second quarter of 2017, a decrease of $27.2 million, or 1.1%, from the first quarter of 2017, and an increase of $78.6 million, or 3.2%, over the fourth quarter of 2016. The decrease in average earning assets over the first quarter of 2017 primarily reflected a lower level of public fund deposits. Compared to the fourth quarter of 2016, the increase reflected broad based deposit growth that funded growth in the loan portfolio.

- Average loans increased by $23.1 million, or 1.5%, over the first quarter of 2017 and $35.4 million, or 2.3%, over the fourth quarter of 2016. The increase compared to the first quarter of 2017 reflected growth in all loan types except commercial loans and home equity loans. Growth over the fourth quarter of 2016 was experienced in all loan products, with the exception of institutional loans and home equity loans.

- Nonperforming assets totaled $15.9 million at June 30, 2017, a decrease of $1.9 million, or 10%, from March 31, 2017 and $3.2 million, or 17%, from December 31, 2016. Nonperforming assets represented 0.57% of total assets at June 30, 2017 compared to 0.61% at March 31, 2017 and 0.67% at December 31, 2016.

- At June 30, 2017, we were well-capitalized with a risk based capital ratio of 16.32% and a tangible common equity ratio of 7.21% compared to 16.44% and 6.88%, respectively, at March 31, 2017, and 16.28% and 6.90%, respectively, at December 31, 2016. All of our regulatory capital ratios exceeded the threshold to be well-capitalized under the Basel III capital standards.

RESULTS OF OPERATIONS

Net Income

For the second quarter of 2017, we realized net income of $3.6 million, or $0.21 per diluted share, compared to net income of $2.7 million, or $0.16 per diluted share for the first quarter of 2017, and net income of $3.9 million, or $0.22 per diluted share, for the second quarter of 2016. For the first six months of 2017, we realized net income of $6.3 million, or $0.37 per diluted share, compared to net income of $5.6 million, or $0.32 per diluted share for the same period in 2016.

Compared to the first quarter of 2017, performance reflected higher net interest income of $0.8 million and a $0.4 million increase in noninterest income, partially offset by a $0.3 million increase in the loan loss provision.

Compared to the second quarter of 2016, the decrease in earnings reflected lower noninterest income of $2.0 million and a $0.7 million increase in the loan loss provision, partially offset by higher net interest income of $1.1 million, and a $0.8 million reduction in noninterest expense, and lower income taxes of $0.5 million.

The increase in earnings for the first six months of 2017 versus the comparable period in 2016 was attributable to higher net interest income of $1.6 million and a $1.7 million reduction in noninterest expense, partially offset by a $0.5 million increase in the loan loss provision, lower noninterest income of $2.0 million, and a $0.1 million increase in income taxes.

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

	Three Months Ended			**Six Months Ended**	
(Dollars in Thousands, except per share data)	**June 30, 2017**	**March 31, 2017**	**June 30, 2016**	**June 30, 2017**	**June 30, 2016**
Interest Income	$ 21,422	$ 20,540	$ 20,174	$ 41,962	$ 40,218
Taxable Equivalent Adjustments	303	270	241	573	452
Total Interest Income (FTE)	21,725	20,810	20,415	42,535	40,670
Interest Expense	926	804	798	1,730	1,632
Net Interest Income (FTE)	20,799	20,006	19,617	40,805	39,038
Provision for Loan Losses	589	310	(97)	899	355
Taxable Equivalent Adjustments	303	270	241	573	452
Net Interest Income After Provision for Loan Losses	19,907	19,426	19,473	39,333	38,231
Noninterest Income	13,135	12,718	15,215	25,853	27,892
Noninterest Expense	27,921	27,922	28,702	55,843	57,632
Income Before Income Taxes	5,121	4,222	5,986	9,343	8,491
Income Tax Expense	1,560	1,478	2,056	3,038	2,914
Net Income	$ 3,561	$ 2,744	$ 3,930	$ 6,305	$ 5,577
Basic Net Income Per Share	$ 0.21	$ 0.16	$ 0.22	$ 0.37	$ 0.32
Diluted Net Income Per Share	$ 0.21	$ 0.16	$ 0.22	$ 0.37	$ 0.32

Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets less interest expense paid on interest bearing liabilities. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and state and local government debt obligations. We provide an analysis of our net interest income including average yields and rates in Table I on page 44.

Tax equivalent net interest income was $20.8 million for the second quarter of 2017 compared to $20.0 million for the first quarter of 2017 and $19.6 million for the second quarter of 2016. The increase in tax equivalent net interest income compared to the first quarter of 2017 reflected a favorable shift in the earning asset mix, one additional calendar day and higher short-term interest rates, partially offset by higher rates paid on negotiated rate deposits. The increase in tax equivalent net interest income compared to the second quarter of 2016 reflected growth in the loan portfolio and higher short-term interest rates, partially offset by a higher rate paid on negotiated rate deposits. For the first six months of 2017, tax equivalent net interest income totaled $40.8 million compared to $39.0 million for the comparable period in 2016. The year over year increase was driven by growth in the loan and investment portfolios, coupled with higher short-term interest rates, partially offset by a higher rate paid on negotiated rate deposits and one less calendar day.

The overnight funds rate has increased four times since December 2015, from a range of 0.00%-0.25% to a range of 1.00% to 1.25%. These increases have positively affected our net interest income due to favorable repricing of our variable and adjustable rate earning assets. Although these interest rate increases have also resulted in higher rates paid on our negotiated rate products, we continue to monitor and manage our overall cost of funds, which was 15 basis points in the second quarter of 2017. Despite highly competitive loan pricing across most markets, our loan portfolio yield increased quarter-over-quarter.

Our net interest margin for the second quarter of 2017 was 3.33%, an increase of 12 basis points over the first quarter of 2017 and an increase of 11 basis points over the second quarter of 2016. For the first six months of 2017, the net interest margin increased six basis points to 3.27% compared to the same period of 2016. The increase in the margin as compared to all respective prior periods reflected rising interest rates and a favorable shift in our earning asset mix, which has produced higher net interest income in each period.

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

Provision for Loan Losses

The provision for loan losses for the second quarter of 2017 was $0.6 million compared to a $0.3 million provision expense for the first quarter of 2017 and a negative provision of $0.1 million for the second quarter of 2016. For the first six months of 2017, the loan loss provision totaled $0.9 million compared to $0.4 million for the same period of 2016. The increase in the loan loss provision over all respective prior periods was due to growth in the loan portfolio. We realized net loan charge-offs of $0.7 million, or 0.17% (annualized), of average loans for the second quarter of 2017. This compares to net loan charge-offs of $0.4 million, or 0.10% (annualized) for the first quarter of 2017 and net loan recoveries of $0.2 million, or 0.04% (annualized) for the second quarter of 2016. For the first six months of 2017, net charge-offs totaled $1.1 million, or 0.14% (annualized), of average loans compared to $0.6 million, or 0.08% (annualized), for the same period of 2016.

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

	Three Months Ended			Six Months Ended	
	June 30,	**March 31,**	**June 30,**	**June 30,**	**June 30,**
(Dollars in Thousands, except per share data)	**2017**	**2017**	**2016**	**2017**	**2016**
CHARGE-OFFS					
Commercial, Financial and Agricultural	$ 324	$ 93	$ 304	$ 417	$ 341
Real Estate - Construction	-				