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 September 30, 2019

OR

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

For the transition period from ____________ to ____________

Commission File Number: 0-13358

Capital City Bank Group

(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par value $0.01	CCBG	Nasdaq Stock Market, LLC

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 [ ]	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 October 31, 2019, 16,748,858 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

CAPITAL CITY BANK GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2019
TABLE OF CONTENTS

INTRODUCTORY NOTE

Caution Concerning Forward-Looking Statements

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

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

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q and the following sections of our Annual Report on Form 10-K for the year ended December 31, 2018 (the “2018 Form 10-K”): (a) “Introductory Note” in Part I, Item 1. “Business”; (b) “Risk Factors” in Part I, Item 1A, as updated in our subsequent quarterly reports filed on Form 10-Q; and (c) “Introduction” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in Part II, Item 7, as well as:

- our ability to successfully manage interest rate risk, liquidity risk, and other risks inherent to our industry;
- legislative or regulatory changes;
- changes in monetary and fiscal policies of the U.S. Government;
- inflation, interest rate, market and monetary fluctuations;
- the effects of security breaches and computer viruses that may affect our computer systems or fraud related to debit card products;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our loan loss reserve, deferred tax asset valuation and pension plan;
- changes in accounting principles, policies, practices or guidelines, including the effects of forthcoming Current Expected Credit Losses (“CECL”) accounting implementation;
- the frequency and magnitude of foreclosure of our loans;
- the effects of our lack of a diversified loan portfolio, including the risks of geographic and industry concentrations;
- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- our ability to declare and pay dividends, the payment of which is subject to our capital requirements;
- changes in the securities and real estate markets;
- the effects of harsh weather conditions, including hurricanes, and man-made disasters;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- the willingness of clients to accept third-party products and services rather than our products and services and vice versa;
- increased competition and its effect on pricing;
- technological changes;
- negative publicity and the impact on our reputation;
- changes in consumer spending and saving habits;
- growth and profitability of our noninterest income;
- the limited trading activity of our common stock;
- the concentration of ownership of our common stock;
- anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- other risks described from time to time in our filings with the Securities and Exchange Commission; and
- our ability to manage the risks involved in the foregoing.

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

PART I. FINANCIAL INFORMATION
Item 1.

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

(Dollars in Thousands)	(Unaudited) September 30, 2019	December 31, 2018
ASSETS		
Cash and Due From Banks	$ 61,151	$ 62,032
Federal Funds Sold and Interest Bearing Deposits	177,389	213,968
Total Cash and Cash Equivalents	238,540	276,000
Investment Securities, Available for Sale, at fair value	376,981	446,157
Investment Securities, Held to Maturity, at amortized cost (fair value of $241,887 and $214,413)	240,303	217,320
Total Investment Securities	617,284	663,477
Loans Held For Sale	13,075	6,869
Loans, Net of Unearned Income	1,827,753	1,774,225
Allowance for Loan Losses	(14,319)	(14,210)
Loans, Net	1,813,434	1,760,015
Premises and Equipment, net	85,810	87,190
Goodwill	84,811	84,811
Other Real Estate Owned	526	2,229
Other Assets	81,033	78,592
Total Assets	$ 2,934,513	$ 2,959,183
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 1,022,774	$ 947,858
Interest Bearing Deposits	1,450,233	1,583,998
Total Deposits	2,473,007	2,531,856
Short-Term Borrowings	10,622	13,541
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	6,963	8,568
Other Liabilities	69,472	49,744
Total Liabilities	2,612,951	2,656,596
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; 16,748,858 and 16,747,571 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	167	167
Additional Paid-In Capital	31,075	31,058
Retained Earnings	316,551	300,177
Accumulated Other Comprehensive Loss, net of tax	(26,231)	(28,815)
Total Shareowners’ Equity	321,562	302,587
Total Liabilities and Shareowners' Equity	$ 2,934,513	$ 2,959,183

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

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

(Dollars in Thousands, Except Per Share Data)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
INTEREST INCOME				
Loans, including Fees	$ 23,992	$ 21,618	$ 70,373	$ 61,686
Investment Securities:				
Taxable	3,249	3,290	9,937	8,757
Tax Exempt	58	182	276	633
Federal Funds Sold and Interest Bearing Deposits	1,142	302	4,242	1,949
Total Interest Income	28,441	25,392	84,828	73,025
INTEREST EXPENSE				
Deposits	1,596	1,068	5,683	2,931
Short-Term Borrowings	27	41	93	57
Subordinated Notes Payable	558	568	1,762	1,595
Other Long-Term Borrowings	63	92	201	286
Total Interest Expense	2,244	1,769	7,739	4,869
NET INTEREST INCOME	26,197	23,623	77,089	68,156
Provision for Loan Losses	776	904	2,189	2,464
Net Interest Income After Provision For Loan Losses	25,421	22,719	74,900	65,692
NONINTEREST INCOME				
Deposit Fees	4,961	5,207	14,492	14,921
Bank Card Fees	2,972	2,828	8,863	8,548
Wealth Management Fees	2,992	2,181	7,719	6,391
Mortgage Banking Fees	1,587	1,343	3,779	3,606
Other	1,391	1,749	4,372	4,861
Total Noninterest Income	13,903	13,308	39,225	38,327
NONINTEREST EXPENSE				
Compensation	16,203	15,891	48,989	47,599
Occupancy, net	4,710	4,645	13,756	13,699
Other Real Estate Owned, net	6	347	444	1,221
Other	6,954	7,816	21,278	22,479
Total Noninterest Expense	27,873	28,699	84,467	84,998
INCOME BEFORE INCOME TAXES	11,451	7,328	29,658	19,021
Income Tax Expense	2,970	1,338	7,416	1,255
NET INCOME	**$ 8,481**	**$ 5,990**	**$ 22,242**	**$ 17,766**
BASIC NET INCOME PER SHARE	**$ 0.51**	**$ 0.35**	**$ 1.33**	**$ 1.04**
DILUTED NET INCOME PER SHARE	**$ 0.50**	**$ 0.35**	**$ 1.32**	**$ 1.04**
Average Common Basic Shares Outstanding	16,747	17,056	16,776	17,043
Average Common Diluted Shares Outstanding	16,795	17,125	16,810	17,102

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	**2019**	**2018**	**2019**	**2018**
NET INCOME	$ 8,481	$ 5,990	$ 22,242	$ 17,766
Other comprehensive income, before tax:				
Change in net unrealized gain (loss) on securities available for sale	443	(553)	3,427	(2,306)
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	11	13	33	42
Total Investment Securities	454	(540)	3,460	(2,264)
Other comprehensive income (loss), before tax	454	(540)	3,460	(2,264)
Deferred tax expense (benefit) related to other comprehensive income	115	(137)	876	(574)
Other comprehensive income (loss), net of tax	339	(403)	2,584	(1,690)
TOTAL COMPREHENSIVE INCOME	$ 8,820	$ 5,587	$ 24,826	$ 16,076

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) Income, Net of Taxes	Total
Three Months Ended:						
Balance, July 1, 2019	16,745,866	$ 167	$ 30,751	$ 310,247	$ (26,570)	$ 314,595
Net Income	-	-	-	8,481	-	8,481
Other Comprehensive Income, net of tax	-	-	-	-	339	339
Cash Dividends ($0.1300 per share)	-	-	-	(2,177)	-	(2,177)
Stock Based Compensation	-	-	249	-	-	249
Impact of Transactions Under Compensation Plans, net	2,992	-	75	-	-	75
Balance, September 30, 2019	16,748,858	$ 167	$ 31,075	$ 316,551	$ (26,231)	$ 321,562
Balance, July 1, 2018	17,055,664	$ 171	$ 37,932	$ 288,800	$ (33,332)	$ 293,571
Net Income	-	-	-	5,990	-	5,990
Other Comprehensive Loss, net of tax	-	-	-	-	(402)	(402)
Cash Dividends ($0.0900 per share)	-	-	-	(1,536)	-	(1,536)
Stock Based Compensation	-	-	323	-	-	323
Impact of Transactions Under Compensation Plans, net	2,857	-	70	-	-	70
Balance, September 30, 2018	17,058,521	$ 171	$ 38,325	$ 293,254	$ (33,734)	$ 298,016

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net of Taxes	Total
Nine Months Ended:						
Balance, January 1, 2019	16,747,571	$ 167	$ 31,058	$ 300,177	$ (28,815)	$ 302,587
Net Income	-	-	-	22,242	-	22,242
Other Comprehensive Income, net of tax	-	-	-	-	2,584	2,584
Cash Dividends ($0.3500 per share)	-	-	-	(5,868)	-	(5,868)
Repurchase of Common Stock	(77,000)	(1)	(1,805)	-	-	(1,806)
Stock Based Compensation	-	-	1,134	-	-	1,134
Impact of Transactions Under Compensation Plans, net	78,287	1	688	-	-	689
Balance, September 30, 2019	16,748,858	$ 167	$ 31,075	$ 316,551	$ (26,231)	$ 321,562
Balance, January 1, 2018	16,988,951	$ 170	$ 36,674	$ 279,410	$ (32,044)	$ 284,210
Net Income	-	-	-	17,766	-	17,766
Other Comprehensive Loss, net of tax	-	-	-	-	(1,690)	(1,690)
Cash Dividends ($0.2300 per share)	-	-	-	(3,922)	-	(3,922)
Stock Based Compensation	-	-	978	-	-	978
Impact of Transactions Under Compensation Plans, net	69,570	1	673	-	-	674
Balance, September 30, 2018	17,058,521	$ 171	$ 38,325	$ 293,254	$ (33,734)	$ 298,016

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

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

(Dollars in Thousands)	Nine Months Ended September 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 22,242	$ 17,766
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Loan Losses	2,189	2,464
Depreciation	4,693	4,845
Amortization of Premiums, Discounts and Fees, net	3,826	5,253
Originations of Loans Held-for-Sale	(160,720)	(136,492)
Proceeds From Sales of Loans Held-for-Sale	158,293	136,618
Net Gain From Sales of Loans Held-for-Sale	(3,779)	(3,606)
Stock Compensation	1,134	978
Net Tax Benefit From Stock-Based Compensation	(14)	(41)
Deferred Income Taxes	1,131	1,847
Net Change in Operating Leases	68	-
Net Loss on Sales and Write-Downs of Other Real Estate Owned	165	941
Proceeds From Insurance Claim for Operating Loss	268	-
Loss on Disposal of Premises and Equipment	39	57
Net (Increase) Decrease in Other Assets	(5,483)	3,040
Net Increase (Decrease) in Other Liabilities	19,876	(12,208)
Net Cash Provided By Operating Activities	43,928	21,462
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(69,347)	(102,428)
Payments, Maturities, and Calls	45,146	89,932
Securities Available for Sale:		
Purchases	(56,450)	(129,502)
Payments, Maturities, and Calls	126,171	119,092
Purchases of Loans Held for Investment	(21,537)	(25,048)
Net Increase in Loans	(34,589)	(98,007)
Proceeds from Insurance Claims on Premises	814	-
Proceeds From Sales of Other Real Estate Owned	2,330	1,540
Purchases of Premises and Equipment	(3,352)	(2,771)
Net Cash Used In Investing Activities	(10,814)	(147,192)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Decrease in Deposits	(58,849)	(88,661)
Net (Decrease) Increase in Short-Term Borrowings	(3,279)	9,164
Repayment of Other Long-Term Borrowings	(1,245)	(1,511)
Dividends Paid	(5,868)	(3,922)
Payments to Repurchase Common Stock	(1,806)	-
Issuance of Common Stock Under Compensation Plans	473	480
Net Cash Used In Financing Activities	(70,574)	(84,450)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,460)	(210,180)
Cash and Cash Equivalents at Beginning of Period	276,000	285,442
Cash and Cash Equivalents at End of Period	$ 238,540	$ 75,262
Supplemental Cash Flow Disclosures:		
Interest Paid	$ 7,761	$ 4,837
Income Taxes Paid	$ 4,496	$ 151
Noncash Investing and Financing Activities:		
Loans Transferred to Other Real Estate Owned	$ 792	$ 1,260
Right-of-Use Assets Obtained in Exchange for Operating Lease Liabilities[1]	$ 1,992	$ -

[1] *Initial amount recorded upon implementation on January 1, 2019.*

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The consolidated statement of financial condition at December 31, 2018 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2018.

Accounting Changes

Leases. Accounting Standards Update ("ASU") 2016-02 requires that lessees and lessors recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was effective for the Company on January 1, 2019. ASU 2016-02 provides for a modified retrospective transition approach requiring lessees to recognize and measure leases on the balance sheet at the beginning of either the earliest period presented or as of the beginning of the period of adoption with the option to elect certain practical expedients. The Company elected to apply the modified retrospective transition approach as of the beginning of the period of adoption and has not restated comparative periods. The Company also adopted the package of practical expedients provided under ASU 2016-02, which provided for the Company not to reassess: (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases, and (iii) initial and direct costs of any existing leases. The Company elected not to apply the recognition requirements of ASU 2016-02 to any short-term leases (as defined by the accounting guidance).

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

NOTE 2 – INVESTMENT SECURITIES

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

	September 30, 2019				December 31, 2018			
	Amortized Cost	**Unrealized Gains**	**Unrealized Losses**	**Market Value**	**Amortized Cost**	**Unrealized Gain**	**Unrealized Losses**	**Market Value**
Available for Sale								
U.S. Government Treasury	$ 216,707	$ 858	$ 300	$ 217,265	$ 264,298	$ 167	$ 2,616	$ 261,849
U.S. Government Agency	137,798	572	332	138,038	133,201	520	515	133,206
States and Political Subdivisions	13,041	6	3	13,044	42,509	-	144	42,365
Mortgage-Backed Securities	708	79	-	787	903	40	-	943
Equity Securities(1)	7,847	-	-	7,847	7,794	-	-	7,794
Total	$ 376,101	$ 1,515	$ 635	$ 376,981	$ 448,705	$ 727	$ 3,275	$ 446,157
Held to Maturity								
U.S. Government Treasury	$ 25,050	$ 10	$ 46	$ 25,014	$ 35,088	$ -	$ 477	$ 34,611
States and Political Subdivisions	3,356	-	1	3,355	6,512	-	26	6,486
Mortgage-Backed Securities	211,897	1,856	235	213,518	175,720	220	2,624	173,316
Total	$ 240,303	$ 1,866	$ 282	$ 241,887	$ 217,320	$ 220	$ 3,127	$ 214,413
Total Investment Securities	$ 616,404	$ 3,381	$ 917	$ 618,868	$ 666,025	$ 947	$ 6,402	$ 660,570

(1) *Includes Federal Home Loan Bank and Federal Reserve Bank stock, recorded at cost of $3.1 million, $4.8 million, respectively, at September 30, 2019 and includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $3.0 million and $4.8 million, respectively, at December 31, 2018.*

Securities with an amortized cost of $262.8 million and $319.6 million at September 30, 2019 and December 31, 2018, respectively, were pledged to secure public deposits and for other purposes.

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

As a member of the Federal Reserve Bank of Atlanta, the Bank is required to maintain stock in the Federal Reserve Bank of Atlanta based on a specified ratio relative to the Bank's capital. Federal Reserve Bank stock is carried at cost.

Maturity Distribution. At September 30, 2019, the Company's investment securities had the following maturity distribution based on contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities and certain amortizing U.S. government agency securities are shown separately because they are not due at a certain maturity date.

	Available for Sale		Held to Maturity	
(Dollars in Thousands)	**Amortized Cost**	**Market Value**	**Amortized Cost**	**Market Value**
Due in one year or less	$ 141,609	$ 141,370	$ 13,354	$ 13,331
Due after one year through five years	90,139	90,937	15,052	15,038
Mortgage-Backed Securities	708	787	211,897	213,518
U.S. Government Agency	135,798	136,040	-	-
Equity Securities	7,847	7,847	-	-
Total	$ 376,101	$ 376,981	$ 240,303	$ 241,887

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**
September 30, 2019						
Available for Sale						
U.S. Government Treasury	$ 4,973	$ 8	$ 128,152	$ 292	$ 133,125	$ 300
U.S. Government Agency	29,698	179	28,524	153	58,222	332
States and Political Subdivisions	5,428	3	-	-	5,428	3
Total	40,099	190	156,676	445	196,775	635
Held to Maturity						
U.S. Government Treasury	-	-	19,996	46	19,996	46
States and Political Subdivisions	1,794	1	500	-	2,294	1
Mortgage-Backed Securities	29,466	78	16,318	157	45,784	235
Total	$ 31,260	$ 79	$ 36,814	$ 203	$ 68,074	$ 282
December 31, 2018						
Available for Sale						
U.S. Government Treasury	$ 28,420	$ 80	$ 193,501	$ 2,536	$ 221,921	$ 2,616
U.S. Government Agency	53,237	271	28,735	244	81,972	515
States and Political Subdivisions	8,243	12	31,417	132	39,660	144
Mortgage-Backed Securities	10	-	-	-	10	-
Total	89,910	363	253,653	2,912	343,563	3,275
Held to Maturity						
U.S. Government Treasury	-	-	34,612	477	34,612	477
States and Political Subdivisions	204	-	6,281	26	6,485	26
Mortgage-Backed Securities	51,327	389	84,705	2,235	136,032	2,624
Total	$ 51,531	$ 389	$ 125,598	$ 2,738	$ 177,129	$ 3,127

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

At September 30, 2019, there were 242 positions (combined AFS and HTM) with unrealized losses totaling $0.9 million. 31 of these positions were U.S. government treasury securities guaranteed by the U.S. government. 187 of these positions were U.S. government agency and mortgage-backed securities issued by U.S. government sponsored entities. The remaining 24 positions were municipal securities. Because the declines in the market value of these securities were attributable to changes in interest rates and not credit quality, and because the Company had the ability and intent to hold these investments until there is a recovery in fair value, which may be at maturity, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2019.

NOTE 3 – LOANS, NET

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

(Dollars in Thousands)	September 30, 2019	December 31, 2018
Commercial, Financial and Agricultural	$ 259,870	$ 233,689
Real Estate – Construction	111,358	89,527
Real Estate – Commercial Mortgage	610,726	602,061
Real Estate – Residential(1)	368,793	342,215
Real Estate – Home Equity	197,326	210,111
Consumer(2)	279,680	296,622
Loans, Net of Unearned Income	$ 1,827,753	$ 1,774,225

(1) *Includes loans in process with outstanding balances of $16.8 million and $9.2 million at September 30, 2019 and December 31, 2018, respectively.*

(2) *Includes overdraft balances of $1.7 million and $1.6 million at September 30, 2019 and December 31, 2018, respectively.*

Net deferred costs, which include premiums on purchased loans, included in loans were $1.8 million at September 30, 2019 and $1.5 million at December 31, 2018.

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

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

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

	September 30, 2019		December 31, 2018	
(Dollars in Thousands)	Nonaccrual	90 + Days	Nonaccrual	90 + Days
Commercial, Financial and Agricultural	$ 324	$ -	$ 267	$ -
Real Estate – Construction	158	-	722	-
Real Estate – Commercial Mortgage	2,159	-	2,860	-
Real Estate – Residential	1,059	-	2,119	-
Real Estate – Home Equity	894	-	584	-
Consumer	334	-	320	-
Total Nonaccrual Loans	$ 4,928	$ -	$ 6,872	$ -

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

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

(Dollars in Thousands)	**30-59 DPD**	**60-89 DPD**	**90 + DPD**	**Total Past Due**	**Total Current**	**Total Loans[(1)]**
September 30, 2019						
Commercial, Financial and Agricultural	$ 601	$ 185	$ -	$ 786	$ 258,760	$ 259,870
Real Estate – Construction	-	-	-	-	111,200	111,358
Real Estate – Commercial Mortgage	660	103	-	763	607,804	610,726
Real Estate – Residential	550	327	-	877	366,857	368,793
Real Estate – Home Equity	173	39	-	212	196,220	197,326
Consumer	1,883	599	-	2,482	276,864	279,680
Total Loans	$ 3,867	$ 1,253	$ -	$ 5,120	$ 1,817,705	$ 1,827,753
December 31, 2018						
Commercial, Financial and Agricultural	$ 104	$ 58	$ -	$ 162	$ 233,260	$ 233,689
Real Estate – Construction	489	-	-	489	88,316	89,527
Real Estate – Commercial Mortgage	124	-	-	124	599,077	602,061
Real Estate – Residential	745	627	-	1,372	338,724	342,215
Real Estate – Home Equity	512	124	-	636	208,891	210,111
Consumer	1,661	313	-	1,974	294,328	296,622
Total Loans	$ 3,635	$ 1,122	$ -	$ 4,757	$ 1,762,596	$ 1,774,225

(1) Total Loans include nonaccrual loans of $4.9 million and $6.9 million at September 30, 2019 and December 31, 2018, respectively.

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

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

(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 September 30, 2019							
Beginning Balance	$ 1,648	$ 521	$ 3,889	$ 3,210	$ 2,383	$ 2,942	$ 14,593
Provision for Loan Losses	236	81	(304)	3	71	689	776
Charge-Offs	(289)	(223)	(26)	(44)	(333)	(744)	(1,659)
Recoveries	86	-	142	46	58	277	609
Net Charge-Offs	(203)	(223)	116	2	(275)	(467)	(1,050)
Ending Balance	$ 1,681	$ 379	$ 3,701	$ 3,215	$ 2,179	$ 3,164	$ 14,319
Nine Months Ended September 30, 2019							
Beginning Balance	$ 1,434	$ 280	$ 4,181	$ 3,400	$ 2,301	$ 2,614	$ 14,210
Provision for Loan Losses	648	322	(611)	(125)	158	1,797	2,189
Charge-Offs	(619)	(223)	(181)	(373)	(430)	(2,059)	(3,885)
Recoveries	218	-	312	313	150	812	1,805
Net Charge-Offs	(401)	(223)	131	(60)	(280)	(1,247)	(2,080)
Ending Balance	$ 1,681	$ 379	$ 3,701	$ 3,215	$ 2,179	$ 3,164	$ 14,319
Three Months Ended September 30, 2018							
Beginning Balance	$ 1,214	$ 283	$ 4,432	$ 3,146	$ 2,294	$ 2,194	$ 13,563
Provision for Loan Losses	388	86	(30)	50	120	290	904
Charge-Offs	(268)	-	(25)	(106)	(112)	(463)	(974)
Recoveries	78	-	222	107	47	272	726
Net Charge-Offs	(190)	-	197	1	(65)	(191)	(248)
Ending Balance	$ 1,412	$ 369	$ 4,599	$ 3,197	$ 2,349	$ 2,293	$ 14,219
Nine Months Ended September 30, 2018							
Beginning Balance	$ 1,191	$ 122	$ 4,346	$ 3,206	$ 2,506	$ 1,936	$ 13,307
Provision for Loan Losses	481	253	208	123	140	1,259	2,464
Charge-Offs	(591)	(7)	(315)	(669)	(427)	(1,667)	(3,676)
Recoveries	331	1	360	537	130	765	2,124
Net Charge-Offs	(260)	(6)	45	(132)	(297)	(902)	(1,552)
Ending Balance	$ 1,412	$ 369	$ 4,599	$ 3,197	$ 2,349	$ 2,293	$ 14,219

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

(Dollars in Thousands	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
September 30, 2019							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	$ 152	$ 23	$ 614	$ 696	$ 305	$ 2	$ 1,792
Loans Collectively							
Evaluated for Impairment	1,529	356	3,087	2,519	1,874	3,162	12,527
Ending Balance	$ 1,681	$ 379	$ 3,701	$ 3,215	$ 2,179	$ 3,164	$ 14,319
December 31, 2018							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	$ 118	$ 52	$ 1,026	$ 919	$ 289	$ 1	$ 2,405
Loans Collectively							
Evaluated for Impairment	1,316	228	3,155	2,481	2,012	2,613	11,805
Ending Balance	$ 1,434	$ 280	$ 4,181	$ 3,400	$ 2,301	$ 2,614	$ 14,210
September 30, 2018							
Period-end amount							
Allocated to:							
Loans Individually							
Evaluated for Impairment	$ 185	$ 181	$ 1,719	$ 954	$ 357	$ 1	$ 3,397
Loans Collectively							
Evaluated for Impairment	1,227	188	2,880	2,243	1,992	2,292	10,822
Ending Balance	$ 1,412	$ 369	$ 4,599	$ 3,197	$ 2,349	$ 2,293	$ 14,219

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

(Dollars in Thousands)	Commercial, Financial, Agricultural	Real Estate Construction	Real Estate Commercial Mortgage	Real Estate Residential	Real Estate Home Equity	Consumer	Total
September 30, 2019							
Individually Evaluated for Impairment	$ 1,226	$ 158	$ 12,926	$ 8,960	$ 1,816	$ 76	$ 25,162
Collectively Evaluated for Impairment	258,644	111,200	597,800	359,833	195,510	279,604	1,802,591
Total	$ 259,870	$ 111,358	$ 610,726	$ 368,793	$ 197,326	$ 279,680	$ 1,827,753
December 31, 2018							
Individually Evaluated for Impairment	$ 873	$ 781	$ 12,650	$ 10,593	$ 2,210	$ 88	$ 27,195
Collectively Evaluated for Impairment	232,816	88,746	589,411	331,622	207,901	296,534	1,747,030
Total	$ 233,689	$ 89,527	$ 602,061	$ 342,215	$ 210,111	$ 296,622	$ 1,774,225
September 30, 2018							
Individually Evaluated for Impairment	$ 987	$ 1,159	$ 18,572	$ 11,369	$ 2,241	$ 90	$ 34,418
Collectively Evaluated for Impairment	238,057	86,513	577,819	330,694	210,701	295,552	1,739,336
Total	$ 239,044	$ 87,672	$ 596,391	$ 342,063	$ 212,942	$ 295,642	$ 1,773,754

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
September 30, 2019				
Commercial, Financial and Agricultural	$ 1,226	$ 692	$ 534	$ 152
Real Estate – Construction	158	-	158	23
Real Estate – Commercial Mortgage	12,926	5,176	7,750	614
Real Estate – Residential	8,960	2,141	6,819	696
Real Estate – Home Equity	1,816	421	1,395	305
Consumer	76	40	36	2
Total	$ 25,162	$ 8,470	$ 16,692	$ 1,792
December 31, 2018				
Commercial, Financial and Agricultural	$ 873	$ 101	$ 772	$ 118
Real Estate – Construction	781	459	322	52
Real Estate – Commercial Mortgage	12,650	2,384	10,266	1,026
Real Estate – Residential	10,593	1,482	9,111	919
Real Estate – Home Equity	2,210	855	1,355	289
Consumer	88	49	39	1
Total	$ 27,195	$ 5,330	$ 21,865	$ 2,405

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
(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	$ 1,244	$ 21	$ 1,040	$ 19	$ 1,037	$ 53	$ 1,185	$ 69
Real Estate – Construction	270	-	915	2	426	-	716	3
Real Estate – Commercial Mortgage	13,082	143	18,470	167	12,681	410	18,666	511
Real Estate – Residential	9,163	127	11,393	133	9,461	380	12,215	417
Real Estate – Home Equity	2,070	16	2,415	23	2,245	61	2,840	74
Consumer	78	2	92	2	82	6	102	6
Total	$ 25,907	$ 309	$ 34,325	$ 346	$ 25,932	$ 910	$ 35,724	$ 1,080

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 we 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.

<u>Commercial, Financial, and Agricultural</u> – 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.

<u>Real Estate Construction</u> – 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.

<u>Real Estate Commercial Mortgage</u> – 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.

<u>Real Estate Residential</u> – 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 and 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 Loans**
September 30, 2019				
Pass	$ 258,457	$ 1,259,949	$ 278,705	$ 1,797,111
Special Mention	286	8,998	35	9,319
Substandard	1,127	19,256	940	21,323
Doubtful	-	-	-	-
Total Loans	$ 259,870	$ 1,288,203	$ 279,680	$ 1,827,753
December 31, 2018				
Pass	$ 232,417	$ 1,211,451	$ 295,888	$ 1,739,756
Special Mention	479	11,048	54	11,581
Substandard	793	21,415	680	22,888
Doubtful	-	-	-	-
Total Loans	$ 233,689	$ 1,243,914	$ 296,622	$ 1,774,225

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

The following table presents loans classified as TDRs.

	September 30, 2019		December 31, 2018	
(Dollars in Thousands)	Accruing	Nonaccruing	Accruing	Nonaccruing
Commercial, Financial and Agricultural	$ 564	$ 56	$ 873	$ -
Real Estate – Construction	-	58	59	-
Real Estate – Commercial Mortgage	8,459	832	9,910	1,239
Real Estate – Residential	7,769	285	9,234	1,222
Real Estate – Home Equity	1,416	173	1,920	179
Consumer	76	-	88	-
Total TDRs	$ 18,284	$ 1,404	$ 22,084	$ 2,640

For TDRs, the Company estimated $1.7 million and $2.3 million of impaired loan loss reserves for these loans at September 30, 2019 and December 31, 2018, respectively.

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

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
(Dollars in Thousands)	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment(1)	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	1	$ 58	$ 58	1	$ 58	$ 58
Real Estate – Construction	-	-	-	-	-	-
Real Estate – Commercial Mortgage	1	151	157	2	209	218
Real Estate – Residential	1	92	88	2	138	162
Real Estate – Home Equity	1	26	25	2	56	56
Consumer	-	-	-	-	-	-
Total TDRs	4	$ 327	$ 328	7	$ 461	$ 494

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
(Dollars in Thousands)	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment(1)	Number of Contracts	Pre-Modified Recorded Investment	Post-Modified Recorded Investment
Commercial, Financial and Agricultural	-	$ -	$ -	1	$ 498	$ 230
Real Estate – Construction	-	-	-	-	-	-
Real Estate – Commercial Mortgage	-	-	-	1	227	228
Real Estate – Residential	1	72	76	2	105	108
Real Estate – Home Equity	-	-	-	1	27	27
Consumer	-	-	-	-	-	-
Total TDRs	1	$ 72	$ 76	5	$ 857	$ 593

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

For the three and nine months ended September 30, 2019, there were no loans modified as TDRs within the previous 12 months that had defaulted. For the three and nine months ended September 30, 2018, loans classified as TDRs for which there was a payment default and the loans were modified within twelve months prior to default is presented below.

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
(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	-	-	1	64
Real Estate – Residential	-	-	-	-
Real Estate – Home Equity	-	-	-	-
Consumer	-	-	-	-
Total TDRs	-	$ -	1	$ 64

(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 September 30, 2019		Nine Months Ended September 30, 2019	
(Dollars in Thousands)	Number of Contracts	Recorded Investment(1)	Number of Contracts	Recorded Investment(1)
Extended amortization	-	$ -	-	$ -
Interest rate adjustment	1	25	1	25
Extended amortization and interest rate adjustment	3	303	6	469
Total TDRs	4	$ 328	7	$ 494

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
(Dollars in Thousands)	Number of Contracts	Recorded Investment(1)	Number of Contracts	Recorded Investment(1)
Extended amortization	1	$ 76	2	$ 303
Interest rate adjustment	-	-	1	33
Extended amortization and interest rate adjustment	-	-	1	27
Principal moratorium	-	-	1	230
Total TDRs	1	$ 76	5	$ 593

(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 September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2019	2018	2019	2018
Beginning Balance	$ 1,010	$ 3,373	$ 2,229	$ 3,941
Additions	104	420	792	1,260
Valuation Write-downs	(35)	(224)	(266)	(856)
Sales	(553)	(849)	(2,229)	(1,625)
Ending Balance	$ 526	$ 2,720	$ 526	$ 2,720

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2019	2018	2019	2018
Gains from the Sale of Properties	$ (148)	$ (46)	$ (240)	$ (127)
Losses from the Sale of Properties	73	70	139	212
Rental Income from Properties	-	(3)	(3)	(9)
Property Carrying Costs	46	102	282	289
Valuation Adjustments	35	224	266	856
Total	$ 6	$ 347	$ 444	$ 1,221

At September 30, 2019, the Company had $0.8 million of loans secured by residential real estate in the process of foreclosure.

NOTE 5 – LEASES

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

Operating lease ROU assets represent the Company’s right to use an underlying asset during the lease term and operating lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents the Company’s incremental borrowing rate at the lease commencement date. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded in occupancy expense in the consolidated statement of income.

The Company’s operating leases primarily relate to banking offices with remaining lease terms from 1 to 9 years. The Company’s leases are not complex and do not contain residual value guarantees, variable lease payments, or significant assumptions or judgments made in applying the requirements of Topic 842. Operating leases with an initial term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term . At September 30, 2019, the operating lease ROU assets and liabilities were $ 1.8 million and $ 2.6 million, respectively. The Company does not have any finance leases or any significant lessor agreements.

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

(Dollars in Thousands)	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease expense	$ 81	$ 243
Short-term lease expense	27	90
Total lease expense	$ 108	$ 333

	September 30, 2019
Other information:	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 254
Right-of-use assets obtained in exchange for new operating lease liabilities	1,794
Weighted-average remaining lease term — operating leases (in years)	7.0
Weighted-average discount rate — operating leases	2.9%

The table below summarizes the maturity of remaining lease liabilities:

(Dollars in Thousands)	September 30, 2019
2019	$ 107
2020	451
2021	420
2022	417
2023	398
2024 and thereafter	1,085
Total	**$ 2,878**
Less: Interest	(287)
Present Value of Lease liability	$ 2,591

At September 30, 2019, the Company had additional operating lease payments for a banking office (to be constructed) that have not yet commenced of $1.4 million. Payments for the banking office are expected to commence after the construction period ends, which is expected to occur during the second quarter of 2020.

A related party is the lessor in an operating lease with the Company. The Company's minimum payment is $0.2 million annually through 2024, for an aggregate remaining obligation of $ 1.0 million at September 30, 2019.

NOTE 6 - EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2019	2018	2019	2018
Service Cost	$ 1,529	$ 1,721	$ 4,587	$ 5,163
Interest Cost	1,545	1,415	4,635	4,246
Expected Return on Plan Assets	(2,382)	(2,391)	(7,146)	(7,173)
Prior Service Cost Amortization	4	50	12	150
Net Loss Amortization	965	918	2,895	2,754
Net Periodic Benefit Cost	$ 1,661	$ 1,713	$ 4,983	$ 5,140
Discount Rate	4.43%	3.71%	4.43%	3.71%
Long-term Rate of Return on Assets	7.25%	7.25%	7.25%	7.25%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2019	2018	2019	2018
Interest Cost	$ 87	$ 57	$ 261	$ 170
Net Loss Amortization	190	406	570	1,220
Net Periodic Benefit Cost	$ 277	$ 463	$ 831	$ 1,390
Discount Rate	4.23%	3.53%	4.23%	3.53%

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

NOTE 7 - COMMITMENTS AND CONTINGENCIES

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

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

	September 30, 2019			December 31, 2018		
(Dollars in Thousands)	Fixed	Variable	Total	Fixed	Variable	Total
Commitments to Extend Credit [1]	$ 119,382	$ 404,994	$ 524,376	$ 94,572	$ 373,438	$ 468,010
Standby Letters of Credit	6,369	-	6,369	4,986	-	4,986
Total	$ 125,751	$ 404,994	$ 530,745	$ 99,558	$ 373,438	$ 472,996

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

In September 2019, Visa increased the litigation reserve by $300 million and revised the conversion ratio for the Class B shares resulting in a $0.1 million payable due to the counterparty under the swap contract. 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 $153,000. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

NOTE 8 – FAIR VALUE MEASUREMENTS

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

In general, the Company does not purchase securities that have a complicated structure. The Company's entire portfolio consists of traditional investments, nearly all of which are U.S. Treasury obligations, federal agency bullet or mortgage pass-through securities, or general obligation or revenue-based municipal bonds. Pricing for such instruments is easily obtained. At least annually, the Company will validate prices supplied by the independent pricing service by comparing them to prices obtained from an independent third-party source.

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 September 30, 2019, there was $0.1 million payable to the counterparty.

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**
September 30, 2019				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	$ 217,265	$ -	$ -	$ 217,265
U.S. Government Agency	-	138,038	-	138,038
States and Political Subdivisions	-	13,044	-	13,044
Mortgage-Backed Securities	-	787	-	787
Equity Securities	-	7,847	-	7,847
December 31, 2018				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	$ 261,849	$ -	$ -	$ 261,849
U.S. Government Agency	-	133,206	-	133,206
States and Political Subdivisions	-	42,365	-	42,365
Mortgage-Backed Securities	-	943	-	943
Equity Securities	-	7,794	-	7,794

Assets Measured at Fair Value on a Non-Recurring Basis

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

Impaired Loans. Impairment for collateral dependent loans is measured using the fair value of the collateral less selling costs. The fair value of collateral is determined by an independent valuation or professional appraisal in conformance with banking regulations. Collateral values are estimated using Level 3 inputs due to the volatility in the real estate market, and the judgment and estimation involved in the real estate appraisal process. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. Valuation techniques are consistent with those techniques applied in prior periods. Impaired collateral-dependent loans had a carrying value of $7.3 million with a valuation allowance of $0.5 million at September 30, 2019 and $5.6 million and $0.8 million, respectively, at December 31, 2018.

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

Other Real Estate Owned. During the first nine months of 2019, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for loan losses based on the fair value of the foreclosed asset less estimated cost to sell. The fair value of the foreclosed asset is determined by an independent valuation or professional appraisal in conformance with banking regulations. On an ongoing basis, we obtain updated appraisals on foreclosed assets and realize valuation adjustments as necessary. The fair value of foreclosed assets is estimated using Level 3 inputs due to the judgment and estimation involved in the real estate valuation process.

Assets and Liabilities Disclosed at Fair Value

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

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

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

Loans. The loan portfolio is segregated into categories and the fair value of each loan category is calculated using present value techniques based upon projected cash flows, estimated discount rates, and incorporates a liquidity discount to meet the objective of "exit price" valuation.

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

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

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

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

	September 30, 2019			
(Dollars in Thousands)	**Carrying Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
ASSETS:				
Cash	$ 61,151	$ 61,151	$ -	$ -
Short-Term Investments	177,389	177,389	-	-
Investment Securities, Available for Sale	376,981	217,265	159,716	-
Investment Securities, Held to Maturity	240,303	25,014	216,873	-
Equity Securities[1]	3,588	-	3,588	-
Loans Held for Sale	13,075	-	13,075	-
Loans, Net of Allowance for Loan Losses	1,813,434	-	-	1,798,311
LIABILITIES:				
Deposits	$ 2,473,007	$ -	$ 2,471,837	$ -
Short-Term Borrowings	10,622	-	10,622	-
Subordinated Notes Payable	52,887	-	40,281	-
Long-Term Borrowings	6,963	-	7,080	-

(Dollars in Thousands)	December 31, 2018 Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$ 62,032	$ 62,032	$ -	$ -
Short-Term Investments	213,968	213,968	-	-
Investment Securities, Available for Sale	446,157	261,849	184,308	-
Investment Securities, Held to Maturity	217,320	34,611	179,802	-
Loans Held for Sale	6,869	-	6,869	-
Equity Securities(1)	3,591	-	3,591	-
Loans, Net of Allowance for Loan Losses	1,760,015	-	-	1,730,161
LIABILITIES:				
Deposits	$ 2,531,856	$ -	$ 2,529,841	$ -
Short-Term Borrowings	13,541	-	13,541	-
Subordinated Notes Payable	52,887	-	42,359	-
Long-Term Borrowings	8,568	-	7,879	-

(1) Not readily marketable securities - reflected in other assets.

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

NOTE 9 – OTHER COMPREHENSIVE INCOME

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

(Dollars in Thousands)	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three Months Ended September 30, 2019			
Investment Securities:			
Change in net unrealized gain (loss) on securities available for sale	$ 443	$ (112)	$ 331
Amortization of losses on securities transferred from available for sale to held to maturity	11	(3)	8
Total Other Comprehensive Income	$ 454	$ (115)	$ 339
Nine Months Ended September 30, 2019			
Investment Securities:			
Change in net unrealized gain (loss) on securities available for sale	$ 3,427	$ (868)	$ 2,559
Amortization of losses on securities transferred from available for sale to held to maturity	33	(8)	25
Total Other Comprehensive Income	$ 3,460	$ (876)	$ 2,584

(Dollars in Thousands)	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Three Months Ended September 30, 2018			
Investment Securities:			
Change in net unrealized gain (loss) on securities available for sale	$ (553)	$ 140	$ (413)
Amortization of losses on securities transferred from available for sale to held to maturity	13	(3)	10
Total Other Comprehensive Loss	$ (540)	$ 137	$ (403)
Nine Months Ended September 30, 2018			
Investment Securities:			
Change in net unrealized gain (loss) on securities available for sale	$ (2,306)	$ 585	$ (1,721)
Amortization of losses on securities transferred from available for sale to held to maturity	42	(11)	31
Total Other Comprehensive Loss	$ (2,264)	$ 574	$ (1,690)

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, 2019	$ (2,008)	$ (26,807)	$ (28,815)
Other comprehensive income during the period	2,584	-	2,584
Balance as of September 30, 2019	$ 576	$ (26,807)	$ (26,231)
Balance as of January 1, 2018	$ (1,743)	$ (30,301)	$ (32,044)
Other comprehensive loss during the period	(1,690)	-	(1,690)
Balance as of September 30, 2018	$ (3,433)	$ (30,301)	$ (33,734)

NOTE 10 – ACCOUNTING STANDARDS UPDATES

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

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

Management's discussion and analysis ("MD&A") provides supplemental information, which sets forth the major factors that have affected our financial condition and results of operations and should be read in conjunction with the Consolidated Financial Statements and related notes. The following information should provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2019 compares with prior years. Throughout this section, Capital City Bank Group, Inc., and subsidiaries, collectively, is referred to as "CCBG," "Company," "we," "us," or "our."

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and *Item 1A. Risk Factors* of our 2018 Report on Form 10-K, as updated in our subsequent quarterly reports filed on Form 10-Q, and in our other filings made from time to time with the SEC after the date of this report.

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

BUSINESS OVERVIEW

We are a financial holding company headquartered in Tallahassee, Florida, and we are the parent of our wholly owned subsidiary, Capital City Bank (the "Bank" or "CCB"). The Bank offers a broad array of products and services through a total of 57 full-service offices located in Florida, Georgia, and Alabama. The Bank offers commercial and retail banking services, as well as trust and asset management, and retail securities brokerage.

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

A detailed discussion regarding the economic conditions in our markets and our long-term strategic objectives is included as part of the MD&A section of our 2018 Form 10-K.

NON-GAAP FINANCIAL MEASURES

We present a tangible common equity ratio and a tangible book value per diluted share that, in each case,removes the effect of goodwill resulting from merger and acquisition activity. We believe these measures are useful to investors because it allows investors to more easily compare our capital adequacy to other companies in the industry, although the manner in which we calculate non-GAAP financial measures may differ from that of other companies reporting non-GAAP measures with similar names. The GAAP to non-GAAP reconciliation for each quarter presented on page 30 is provided below.

		2019			2018				2017
(Dollars in Thousands, except per share data)		Third	Second	First	Fourth	Third	Second	First	Fourth
Shareowners' Equity (GAAP)		$ 321,562	$ 314,595	$ 308,986	$ 302,587	$ 298,016	$ 293,571	$ 288,360	$ 284,210
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,811	84,811	84,811	84,811	84,811
Tangible Shareowners' Equity (non-GAAP)	A	236,751	229,784	224,175	217,776	213,205	208,760	203,549	199,399
Total Assets (GAAP)		2,934,513	3,017,654	3,052,051	2,959,183	2,819,190	2,880,278	2,924,832	2,898,794
Less: Goodwill (GAAP)		84,811	84,811	84,811	84,811	84,811	84,811	84,811	84,811
Tangible Assets (non-GAAP)	B	$ 2,849,702	$ 2,932,843	$ 2,967,240	$ 2,874,372	$ 2,734,379	$ 2,795,467	$ 2,840,021	$ 2,813,983
Tangible Common Equity Ratio (non-GAAP)	**A/B**	**8.31%**	**7.83%**	**7.56%**	**7.58%**	**7.80%**	**7.47%**	**7.17%**	**7.09%**
Actual Diluted Shares Outstanding (GAAP)	C	16,797,241	16,773,449	16,840,496	16,808,542	17,127,846	17,114,380	17,088,419	17,071,107
Diluted Tangible Book Value (non-GAAP)	**A/C**	**14.09**	**13.70**	**13.31**	**12.96**	**12.45**	**12.20**	**11.91**	**11.68**

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in Thousands, Except Per Share Data)	2019 Third	2019 Second	2019 First	2018 Fourth	2018 Third	2018 Second	2018 First	2017 Fourth
Summary of Operations:								
Interest Income	$ 28,441	$ 28,665	$ 27,722	$ 26,370	$ 25,392	$ 24,419	$ 23,214	$ 22,627
Interest Expense	2,244	2,681	2,814	2,022	1,769	1,649	1,451	1,138
Net Interest Income	26,197	25,984	24,908	24,348	23,623	22,770	21,763	21,489
Provision for Loan Losses	776	646	767	457	904	815	745	826
Net Interest Income After Provision for Loan Losses	25,421	25,338	24,141	23,891	22,719	21,955	21,018	20,663
Noninterest Income	13,903	12,770	12,552	13,238	13,308	12,542	12,477	12,897
Noninterest Expense	27,873	28,396	28,198	26,505	28,699	28,393	27,906	26,897
Income Before Income Taxes	11,451	9,712	8,495	10,624	7,328	6,104	5,589	6,663
Income Tax Expense (Benefit)[2]	2,970	2,387	2,059	2,166	1,338	101	(184)	6,660
Net Income	8,481	7,325	6,436	8,458	5,990	6,003	5,773	3
Net Interest Income (FTE)	$ 26,333	$ 26,116	$ 25,042	$ 24,513	$ 23,785	$ 22,917	$ 21,943	$ 21,808
Per Common Share								
Net Income Basic	$ 0.51	$ 0.44	$ 0.38	$ 0.50	$ 0.35	$ 0.35	$ 0.34	$ 0.00
Net Income Diluted	0.50	0.44	0.38	0.50	0.35	0.35	0.34	0.00
Cash Dividends Declared	0.13	0.11	0.11	0.09	0.09	0.07	0.07	0.07
Diluted Book Value	19.14	18.76	18.35	18.00	17.40	17.15	16.87	16.65
Diluted Tangible Book Value[1]	14.09	13.70	13.31	12.96	12.45	12.20	11.91	11.68
Market Price:								
High	28.00	25.00	25.87	26.95	25.91	25.99	26.50	26.01
Low	23.70	21.57	21.04	19.92	23.19	22.28	22.80	22.21
Close	27.45	24.85	21.78	23.21	23.34	23.63	24.75	22.94
Selected Average Balances:								
Loans, Net	$ 1,837,548	$ 1,823,311	$ 1,780,406	$ 1,785,570	$ 1,747,093	$ 1,691,287	$ 1,647,612	$ 1,640,738
Earning Assets	2,670,081	2,719,217	2,704,802	2,554,482	2,535,292	2,566,006	2,592,465	2,511,985
Total Assets	2,959,310	3,010,662	2,996,511	2,849,245	2,826,924	2,861,104	2,892,120	2,822,451
Deposits	2,495,755	2,565,431	2,564,715	2,412,375	2,392,272	2,431,956	2,456,106	2,378,411
Shareowners' Equity	320,273	313,599	307,262	302,196	297,757	291,806	287,502	288,044
Common Equivalent Average Shares:								
Basic	16,747	16,791	16,791	16,989	17,056	17,045	17,028	16,967
Diluted	16,795	16,818	16,819	17,050	17,125	17,104	17,073	17,050
Performance Ratios:								
Return on Average Assets	1.14 %	0.98 %	0.87 %	1.18 %	0.84 %	0.84 %	0.81 %	0.00 %
Return on Average Equity	10.51	9.37	8.49	11.10	7.98	8.25	8.14	0.00
Net Interest Margin (FTE)	3.92	3.85	3.75	3.81	3.72	3.58	3.43	3.45
Noninterest Income as % of Operating Revenue	34.67	32.95	33.51	35.22	36.04	35.52	36.44	37.51
Efficiency Ratio	69.27	73.02	75.01	70.21	77.37	80.07	81.07	77.50
Asset Quality:								
Allowance for Loan Losses	$ 14,319	$ 14,593	$ 14,120	$ 14,210	$ 14,219	$ 13,563	$ 13,258	$ 13,307
Allowance for Loan Losses to Loans	0.78 %	0.79 %	0.78 %	0.80 %	0.80 %	0.78 %	0.80 %	0.80 %
Nonperforming Assets ("NPAs")	5,454	6,632	6,949	9,101	9,587	9,114	10,644	11,100
NPAs to Total Assets	0.19	0.22	0.23	0.31	0.34	0.32	0.36	0.38
NPAs to Loans plus OREO	0.30	0.36	0.39	0.51	0.54	0.52	0.64	0.67
Allowance to Non-Performing Loans	290.55	259.55	279.77	206.79	207.06	236.25	181.26	185.87
Net Charge-Offs to Average Loans	0.23	0.04	0.20	0.10	0.06	0.12	0.20	0.21
Capital Ratios:								
Tier 1 Capital	16.83 %	16.36 %	16.34 %	16.36 %	16.17 %	16.25 %	16.31 %	16.33 %
Total Capital	17.59	17.13	17.09	17.13	16.94	17.00	17.05	17.10
Common Equity Tier 1	14.13	13.67	13.62	13.58	13.43	13.46	13.44	13.42
Leverage	11.09	10.64	10.53	10.89	10.99	10.69	10.36	10.47
Tangible Common Equity[1]	8.31	7.83	7.56	7.58	7.80	7.47	7.17	7.09

[1] *Non-GAAP financial measure. See non-GAAP reconciliation on page 29.*

[2] *Includes $0.4 million, $1.4 million, and $1.5 million income tax benefit in the third, second and first quarter of 2018, respectively, related to 2017 plan year pension plan contributions. Also includes $4.1 million income tax expense adjustment in the fourth quarter of 2017 related to the Tax Cuts and Jobs Act of 2017.*

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Results of Operations

- Net income of $8.5 million, or $0.50 per diluted share, for the third quarter of 2019 compared to net income of $7.3 million, or $0.44 per diluted share, for the second quarter of 2019, and net income of $6.0 million, or $0.35 per diluted share, for the third quarter of 2018. For the first nine months of 2019, we realized net income of $22.2 million, or $1.32 per diluted share, compared to net income of $17.8 million, or $1.04 per diluted share, for the same period of 2018. Net income for the first nine months of 2018 included tax benefits totaling $3.3 million, or $0.19 per diluted share, related to 2017 plan year pension plan contributions.

- Tax-equivalent net interest income for the third quarter of 2019 was $26.3 million compared to $26.1 million for the second quarter of 2019 and $23.8 million for the third quarter of 2018. For the first nine months of 2019, tax-equivalent net interest income totaled $77.5 million compared to $68.6 million for the comparable period of 2018. The increase compared to the second quarter of 2019 was primarily due to a reduction in interest expense The increase compared to the third quarter of 2018 primarily reflected higher interest rates and loan growth. The year-over-year increase was driven by growth in the loan portfolio, coupled with higher short-term rates, partially offset by higher rates paid on our negotiated rate deposits.

- Provision for loan losses was $0.8 million for the third quarter of 2019 compared to $0.6 million for the second quarter of 2019 and $0.9 million for the third quarter of 2018. For the first nine months of 2019, the loan loss provision was $2.2 million compared to $2.5 million for the same period of 2018.

- Noninterest income for the third quarter of 2019 totaled $13.9 million, an increase of $1.1 million, or 8.9%, over the second quarter of 2019 and $0.6 million, or 4.5%, over the third quarter of 2018. The increase compared to the second quarter of 2019 was primarily attributable to higher wealth management fees and to a lesser extent higher mortgage banking fees and deposit fees. For the first nine months of 2019, noninterest income totaled $39.2 million, a $0.9 million, or 2.3%, increase over the same period of 2018. Higher wealth management fees and mortgage banking fees drove the favorable comparisons to 2018.

- Noninterest expense for the third quarter of 2019 totaled $27.9 million, a decrease of $0.5 million, or 1.8%, from the second quarter of 2019 and $0.8 million, or 2.9%, from the third quarter of 2018. For the first nine months of 2019, noninterest expense totaled $84.5 million, a decrease of $0.5 million, or 0.6%, from the same period of 2018. The decrease compared to the second quarter of 2019 was primarily due to lower FDIC insurance premiums. The decrease compared to both prior year periods was primarily due to lower other real estate owned (“OREO”) expense and FDIC insurance premiums.

Financial Condition

- Average earning assets were $2.670 billion for the third quarter of 2019, a decrease of $49.1 million, or 1.8%, from the second quarter of 2019, and an increase of $115.6 million, or 4.5%, over the fourth quarter of 2018. The reduction in average earning assets compared to the second quarter of 2019 was attributable to a decrease in short-term investments, primarily due to a decline in seasonal public fund balances and certificates of deposits. The increase over the fourth quarter of 2018 was attributable to growth in our loan portfolio, which was primarily funded by increases in our noninterest bearing and savings deposits.

- Average loans increased by $14.2 million, or 0.8%, over the second quarter of 2019, and $52.0 million, or 2.9%, over the fourth quarter of 2018. The increase compared to the second quarter of 2019 reflected growth in all loan types except commercial real estate, consumer loans and home equity loans. The increase compared to the fourth quarter of 2018 reflected growth in all product types except consumer and home equity loans. During 2019, we purchased commercial and residential loan pools totaling $21.5 million.

- Nonperforming assets totaled $5.5 million at September 30, 2019, a decrease of $1.2 million, or 17.8%, from June 30, 2019 and $3.6 million, or 40.1%, from December 31, 2018. Nonperforming assets represented 0.19% of total assets at September 30, 2019 compared to 0.22% at June 30, 2019 and 0.31% at December 31, 2018.

- At September 30, 2019, we were well-capitalized with a total risk-based capital ratio of 17.59% and a tangible common equity ratio (a non-GAAP financial measure) of 8.31% compared to 17.13% and 7.83%, respectively, at June 30, 2019 and 17.13% and 7.58%, respectively, at December 31, 2018. At September 30, 2019, all of our regulatory capital ratios exceeded the threshold to be well-capitalized under the Basel III capital standards.

RESULTS OF OPERATIONS

Net Income

For the third quarter of 2019, we realized net income of $8.5 million, or $0.50 per diluted share, compared to net income of $7.3 million, or $0.44 per diluted share, for the second quarter of 2019 and net income of $6.0 million, or $0.35 per diluted share, for the third quarter of 2018.

For the first nine months of 2019, net income totaled $22.2 million, or $1.32 per diluted share, compared to net income of $17.8 million, or $1.04 per diluted share, for the same period of 2018. Net income for the first nine months of 2018 included tax benefits totaling $3.3 million, or $0.19 per diluted share (1Q - $1.5 million, or $0.09 per diluted share, 2Q - $1.4 million, or $0.08 per diluted share, and 3Q - $0.4 million, or $0.02 per diluted share), related to 2017 plan year pension contributions made in 2018.

Compared to the second quarter of 2019, the $1.7 million increase in operating profit reflected a $1.1 million increase in noninterest income, lower noninterest expense $0.5 million, and higher net interest income $0.2 million, partially offset by an increase in the loan loss provision of $0.1 million.

Compared to the third quarter of 2018, the $4.1 million increase in operating profit was attributable to higher net interest income of $2.6 million, lower noninterest expense of $0.8 million, higher noninterest income of $0.6 million, and a $0.1 million decrease in the loan loss provision.

The $10.6 million increase in operating profit for the first nine months of 2019 versus the comparable period of 2018 was attributable to higher net interest income of $8.9 million, higher noninterest income of $0.9 million, lower noninterest expense of $0.5 million, and a $0.3 million decrease in the loan provision.

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

	Three Months Ended			Nine Months Ended	
(Dollars in Thousands, except per share data)	**September 30, 2019**	**June 30, 2019**	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Interest Income	$ 28,441	$ 28,665	$ 25,392	$ 84,828	$ 73,025
Taxable Equivalent Adjustments	136	132	162	402	489
Total Interest Income (FTE)	28,577	28,797	25,554	85,230	73,514
Interest Expense	2,244	2,681	1,769	7,739	4,869
Net Interest Income (FTE)	26,333	26,116	23,785	77,491	68,645
Provision for Loan Losses	776	646	904	2,189	2,464
Taxable Equivalent Adjustments	136	132	162	402	489
Net Interest Income After Provision for Loan Losses	25,421	25,338	22,719	74,900	65,692
Noninterest Income	13,903	12,770	13,308	39,225	38,327
Noninterest Expense	27,873	28,396	28,699	84,467	84,998
Income Before Income Taxes	11,451	9,712	7,328	29,658	19,021
Income Tax Expense	2,970	2,387	1,338	7,416	1,255
Net Income	$ 8,481	$ 7,325	$ 5,990	$ 22,242	$ 17,766
Basic Net Income Per Share	$ 0.51	$ 0.44	$ 0.35	$ 1.33	$ 1.04
Diluted Net Income Per Share	$ 0.50	$ 0.44	$ 0.35	$ 1.32	$ 1.04

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 45.

Tax-equivalent net interest income for the third quarter of 2019 was $26.3 million compared to $26.1 million for the second quarter of 2019 and $23.8 million for the third quarter of 2018. The increase compared to the second quarter of 2019 was primarily due to a reduction in interest expense. The increase compared to the third quarter of 2018 primarily reflected higher interest rates and loan growth. For the first nine months of 2019, tax-equivalent net interest income totaled $77.5 million compared to $68.6 million for the comparable period of 2018. The year-over-year increase was driven by growth in the loan portfolio, coupled with higher short-term rates, partially offset by higher rates paid on our negotiated rate deposits.

The federal funds target rate reached a recent high in the second quarter of 2019 at a range of 2.25% to 2.50%. During the third quarter, 2019, the Federal Open Market Committee ("FOMC") reduced rates by an aggregate of 50 basis points to the current range of 1.75% to 2.00%. These rate cuts have resulted in downward repricing of our variable/adjustable rate earning assets, which to date has been offset by loan growth and lower rates paid on our negotiated rate deposit products. We continue to prudently manage our overall cost of funds, which was 33 basis points for the third quarter of 2019, compared to 40 basis points for the second quarter of 2019. Due to highly competitive fixed-rate loan pricing in our markets, we continue to review our loan pricing and make adjustments where we believe appropriate and prudent.

Our net interest margin for the third quarter of 2019 was 3.92%, an increase of seven basis points over the second quarter of 2019 and an increase of 20 basis points over the third quarter of 2018. For the first nine months of 2019, the net interest margin increased 26 basis points to 3.84% compared to the same period of 2018. The increase in margin compared to the second quarter of 2019 was fully attributable to a seven basis point decline in our cost of funds, as both the rate and balance of our seasonal public deposits declined in the third quarter of 2019. The increase in the margin compared to both prior year periods reflected a favorable shift in our earning asset mix and higher interest rates.

Provision for Loan Losses

The provision for loan losses for the third quarter of 2019 was $0.8 million compared to $0.6 million for the second quarter of 2019 and $0.9 million for the third quarter of 2018. For the first nine months of 2019, the loan loss provision was $2.2 million compared to $2.5 million in 2018. We realized net loan charge-offs of $1.1 million, or 0.23% (annualized), of average loans for the third quarter of 2019. This compares to net loan charge-offs of $0.2 million, or 0.04% (annualized) for the second quarter of 2019 and net charge-offs of $0.2 million, or 0.06% (annualized) for the third quarter of 2018. For the first nine months of 2019, net charge-offs totaled $2.1 million, or 0.15% (annualized), of average loans compared to $1.6 million, or 0.12% (annualized), for the same period of 2018.

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

	Three Months Ended			Nine Months Ended	
(Dollars in Thousands, except per share data)	**September 30, 2019**	**June 30, 2019**	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
CHARGE-OFFS					
Commercial, Financial and Agricultural	$ 289	$ 235	$ 268	$ 619	$ 591
Real Estate - Construction	223	-	-	223	7
Real Estate - Commercial Mortgage	26	-	25	181	315
Real Estate - Residential	44	65	106	373	669
Real Estate - Home Equity	333	45	112	430	427
Consumer	744	520	463	2,059	1,667
Total Charge-offs	$ 1,659	$ 865	$ 974	$ 3,885	$ 3,676
RECOVERIES					
Commercial, Financial and Agricultural	$ 86	$ 58	$ 78	$ 218	$ 331
Real Estate - Construction	-	-	-	-	1
Real Estate - Commercial Mortgage	142	100	222	312	360
Real Estate - Residential	46	223	107	313	537
Real Estate - Home Equity	58	60	47	150	130
Consumer	277	251	272	812	765
Total Recoveries	$ 609	$ 692	$ 726	$ 1,805	$ 2,124
Net Charge-offs	$ 1,050	$ 173	$ 248	$ 2,080	$ 1,552
Net Charge-offs (Annualized) as a percent of Average Loans Outstanding, Net of Unearned Income	0.23 %	0.04 %	0.06 %	0.15 %	0.12 %

Noninterest Income

Noninterest income for the third quarter of 2019 totaled $13.9 million, an increase of $1.1 million, or 8.9%, over the second quarter of 2019 and $0.6 million, or 4.5%, over the third quarter of 2018. For the first nine months of 2019, noninterest income totaled $39.2 million, a $0.9 million, or 2.3%, increase over the same period of 2018. Higher wealth management fees, mortgage banking fees, and deposit fees drove the increase compared to the second quarter of 2019. The increase over both prior year periods was primarily attributable to higher wealth management fees, bankcard fees, and mortgage banking fees.

Noninterest income represented 34.7% of operating revenues (net interest income plus noninterest income) in the third quarter of 2019 compared to 33.0% in the second quarter of 2019 and 36.0% in the third quarter of 2018. For the first nine months of 2019, noninterest income represented 33.7% of operating revenues compared to 36.0% for the same period of 2018. The declining trend was due to continued improvement in our net interest income, which has become a larger portion of our total operating revenues.

The table below reflects the major components of noninterest income.

	Three Months Ended			Nine Months Ended	
(Dollars in Thousands)	**September 30, 2019**	**June 30, 2019**	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Deposit Fees	$ 4,961	$ 4,756	$ 5,207	$ 14,492	$ 14,921
Bank Card Fees	2,972	3,036	2,828	8,863	8,548
Wealth Management Fees	2,992	2,404	2,181	7,719	6,391
Mortgage Banking Fees	1,587	1,199	1,343	3,779	3,606
Other	1,391	1,375	1,749	4,372	4,861
Total Noninterest Income	$ 13,903	$ 12,770	$ 13,308	$ 39,225	$ 38,327

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

Deposit Fees. Deposit fees for the third quarter of 2019 totaled $5.0 million, an increase of $0.2 million, or 4.3%, over the second quarter of 2019, and a decrease of $0.2 million, or 4.7%, from the third quarter of 2018. For the first nine months of 2019, deposit fees totaled $14.5 million, a decrease of $0.4 million, or 2.9%, from the same period of 2018. The increase over the second quarter of 2019 reflected higher overdraft fees. The decrease from both prior year periods reflected lower overdraft fees due to a reduction in accounts using this service as well as lower utilization by existing users.

Bank Card Fees. Bank card fees for the third quarter of 2019 totaled $3.0 million, comparable to the second quarter of 2019, and a $0.1 million, or 5.1%, increase over the third quarter of 2018. For the first nine months of 2019, bank card fees totaled $8.9 million, an increase of $0.3 million, or 3.7%, over the same period of 2018. During 2018 and 2019, we have implemented various strategies to drive interchange revenues, including a refresh of our deposit account product line-up, an account acquisition program, and various reward programs.

Wealth Management Fees. Wealth management fees, which include both trust fees (i.e., managed accounts, trusts/estates, and retirement plans) and retail brokerage fees (i.e., investment and insurance products) totaled $3.0 million for the third quarter of 2019, an increase of $0.6 million, or 24.5%, over the second quarter of 2019 and $0.8 million, or 37.2%, over the third quarter of 2018. For the first nine months of 2019, wealth management fees totaled $7.7 million, an increase of $1.3 million, or 20.8%, over the same period of 2018. The increase over all periods was driven by increased trading activity by our retail brokerage clients, and to a lesser extent, higher assets under management. At September 30, 2019, total assets under management were approximately $1.692 billion compared to $1.500 billion at December 31, 2018 and $1.496 billion at September 30, 2018.

Mortgage Banking Fees. Mortgage banking fees totaled $1.6 million for the third quarter of 2019, an increase of $0.4 million, or 32.4%, over the second quarter of 2019 and an increase of $0.2 million, or 18.2%, over the third quarter of 2018. For the first nine months of 2019, fees totaled $3.8 million, an increase of $0.2 million, or 4.8%, over the same period of 2018. The higher level of fees was primarily attributable to an increase in loan production driven by lower long-term interest rates.

Noninterest Expense

Noninterest expense for the third quarter of 2019 totaled $27.9 million, a decrease of $0.5 million, or 1.8%, from the second quarter of 2019 and $0.8 million, or 2.9%, from the third quarter of 2018. For the first nine months of 2019, noninterest expense totaled $84.5 million, a $0.5 million, or 0.6%, decrease from the same period of 2018. The decrease compared to the second quarter of 2019 was primarily attributable to lower other expense (FDIC insurance fees). Compared to both prior year periods, the favorable variance was driven by lower other expense (OREO and FDIC insurance premiums), partially offset by higher compensation expense (merit raises and commissions).

The table below reflects the major components of noninterest expense.

	Three Months Ended			Nine Months Ended	
(Dollars in Thousands)	September 30, 2019	June 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Salaries	$ 12,533	$ 12,496	$ 12,012	$ 37,314	$ 35,755
Associate Benefits	3,670	3,941	3,879	11,675	11,844
Total Compensation	16,203	16,437	15,891	48,989	47,599
Premises	2,305	2,140	2,234	6,506	6,634
Equipment	2,405	2,397	2,411	7,250	7,065
Total Occupancy	4,710	4,537	4,645	13,756	13,699
Legal Fees	361	439	500	1,176	1,545
Professional Fees	1,042	1,102	1,315	3,116	3,835
Processing Services	1,605	1,451	1,439	4,534	4,695
Advertising	531	643	433	1,670	1,133
Travel and Entertainment	282	276	262	763	719
Printing and Supplies	189	162	159	524	484
Telephone	664	609	547	1,952	1,722
Postage	180	166	160	514	548
Insurance - Other	4	408	418	803	1,228
Other Real Estate Owned, net	6	75	347	444	1,221
Miscellaneous	2,096	2,091	2,583	6,226	6,570
Total Other	6,960	7,422	8,163	21,722	23,700
Total Noninterest Expense	$ 27,873	$ 28,396	$ 28,699	$ 84,467	$ 84,998

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

Compensation. Compensation expense totaled $16.2 million for the third quarter of 2019, a decrease of $0.2 million, or 1.4%, from the second quarter of 2019 and an increase of $0.3 million, or 2.0%, over the third quarter of 2018. For the first nine months of 2019, compensation expense totaled $49.0 million, an increase of $1.4 million, or 2.9%, over the same period of 2018. The decrease from the second quarter of 2019 was primarily due to lower incentive plan expense. The increase over both prior year periods was attributable to higher salary expense, primarily merit raises and commissions.

Other. Other noninterest expense totaled $7.0 million for the third quarter of 2019, a decrease of $0.5 million, or 6.2%, from the second quarter of 2019, and $1.2 million, or 14.7%, from the third quarter of 2018. For the first nine months of 2019, other noninterest expense totaled $21.7 million, a decrease of $2.0 million, or 8.3%, from the same period of 2018. The decrease from the second quarter of 2019 was primarily attributable to lower FDIC insurance premiums as our small bank assessment credits were used to offset our quarterly FDIC insurance assessment. Compared to both prior year periods, other expense reflected lower OREO fees, FDIC insurance premiums, professional fees, and legal fees.

Our operating efficiency ratio (expressed as noninterest expense as a percentage of the sum of taxable-equivalent net interest income plus noninterest income) was 69.27% for the third quarter of 2019 compared to 73.02% for the second quarter of 2019 and 77.37% for the third quarter of 2018. For the first nine months of 2019, this ratio was 72.37% compared to 79.46% for the same period of 2018. The improvement was driven by higher operating revenues coupled with our continued focus on controlling our expenses, which has contributed to improved operating leverage.

Income Taxes

We realized income tax expense of $3.0 million (effective rate of 26%) for the third quarter of 2019 compared to $2.4 million (effective rate of 25%) for second quarter of 2019 and $1.3 million (effective rate of 18%) for the third quarter of 2018. For the first nine months of 2019, we realized income tax expense of $7.4 million (effective rate of 25%) compared to $1.3 million (effective tax rate of 6.6%) for the same period of 2018. Income tax expense for the third quarter of 2019 was unfavorably impacted by net discrete items totaling $0.2 million. During 2018, we realized tax benefits totaling $3.3 million (1Q - $1.5 million, 2Q - $1.4 million, 3Q - $0.4 million) resulting from the effect of federal tax reform on pension plan contributions made in 2018 for the plan year 2017.

FINANCIAL CONDITION

Average earning assets were $2.670 billion for the third quarter of 2019, a decrease of $49.1 million, or 1.8%, from the second quarter of 2019, and an increase of $115.6 million, or 4.5%, over the fourth quarter of 2018. The change in average earning assets compared to the second quarter of 2019 was attributable to a decrease in short-term investments, primarily due to a decline in seasonal public fund balances and certificates of deposit. The increase in average earning assets over the fourth quarter of 2018 was attributable to growth in both the loan portfolio and overnight funds, which was primarily funded by increases in deposits, particularly noninterest bearing and savings accounts.

Investment Securities

In the third quarter of 2019, our average investment portfolio decreased $18.7 million, or 2.9%, from the second quarter of 2019 and decreased $62.7 million, or 9.1%, from the fourth quarter of 2018. Securities in our investment portfolio represented 23.4% of our average earning assets for the third quarter of 2019 compared to 23.7% in the second quarter of 2019, and 26.9% in the fourth quarter of 2018. For the remainder of 2019, we will continue to closely monitor liquidity levels and the interest rate environment to determine the extent to which investment cash flow may be reinvested into securities.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. Two types of classifications are approved for investment securities which are Available-for-Sale (“AFS”) and Held-to-Maturity (“HTM”). During the third quarter of 2019, we purchased securities under both the AFS and HTM designations. At September 30, 2019, $376.1 million, or 61.0%, of our investment portfolio was classified as AFS, and $240.3 million, or 39.0%, classified as HTM. The average maturity of our total portfolio at September 30, 2019 was 2.11 years compared to 1.99 years and 2.11 years at June 30, 2019 and December 31, 2018, respectively.

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

At September 30, 2019, there were 242 positions (combined AFS and HTM) with unrealized losses totaling $0.9 million. GNMA mortgage-backed securities, U.S. treasury securities (“UST”), and Small Business Administration (“SBA”) investments carry the full faith and credit guarantee of the U.S. government, are 0% risk-weighted assets for regulatory capital purposes and constitute over 99% of the $0.9 million unrealized loss. Federal Home Loan Bank (“FHLB”) and Federal Farm Credit Bureau (“FFCB”) are direct obligations of U.S. government agencies. None of these positions with unrealized losses are considered impaired, and all are expected to mature at par. The table below provides further detail on investment securities with unrealized losses.

	Less Than 12 months			12 months or Longer			Total		
(Dollars in Thousands)	Count	Market Value	Unrealized Losses	Count	Market Value	Unrealized Losses	Count	Market Value	Unrealized Losses
GNMA	46	$ 29,466	$ 78	38	$ 16,318	$ 157	84	$ 45,784	$ 235
UST	1	4,973	8	30	148,148	338	31	153,121	346
SBA	42	29,698	179	60	26,526	152	102	56,224	331
FHLB and FFCB	-	-	-	1	1,998	1	1	1,998	1
States and Political Subdivisions	23	7,222	4	1	500	0	24	7,722	4
Total	112	$ 71,359	$ 269	130	$ 193,490	$ 648	242	$ 264,849	$ 917

Loans

Average loans increased $14.2 million, or 0.8% compared to the second quarter of 2019, and grew by $52.0 million, or 2.9% compared to the fourth quarter of 2018. The average increase compared to the second quarter of 2019 reflected growth in all loan types except commercial real estate, consumer loans, and home equity loans. The increase compared to the fourth quarter of 2018 reflected growth in all loan types except consumer and home equity loans. Over the course of 2019, we purchased adjustable rate residential loans totaling $11.2 million and a fixed rate commercial loan pool totaling $10.3 million based on principal balances at the time of purchase. All loan purchases are individually reviewed and evaluated in accordance with our credit underwriting standards.

Without compromising our credit standards, changing our underwriting standards, or taking on inordinate interest rate risk, we continue to closely monitor our markets and make minor rate adjustments as necessary.

We originate mortgage loans secured by 1-4 family residential properties through our Residential Real Estate line of business, a majority of which are fixed-rate loans that are sold into the secondary market to third party purchasers on a best efforts basis with servicing released. A majority of our adjustable rate loans are retained in our loan portfolio. We also retain construction/permanent 1-4 family residential loans within our loan portfolio for a period of time (typically 9-12 months) until they are modified and sold into the secondary market.

Nonperforming Assets

Nonperforming assets (nonaccrual loans and OREO) totaled $5.5 million at September 30, 2019, a decrease of $1.2 million, or 17.8%, from June 30, 2019, and $3.6 million, or 40.1%, from December 31, 2018. Nonaccrual loans totaled $4.9 million at September 30, 2019, a $0.7 million decrease from June 30, 2019 and $1.9 million from December 31, 2018. The balance of OREO totaled $0.5 million at September 30, 2019, a decrease of $0.5 million and $1.7 million, respectively, from June 30, 2019 and December 31, 2018.

(Dollars in Thousands)	**September 30, 2019**	**June 30, 2019**	**December 31, 2018**
Nonaccruing Loans:			
Commercial, Financial and Agricultural	$ 324	$ 187	$ 267
Real Estate - Construction	158	381	722
Real Estate - Commercial Mortgage	2,159	2,107	2,860
Real Estate - Residential	1,059	1,166	2,119
Real Estate - Home Equity	894	1,569	584
Consumer	334	212	320
Total Nonaccruing Loans (“NALs”)(1)	$ 4,928	$ 5,622	$ 6,872
Other Real Estate Owned	526	1,010	2,229
Total Nonperforming Assets (“NPAs”)	$ 5,454	$ 6,632	$ 9,101
Past Due Loans 30 – 89 Days	$ 5,120	$ 5,443	$ 4,757
Performing Troubled Debt Restructurings	$ 18,284	$ 18,737	$ 22,084
Nonaccruing Loans/Loans	0.27 %	0.30 %	0.39 %
Nonperforming Assets/Total Assets	0.19	0.22	0.31
Nonperforming Assets/Loans Plus OREO	0.30	0.36	0.51
Allowance/Nonaccruing Loans	290.55	259.55	206.79

(1) Nonaccrual TDRs totaling $1.4 million, $1.4 million, and $2.6 million are included in NALs for September 30, 2019, June 30, 2019 and December 31, 2018, respectively.

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

(Dollars in Thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
NPA Beginning Balance:	$ 6,632	$ 9,114	$ 9,101	$ 11,100
Change in Nonaccrual Loans:				
Beginning Balance	5,622	5,741	6,872	7,159
Additions	2,049	2,872	6,265	9,152
Charge-Offs	(1,424)	(364)	(2,809)	(2,077)
Transferred to OREO	(104)	(371)	(722)	(1,211)
Paid Off/Payments	(131)	(489)	(2,163)	(2,109)
Restored to Accrual	(1,084)	(522)	(2,515)	(4,047)
Ending Balance	4,928	6,867	4,928	6,867
Change in OREO:				
Beginning Balance	1,010	3,373	2,229	3,941
Additions	104	420	792	1,260
Valuation Write-downs	(35)	(224)	(266)	(856)
Sales	(553)	(849)	(2,229)	(1,625)
Ending Balance	526	2,720	526	2,720
NPA Net Change	(1,178)	473	(3,647)	(1,513)
NPA Ending Balance	$ 5,454	$ 9,587	$ 5,454	$ 9,587

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

(Dollars in Thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
TDR Beginning Balance:	$ 20,278	$ 32,185	$ 24,724	$ 34,489
Additions	328	76	494	593
Charge-Offs	(15)	(136)	(284)	(527)
Paid Off/Payments	(888)	(767)	(4,109)	(2,828)
Removal Due to Change in TDR Status	-	-	(692)	(296)
Transferred to OREO	(15)	(35)	(445)	(108)
TDR Ending Balance[(1)]	$ 19,688	$ 31,323	$ 19,688	$ 31,323

(1) Includes performing and nonaccrual TDR loan balances.

Allowance for Loan Losses

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

The allowance for loan losses was $14.3 million at September 30, 2019 compared to $14.6 million at June 30, 2019, and $14.2 million at December 31, 2018. The allowance for loan losses was 0.78% of outstanding loans (net of overdrafts) and provided coverage of 291% of nonperforming loans at September 30, 2019 compared to 0.79% and 260%, respectively, at June 30, 2019 and 0.80% and 207%, respectively, at December 31, 2018. We believe that the allowance for loan losses was adequate to absorb losses inherent in our loan portfolio at September 30, 2019.

Deposits

Average total deposits were $2.496 billion for the third quarter of 2019, a decrease of $69.7 million, or 2.7%, from the second quarter of 2019, and an increase of $83.4 million, or 3.5%, over the fourth quarter of 2018. The decline in average deposits compared to the second quarter of 2019 reflected lower public fund and certificates of deposit balances, partially offset by increases in noninterest bearing and savings accounts. The increase in average deposits compared to the fourth quarter of 2018 primarily reflected growth in noninterest bearing deposits. Public fund accounts typically peak in the first quarter and trend downwards through the fourth quarter due to the cycle of tax receipts.

We closely monitor and manage deposit levels as part of our overall liquidity position and believe prudent pricing discipline remains the key to managing our mix of deposits.

MARKET RISK AND INTEREST RATE SENSITIVITY

Market Risk and Interest Rate Sensitivity

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

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

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

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

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

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

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

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

ESTIMATED CHANGES IN NET INTEREST INCOME [(1)]

Percentage Change (12-month shock)	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-15.0%	-12.5%	-10.0%	-7.5%	-7.5%
September 30, 2019	13.7%	10.3%	6.9%	3.5%	-5.8%
June 30,2019	13.2%	9.9%	6.6%	3.4%	-6.0%

Percentage Change (24-month shock)	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-17.5%	-15.0%	-12.5%	-10.0%	-10.0%
September 30, 2019	35.1%	26.0%	17.0%	8.2%	-12.8%
June 30,2019	37.5%	28.5%	19.5%	10.8%	-10.9%

The Net Interest Income at Risk position indicates thatin the short-term, all rising rate environments will positively impact the net interest margin of the Company, while a declining rate environment of 100bp will have a negative impact on the net interest margin. Compared to the prior quarter-end, the 12-month Net Interest Income at Risk positions became more favorable in all rate environments. The 24-month Net Interest Income at Risk positions became slightly less favorable in all scenarios The primary driver for the unfavorable quarter-over-quarter comparisons was lower replacement rates for both our loan and investment portfolios, as the yield curve shifted considerably lower compared to last quarter. Down 200bp rate scenarios were not modeled for this quarter and have been suspended due to the recent FOMC rate cuts. These cuts have brought short-term and long-term rates below 2.00%, and therefore we are unable to lower rates 200 basis points.

All measures of Net Interest Income at Risk are within our prescribed policy limits over the next 12-months. Over the next 24-month period, we are out of compliance in the down 100bp scenario due to our limited ability to lower our deposit rates relative to the decline in market rates.

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

ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY[(1)]

Changes in Interest Rates	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-30.0%	-25.0%	-20.0%	-15.0%	-15.0%
September 30, 2019	42.6%	34.5%	24.9%	14.1%	-22.4%
June 30,2019	40.2%	32.3%	23.1%	13.0%	-21.1%

At September 30, 2019, the economic value of equity results are favorable in all rising rate environments and are within prescribed tolerance levels with the exception of the rates down 100bp scenario. Quarter-over-quarter EVE comparisons are more favorable in the rising rate scenarios, and became less favorable in the down rate scenario. The EVE in the rates down scenario is outside the policy limit as we have limited ability to lower our deposit rates relative to the decline in market rate. If we were to cap the value of our nonmaturity deposits at their book value in the down 100bp scenario, EVE would be within the policy limit parameters for that scenario.

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

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

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

At September 30, 2019, we had the ability to generate $1.349 billion in additional liquidity through all of our available resources (this excludes $177 million in overnight funds sold). In addition to the primary borrowing outlets mentioned above, we also have the ability to generate liquidity by borrowing from the Federal Reserve Discount Window and through brokered deposits. We recognize the importance of maintaining liquidity and have developed a Contingent Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. We conduct a liquidity stress test on a quarterly basis based on events that could potentially occur at the Bank and report results to ALCO, our Market Risk Oversight Committee, Risk Oversight Committee, and the Board of Directors. At September 30, 2019, we believe the liquidity available to us was sufficient to meet our on-going needs and execute our business strategy.

We view our investment portfolio primarily as a source of liquidity and have the option to pledge the portfolio as collateral for borrowings or deposits, and/or sell selected securities. The portfolio consists of debt issued by the U.S. Treasury, U.S. governmental and federal agencies, and municipal governments. The weighted average life of the portfolio was approximately 2.11 years at September 30, 2019, and the available for sale portfolio had a net unrealized pre-tax gain of $0.9 million.

Our average overnight funds position (defined as funds sold plus interest bearing deposits with other banks less funds purchased) was $207.1 million during the third quarter of 2019 compared to an average net overnight funds sold position of $251.8 million in the second quarter of 2019 and $80.8 million in the fourth quarter of 2018. The decrease in average net overnight funds compared to the second quarter 2019 reflected a decline in public fund deposits, partially offset by cash flow received from the investment portfolio. Overnight funds grew compared to the fourth quarter 2018 primarily due to higher balances of noninterest bearing deposits and cash flow from our investment portfolio, partially offset by loan growth.

We expect our capital expenditures will be approximately $7.0 million over the next 12 months, which will primarily consist of office remodeling, office equipment/furniture, and technology purchases. Management expects that these capital expenditures will be funded with existing resources without impairing our ability to meet our on-going obligations.

Borrowings

At September 30, 2019, fixed rate credit advances from the FHLB totaled $8.9 million in outstanding debt consisting of 11 notes. During the first nine months of 2019, the Bank made FHLB advance payments totaling approximately $1.0 million. No advances matured or were paid off, and we did not obtain any new FHLB advances during this period. The FHLB notes are collateralized by a blanket floating lien on all of our 1-4 family residential mortgage loans, commercial real estate mortgage loans, and home equity mortgage loans.

We have issued two junior subordinated deferrable interest notes to our wholly owned Delaware statutory trusts. The first note for $30.9 million was issued to CCBG Capital Trust I in November 2004, of which $10 million was retired in April 2016. The second note for $32.0 million was issued to CCBG Capital Trust II in May 2005. The interest payment for the CCBG Capital Trust I borrowing is due quarterly and adjusts quarterly to a variable rate of three-month LIBOR plus a margin of 1.90%. This note matures on December 31, 2034. The interest payment for the CCBG Capital Trust II borrowing is due quarterly and adjusts quarterly to a variable rate of three-month LIBOR plus a margin of 1.80%. This note matures on June 15, 2035. The proceeds from these borrowings were used to partially fund acquisitions. Under the terms of each junior subordinated deferrable interest note, in the event of default or if we elect to defer interest on the note, we may not, with certain exceptions, declare or pay dividends or make distributions on our capital stock or purchase or acquire any of our capital stock. We are in the process of evaluating the impact of the expected discontinuation of LIBOR in 2021 on our two junior subordinated deferrable interest notes.

Capital

Our capital ratios are presented in the table below. At September 30, 2019, our regulatory capital ratios exceeded the threshold to be designated as "well-capitalized" under the Basel III capital standards.

(Dollars in Thousands)	**September 30, 2019**	**June 30, 2019**	**December 31, 2018**
Shareowner's Equity	$ 321,562	$ 314,595	$ 302,587
Leverage Ratio	11.09 %	10.64 %	10.89 %
Tier 1 Capital Ratio	16.83 %	16.36 %	16.36 %
Total Risk Based Capital Ratio	17.59 %	17.13 %	17.13 %
Common Equity Tier 1 Capital Ratio	14.13 %	13.67 %	13.58 %
Tangible Common Equity Ratio(1)	8.31 %	7.83 %	7.58 %

(1) Non-GAAP financial measure. See non-GAAP reconciliation on page 29.

During the first nine months of 2019, shareowners' equity increased $19.0 million, or 8.4%, on an annualized basis. During this same period, shareowners' equity was positively impacted by net income of $22.2 million, a $2.6 million increase in the unrealized gain on investment securities, stock compensation accretion of $1.2 million, and net adjustments totaling $0.7 million related to transactions under our stock compensation plans. Shareowners' equity was reduced by common stock dividends totaling $5.9 million and common stock repurchases totaling $1.8 million.

At September 30, 2019, our common stock had a book value of $19.14 per diluted share compared to $18.76 at June 30, 2019 and $18.00 at December 31, 2018. Book value is impacted through other comprehensive income by the net unrealized gains and losses in our available for sale investment portfolio. At September 30, 2019, the net after tax unrealized gain was $0.6 million compared to $0.2 million at June 30, 2019 and $2.0 million at December 31, 2018. Book value is also impacted by the recording of our unfunded pension liability through other comprehensive income. At September 30, 2019, the net after tax pension liability reflected in accumulated other comprehensive loss was $26.8 million. This liability is re-measured annually on December 31st based on an actuarial calculation of our pension liability. Significant assumptions used in calculating the liability are discussed in our 2018 Form 10-K "Critical Accounting Policies" and include the weighted average discount rate used to measure the present value of the pension liability, the weighted-average expected long-term rate of return on pension plan assets, and the assumed rate of annual compensation increases, all of which will vary when re-measured. The discount rate assumption used to calculate the pension liability is subject to long-term corporate bond rates at December 31st. The estimated impact to the pension liability based on a 25-basis point increase or decrease in long-term corporate bond rates used to discount the pension obligation would decrease or increase the pension liability by approximately $4.7 million (after-tax) using the balances from the December 31, 2018 measurement date.

In January 2019, our Board of Directors authorized the repurchase of up to 750,000 shares of our outstanding common stock through February 2024, which replaced our prior repurchase program that was set to expire in February 2019. Repurchases may be made in the open market or in privately negotiated transactions; however, we are not obligated to repurchase any specified number of shares. During the second quarter of 2019, we repurchased 77,000 shares at an average price of $23.40 per share under the plan.

OFF-BALANCE SHEET ARRANGEMENTS

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

At September 30, 2019, we had $524.4 million in commitments to extend credit and $6.4 million in standby letters of credit. Commitments to extend credit are agreements to lend to a client so long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. We use the same credit policies in establishing commitments and issuing letters of credit as we do for on-balance sheet instruments.

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

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2018 Form 10-K. The preparation of our Consolidated Financial Statements in accordance with GAAP and reporting practices applicable to the banking industry requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates.

We have identified accounting for (i) the allowance for loan and lease losses, (ii) valuation of goodwill, (iii) pension benefits, and (iv) income taxes as our most critical accounting policies and estimates in that they are important to the portrayal of our financial condition and results, and they require our subjective and complex judgment as a result of the need to make estimates about the effects of matters that are inherently uncertain. These accounting policies, including the nature of the estimates and types of assumptions used, are described throughout this Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2018 Form 10-K.

TABLE I

AVERAGE BALANCES & INTEREST RATES

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2019			2018			2019			2018		
(Dollars in Thousands)	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Assets:												
Loans[1][2]	$ 1,837,548	$ 24,113	5.21%	$ 1,747,093	$ 21,733	4.94%	$ 1,813,964	$ 70,705	5.21%	$ 1,695,695	$ 61,994	4.89%
Taxable Securities[2]	607,363	3,249	2.13	663,639	3,290	1.98	613,382	9,936	2.16	642,260	8,758	1.82
Tax-Exempt Securities	18,041	73	1.63	60,952	229	1.50	29,237	347	1.59	72,656	813	1.49
Funds Sold	207,129	1,142	2.19	63,608	302	1.88	241,323	4,242	2.35	153,767	1,949	1.69
Total Earning Assets	2,670,081	28,577	4.25%	2,535,292	25,554	4.00%	2,697,906	85,230	4.22%	2,564,378	73,514	3.83%
Cash & Due From Banks	50,981			49,493			52,210			50,844		
Allowance For Loan Losses	(14,863)			(14,146)			(14,576)			(13,774)		
Other Assets	253,111			256,285			253,152			258,363		
TOTAL ASSETS	$ 2,959,310			$ 2,826,924			$ 2,988,692			$ 2,859,811		
Liabilities:												
NOW Accounts	$ 749,678	$ 1,235	0.65%	$ 733,255	$ 773	0.42%	$ 821,819	$ 4,613	0.75%	$ 795,112	$ 2,157	0.36%
Money Market Accounts	238,565	264	0.44	254,440	190	0.30	238,664	775	0.43	252,082	459	0.24
Savings Accounts	372,593	46	0.05	352,833	43	0.05	369,726	136	0.05	349,527	128	0.05
Other Time Deposits	111,447	51	0.18	129,927	62	0.19	115,215	159	0.18	134,781	187	0.19
Total Interest Bearing Deposits	1,472,283	1,596	0.43	1,470,455	1,068	0.30	1,545,424	5,683	0.49	1,531,502	2,931	0.27
Short-Term Borrowings	8,697	27	1.24	12,949	41	1.24	9,890	93	1.27	9,499	57	0.80
Subordinated Notes Payable	52,887	558	4.13	52,887	568	4.20	52,887	1,762	4.39	52,887	1,595	3.98
Other Long-Term Borrowings	7,158	63	3.47	12,729	92	2.87	7,619	201	3.52	13,218	286	2.89
Total Interest Bearing Liabilities	1,541,025	2,244	0.58%	1,549,020	1,769	0.47%	1,615,820	7,739	0.64%	1,607,106	4,869	0.42%
Noninterest Bearing Deposits	1,023,472			921,817			996,290			895,042		
Other Liabilities	74,540			58,330			62,823			65,270		
TOTAL LIABILITIES	2,639,037			2,529,167			2,674,933			2,567,418		
TOTAL SHAREOWNERS' EQUITY	320,273			297,757			313,759			292,393		
TOTAL LIABILITIES AND SHAREOWNERS' EQUITY	$ 2,959,310			$ 2,826,924			$ 2,988,692			$ 2,859,811		
Interest Rate Spread			3.67%			3.53%			3.58%			3.41%
Net Interest Income		$ 26,333			$ 23,785			$ 77,491			$ 68,645	
Net Interest Margin[3]			3.92%			3.72%			3.84%			3.58%

(1) Average Balances include nonaccrual loans.

(2) Interest income includes the effects of taxable equivalent adjustments using a 21% Federal tax rate.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2018.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

At September 30, 2019, the end of the period covered by this Form 10-Q, our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer each concluded that at September 30, 2019, the end of the period covered by this Form 10-Q, we maintained effective disclosure controls and procedures.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A. “Risk Factors” in our 2018 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2018 Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(A) Exhibits

31.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of William G. Smith, Jr., Chairman, President and Chief Executive Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., Pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

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

CAPITAL CITY BANK GROUP, INC.
(Registrant)

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

Date: November 4, 2019

Exhibit 31.1

Certification of CEO Pursuant to Securities Exchange Act
Rule 13a-14(a) / 15d-14(a) as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, William G. Smith, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital City Bank Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ William G. Smith, Jr.
William G. Smith, Jr.
Chairman, President and
Chief Executive Officer

Date: November 4, 2019

Exhibit 31.2

Certification of CFO Pursuant to Securities Exchange Act
Rule 13a-14(a) / 15d-14(a) as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, J. Kimbrough Davis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Capital City Bank Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ J. Kimbrough Davis

J. Kimbrough Davis
Executive Vice President and
Chief Financial Officer

Date: November 4, 2019

Exhibit 32.1

Certification of CEO Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that (1) this Quarterly Report of Capital City Bank Group, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company and its results of operations as of and for the periods covered therein.

/s/ William G. Smith, Jr.
William G. Smith, Jr.
Chairman, President, and
Chief Executive Officer

Date: November 4, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification of CFO Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned certifies that (1) this Quarterly Report of Capital City Bank Group, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (this "Report"), fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in this Report fairly presents, in all material respects, the financial condition of the Company and its results of operations as of and for the periods covered therein.

/s/ J. Kimbrough Davis

J. Kimbrough Davis
Executive Vice President and
Chief Financial Officer

Date: November 4, 2019

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.