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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2020

OR

☐ **TRANSITION REPORTPURSUANT 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, Inc.

(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 every Interactive Data File required to be submitted 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 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 ☒	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, 2020, 16,761,464 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, 2020
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, 2019 (the “2019 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:

- the magnitude and duration of the ongoing COVID-19 pandemic and its impact on the global and local economies and financial market conditions and our business, results of operations and financial condition, including the impact of our participation in government programs related to COVID-19;
- our ability to successfully manage credit risk, 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;
- 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 effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;
- the effects of natural disasters, harsh weather conditions (including hurricanes), widespread health emergencies, military conflict, terrorism, civil unrest or other geopolitical events;
- 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, 2020	December 31, 2019
ASSETS		
Cash and Due From Banks	$ 76,509	$ 60,087
Federal Funds Sold and Interest Bearing Deposits	626,104	318,336
Total Cash and Cash Equivalents	702,613	378,423
Investment Securities, Available for Sale, at fair value	328,253	403,601
Investment Securities, Held to Maturity (fair value of $208,266 and $241,429)	202,593	239,539
Total Investment Securities	530,846	643,140
Loans Held For Sale, at fair value	116,561	9,509
Loans Held for Investment	1,998,161	1,835,929
Allowance for Credit Losses	(23,137)	(13,905)
Loans Held for Investment, Net	1,975,024	1,822,024
Premises and Equipment, Net	87,192	84,543
Goodwill	89,095	84,811
Other Real Estate Owned	1,227	953
Other Assets	84,483	65,550
Total Assets	$ 3,587,041	$ 3,088,953
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 1,378,314	$ 1,044,699
Interest Bearing Deposits	1,631,132	1,600,755
Total Deposits	3,009,446	2,645,454
Short-Term Borrowings	90,936	6,404
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	5,268	6,514
Other Liabilities	71,880	50,678
Total Liabilities	3,230,417	2,761,937
Temporary Equity	17,199	-
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; 16,761,464 and 16,771,544 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	168	168
Additional Paid-In Capital	31,425	32,092
Retained Earnings	333,545	322,937
Accumulated Other Comprehensive Loss, net of tax	(25,713)	(28,181)
Total Shareowners' Equity	339,425	327,016
Total Liabilities, Temporary Equity, and Shareowners' Equity	$ 3,587,041	$ 3,088,953

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,**		**Nine Months Ended September 30,**	
	2020	**2019**	**2020**	**2019**
INTEREST INCOME				
Loans, including Fees	$ 23,594	$ 23,992	$ 70,874	$ 70,373
Investment Securities:				
Taxable	2,400	3,249	8,105	9,937
Tax Exempt	26	58	73	276
Federal Funds Sold and Interest Bearing Deposits	146	1,142	991	4,242
Total Interest Income	26,166	28,441	80,043	84,828
INTEREST EXPENSE				
Deposits	190	1,596	1,347	5,683
Short-Term Borrowings	498	27	1,051	93
Subordinated Notes Payable	316	558	1,161	1,762
Other Long-Term Borrowings	40	63	131	201
Total Interest Expense	1,044	2,244	3,690	7,739
NET INTEREST INCOME	25,122	26,197	76,353	77,089
Provision for Credit Losses	1,308	776	8,303	2,189
Net Interest Income After Provision For Credit Losses	23,814	25,421	68,050	74,900
NONINTEREST INCOME				
Deposit Fees	4,316	4,961	13,087	14,492
Bank Card Fees	3,389	2,972	9,582	8,863
Wealth Management Fees	2,808	2,992	7,966	7,719
Mortgage Banking Revenues	22,983	1,587	45,633	3,779
Other	1,469	1,391	4,374	4,372
Total Noninterest Income	34,965	13,903	80,642	39,225
NONINTEREST EXPENSE				
Compensation	26,164	16,203	69,558	48,989
Occupancy, Net	5,906	4,710	16,683	13,756
Other Real Estate Owned, Net	219	6	(463)	444
Other	8,053	6,954	22,836	21,278
Total Noninterest Expense	40,342	27,873	108,614	84,467
INCOME BEFORE INCOME TAXES	18,437	11,451	40,078	29,658
Income Tax Expense	3,165	2,970	7,397	7,416
NET INCOME	15,272	8,481	32,681	22,242
Pre-Tax Income Attributable to Noncontrolling Interests	(4,875)	-	(8,851)	-
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	**$ 10,397**	**$ 8,481**	**$ 23,830**	**$ 22,242**
BASIC NET INCOME PER SHARE	**$ 0.62**	**$ 0.51**	**$ 1.42**	**$ 1.33**
DILUTED NET INCOME PER SHARE	**$ 0.62**	**$ 0.50**	**$ 1.42**	**$ 1.32**
Average Common Basic Shares Outstanding	16,771	16,747	16,792	16,776
Average Common Diluted Shares Outstanding	16,810	16,795	16,823	16,810

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)

(Dollars in Thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	$ 10,397	$ 8,481	$ 23,830	$ 22,242
Other comprehensive income, before tax:				
Change in net unrealized gain/loss on securities available for sale	(773)	443	3,189	3,427
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	10	11	28	33
Total Investment Securities	(763)	454	3,217	3,460
Change in net unrealized gain/loss on interest rate swap	157	-	52	-
Other comprehensive (loss) income, before tax	(606)	454	3,269	3,460
Deferred tax (benefit) expense related to other comprehensive income	(149)	115	801	876
Other comprehensive (loss) income, net of tax	(457)	339	2,468	2,584
Total comprehensive income attributable to common shareowners	$ 9,940	$ 8,820	$ 26,298	$ 24,826

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
Balance, July 1, 2020	16,780,276	$ 168	$ 31,575	$ 328,570	$ (25,256)	$ 335,057
Net Income	-	-	-	10,397	-	10,397
Reclassification to Temporary Equity[(1)]	-	-	-	(3,075)	-	(3,075)
Other Comprehensive Income, net of tax	-	-	-	-	(457)	(457)
Cash Dividends ($0.1400 per share)	-	-	-	(2,347)	-	(2,347)
Repurchase of Common Stock	23,000	-	(472)	-	-	(472)
Stock Based Compensation	-	-	242	-	-	242
Stock Compensation Plan Transactions, net	4,188	-	80	-	-	80
Balance, September 30, 2020	16,761,464	$ 168	$ 31,425	$ 333,545	$ (25,713)	$ 339,425
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
Stock Compensation Plan Transactions, net	2,992	-	75	-	-	75
Balance, September 30, 2019	16,748,858	$ 167	$ 31,075	$ 316,551	$ (26,231)	$ 321,562
Balance, January 1, 2020	16,771,544	$ 168	$ 32,092	$ 322,937	$ (28,181)	$ 327,016
Adoption of ASC 326 - See Note 1	-	-	-	(3,095)	-	(3,095)
Net Income	-	-	-	23,830	-	23,830
Reclassification to Temporary Equity[(1)]	-	-	-	(3,075)	-	(3,075)
Other Comprehensive Income, net of tax	-	-	-	-	2,468	2,468
Cash Dividends ($0.4200 per share)	-	-	-	(7,052)	-	(7,052)
Repurchase of Common Stock	99,952	(1)	(2,042)	-	-	(2,043)
Stock Based Compensation	-	-	610	-	-	610
Stock Compensation Plan Transactions, net	89,872	1	765	-	-	766
Balance, September 30, 2020	16,761,464	$ 168	$ 31,425	$ 333,545	$ (25,713)	$ 339,425
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
Stock Compensation Plan Transactions, net	78,287	1	688	-	-	689
Balance, September 30, 2019	16,748,858	$ 167	$ 31,075	$ 316,551	$ (26,231)	$ 321,562

[(1)]Adjustment to redemption value for non-controlling interest in Capital City Home Loans

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, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 23,830	$ 22,242
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Credit Losses	8,303	2,189
Depreciation	5,174	4,693
Amortization of Premiums, Discounts and Fees, net	5,256	3,826
Originations of Loans Held-for-Sale	(561,609)	(160,720)
Proceeds From Sales of Loans Held-for-Sale	500,190	158,293
Net Gain From Sales of Loans Held-for-Sale	(45,633)	(3,779)
Stock Compensation	610	1,134
Net Tax Benefit From Stock-Based Compensation	(84)	(14)
Deferred Income Taxes	(1,127)	1,131
Net Change in Operating Leases	811	68
Net (Gain) Loss on Sales and Write-Downs of Other Real Estate Owned	(876)	165
Proceeds From Insurance Claim for Operating Loss	-	268
Loss on Disposal of Premises and Equipment	-	39
Net Increase in Other Assets	(23,482)	(5,483)
Net Increase in Other Liabilities	32,808	19,876
Net Cash (Used In) Provided By Operating Activities	(55,829)	43,928
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(32,250)	(69,347)
Payments, Maturities, and Calls	67,245	45,146
Securities Available for Sale:		
Purchases	(77,775)	(56,450)
Payments, Maturities, and Calls	153,702	126,171
Purchases of Loans Held for Investment	(29,538)	(21,537)
Net Increase in Loans Held for Investment	(134,416)	(34,589)
Net Cash Paid for Brand Acquisition	(2,405)	-
Proceeds from Insurance Claims on Premises	-	814
Proceeds From Sales of Other Real Estate Owned	2,558	2,330
Purchases of Premises and Equipment	(7,842)	(3,352)
Noncontrolling Interest Contributions	2,091	-
Net Cash Used In Investing Activities	(58,630)	(10,814)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase (Decrease) in Deposits	363,992	(58,849)
Net Increase (Decrease) in Short-Term Borrowings	84,438	(3,279)
Repayment of Other Long-Term Borrowings	(1,152)	(1,245)
Dividends Paid	(7,052)	(5,868)
Payments to Repurchase Common Stock	(2,043)	(1,806)
Issuance of Common Stock Under Purchase Plans	466	473
Net Cash Provided By (Used In) Financing Activities	438,649	(70,574)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	324,190	(37,460)
Cash and Cash Equivalents at Beginning of Period	378,423	276,000
Cash and Cash Equivalents at End of Period	$ 702,613	$ 238,540
Supplemental Cash Flow Disclosures:		
Interest Paid	$ 3,673	$ 7,761
Income Taxes Paid	$ 6,991	$ 4,496
Noncash Investing and Financing Activities:		
Loans Transferred to Other Real Estate Owned	$ 1,956	$ 792

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

NOTE 1 – BUSINESS AND BASIS OF PRESENTATION

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, 2019 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, 2019.

Business Combination. On March 1, 2020, CCB completed its acquisition of a 51% membership interest in Brand Mortgage Group, LLC ("Brand"), which is now operated as Capital City Home Loans ("CCHL"). CCHL was consolidated into CCBG's financial statements effective March 1, 2020. Assets acquired totaled $52 million (consisting primarily of loans held for sale) and liabilities assumed totaled $42 million (consisting primarily of warehouse line borrowings). The primary reasons for the acquisition were to gain access to an expanded residential mortgage product line-up and investor base (including a mandatory delivery channel for loan sales), to hedge our net interest income business and to generate other operational synergies and cost savings. CCB made a $7.1 million cash payment for its 51% membership interest and entered into a buyout agreement for the remaining 49% noncontrolling interest resulting in temporary equity with a fair value of $7.4 million. Goodwill totaling $4.3 million was recorded in connection with this acquisition. Factors that contributed to the purchase price resulting in goodwill include Brand's strong management team and expertise in the mortgage industry, historical record of earnings, and operational synergies created as part of the strategic alliance. In the third quarter of 2020, $3.1 million was reclassified from permanent equity to temporary equity which reflects the increase in the redemption value of the 49% noncontrolling interest under the terms of the buyout agreement.

Adoption of New Accounting Standard

On January 1, 2020, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326-30 provides a new credit loss model for available-for-sale debt securities. The most significant change requires credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities that management does not intend to sell or believes that it is not more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of ASC 326 ("CECL") had an impact of $4.0 million ($3.3 million increase in the allowance for credit losses and $0.7 million increase in the allowance for unfunded loan commitments (liability account)) that was offset by a corresponding decrease in retained earnings of $3.1 million and $0.9 million increase in deferred tax assets. The increase in the allowance for credit losses required under the ASC 326 generally reflected the impact of reserves calculated over the life of loan, and more specifically higher reserves required for longer duration loan portfolios, and the utilization of a longer historical look-back period in the calculation of loan loss rates (loss given default). Upon analyzing the debt security portfolios, the Company determined that no allowance was required as these debt securities are government guaranteed treasuries or government agency-backed securities for which the risk of loss was deemed minimal. Further, certain municipal debt securities held by the Company have been pre-refunded and secured by government guaranteed treasuries.

The following table illustrates the impact of adopting ASC 326 on January 1, 2020.

(Dollars in Thousands)	As Reported Under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Loans:			
Commercial, Financial and Agricultural	$ 2,163	$ 1,675	$ 488
Real Estate - Construction	672	370	302
Real Estate - Commercial Mortgage	4,874	3,416	1,458
Real Estate - Residential	4,371	3,128	1,243
Real Estate - Home Equity	2,598	2,224	374
Consumer, Other Loans and Overdrafts	2,496	3,092	(596)
Allowance for Credit Losses on Loans	17,174	13,905	3,269
Other Liabilities:			
Allowance for Credit Losses on Off-Balance Sheet Credit Exposures	$ 815	$ 157	$ 658

Significant Accounting Policy Changes

Upon adoption of ASC 326, the Company revised certain accounting policies for Investment Securities, Loans, and the Allowance for Credit Losses as detailed below.

In addition, certain accounting policies were revised upon the acquisition of Brand on March 1, 2020 and are also discussed in further detail below under the Mortgage Banking Activities section.

Investment Securities

Investment securities are classified as held-to-maturity and carried at amortized cost when the Company has the positive intent and ability to hold them until maturity. Investment securities not classified as held-to-maturity or trading securities are classified as available-for-sale and carried at fair value. The Company determines the appropriate classification of securities at the time of purchase. For reporting and risk management purposes, we further segment investment securities by the issuer of the security which correlates to its risk profile: U.S. government treasury, U.S. government agency, state and political subdivisions, and mortgage-backed securities. Certain equity securities with limited marketability, such as stock in the Federal Reserve Bank and the Federal Home Loan Bank, are classified as available-for-sale and carried at cost.

Interest income includes amortization and accretion of purchase premiums and discounts. Realized gains and losses are derived from the amortized cost of the security sold. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Securities transferred from available-for-sale to held-to-maturity are recorded at amortized cost plus or minus any unrealized gain or loss at the time of transfer. Any existing unrecognized gain or loss continues to be reported in accumulated other comprehensive income (net of tax) and amortized as an adjustment to interest income over the remaining life of the security. Any existing allowance for credit loss is reversed at the time of transfer. Subsequent to transfer, the allowance for credit losses on the transferred security is evaluated in accordance with the accounting policy for held-to-maturity securities. Additionally, any allowance amounts reversed or established as part of the transfer are presented on a gross basis in the consolidated statement of income.

The accrual of interest is generally suspended on securities more than 90 days past due with respect to principal or interest. When a security is placed on nonaccrual status, all previously accrued and uncollected interest is reversed against current income and thus not included in the estimate of credit losses.

Credit losses and changes thereto, are established as an allowance for credit loss through a provision for credit loss expense. Losses are charged against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Certain debt securities in the Company's investment portfolio were issued by a U.S. government entity or agency and are either explicitly or implicitly guaranteed by the U.S. government. The Company considers the long history of no credit losses on these securities indicates that the expectation of nonpayment of the amortized cost basis is zero, even if the U.S. government were to technically default. Further, certain municipal securities held by the Company have been pre-refunded and secured by government guaranteed treasuries. Therefore, for the aforementioned securities, the Company does not assess or record expected credit losses due to the zero loss assumption.

Impairment - Available-for-Sale Securities.

Unrealized gains on available-for-sale securities are excluded from earnings and reported, net of tax, in other comprehensive income ("OCI"). For available-for-sale securities that are in an unrealized loss position, the Company first assesses whether it intends to sell, or whether it is more likely than not it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale securities that do not meet the aforementioned criteria or have a zero loss assumption, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If the assessment indicates that a credit loss exists, the present value of cash flows to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded through a provision for credit loss expense, limited by the amount that fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Allowance for Credit Losses - Held-to-Maturity Securities.

Management measures expected credit losses on each individual held-to-maturity debt security that has not been deemed to have a zero assumption. Each security that is not deemed to have zero credit losses is individually measured based on net realizable value, or the difference between the discounted value of the expected cash flows, based on the original effective rate, and the recorded amortized basis of the security. To the extent a shortfall is related to credit loss, an allowance for credit loss is recorded through a provision for credit loss expense. Any shortfall related to other noncredit-related factors is recognized in other comprehensive income.

Loans Held for Investment

Loans held for investment ("HFI") are stated at amortized cost which includes the principal amount outstanding, net premiums and discounts, and net deferred loan fees and costs. Accrued interest receivable on loans is reported in other assets and is not included in the amortized cost basis of loans. Interest income is accrued on the effective yield method based on outstanding principal balances, and includes loan late fees. Fees charged to originate loans and direct loan origination costs are deferred and amortized over the life of the loan as a yield adjustment.

The Company defines loans as past due when one full payment is past due or a contractual maturity is over 30 days late. The accrual of interest is generally suspended on loans more than 90 days past due with respect to principal or interest. When a loan is placed on nonaccrual status, all previously accrued and uncollected interest is reversed against current income and thus a policy election has been made to not include in the estimate of credit losses. Interest income on nonaccrual loans is recognized when the ultimate collectability is no longer considered 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.

Loan charge-offs on commercial and investor real estate loans are recorded when the facts and circumstances of the individual loan confirm the loan is not fully collectible and the loss is reasonably quantifiable. Factors considered in making these determinations are the borrower's and any guarantor's ability and willingness to pay, the status of the account in bankruptcy court (if applicable), and collateral value. Charge-off decisions for consumer loans are dictated by the Federal Financial Institutions Examination Council's (FFIEC) Uniform Retail Credit Classification and Account Management Policy which establishes standards for the classification and treatment of consumer loans, which generally require charge-off after 120 days of delinquency.

The Company has adopted comprehensive lending policies, underwriting standards and loan review procedures designed to maximize loan income within an acceptable level of risk. Reporting systems are used to monitor loan originations, loan ratings, concentrations, loan delinquencies, nonperforming and potential problem loans, and other credit quality metrics. The ongoing review of loan portfolio quality and trends by Management and the Credit Risk Oversight Committee support the process for estimating the allowance for credit losses.

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The allowance for credit losses is adjusted by a credit loss provision which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Expected credit loss inherent in non-cancellable off-balance sheet credit exposures is accounted for as a separate liability included in other liabilities.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loan default and loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information incorporate management's view of current conditions and forecasts.

The methodology for estimating the amount of credit losses reported in the allowance for credit losses has two basic components: first, an asset-specific component involving loans that do not share risk characteristics and the measurement of expected credit losses for such individual loans; and second, a pooled component for expected credit losses for pools of loans that share similar risk characteristics.

Loans That Do Not Share Risk Characteristics (Individually Analyzed)

Loans that do not share similar risk characteristics are evaluated on an individual basis. Loans deemed to be collateral dependent have differing risk characteristics and are individually analyzed to estimate the expected credit loss. A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is dependent on the liquidation and sale of the underlying collateral. For collateral dependent loans where foreclosure is probable, the expected credit loss is measured based on the difference between the fair value of the collateral (less selling cost) and the amortized cost basis of the asset. For collateral dependent loans where foreclosure is not probable, the Company has elected the practical expedient allowed by ASC 326-20 to measure the expected credit loss under the same approach as those loans where foreclosure is probable. For loans with balances greater than $250,000 the fair value of the collateral is obtained through independent appraisal of the underlying collateral. For loans with balances less than $250,000, the Company has made a policy election to measure expected loss for these individual loans utilizing loss rates for similar loan types. The aforementioned measurement criteria are applied for collateral dependent troubled debt restructurings.

Loans That Share Similar Risk Characteristics (Pooled Loans)

The general steps in determining expected credit losses for the pooled loan component of the allowance are as follows:

- Segment loans into pools according to similar risk characteristics
- Develop historical loss rates for each loan pool segment
- Incorporate the impact of forecasts
- Incorporate the impact of other qualitative factors
- Calculate and review pool specific allowance for credit loss estimate

Methodology –

A discounted cash flow ("DCF") methodology is utilized to calculate expected cash flows for the life of each individual loan. The discounted present value of expected cash flow is then compared to the loan's amortized cost basis to determine the credit loss estimate. Individual loan results are aggregated at the pool level in determining total reserves for each loan pool.

The primary inputs used to calculate expected cash flows include historical loss rates which reflect probability of default ("PD") and loss given default ("LGD"), and prepayment rates. The historical look-back period is a key factor in the calculation of the PD rate and is based on management's assessment of current and forecasted conditions and may vary by loan pool. Loans subject to the Company's risk rating process are further sub-segmented by risk rating in the calculation of PD rates. LGD rates generally reflect the historical average net loss rate by loan pool. Expected cash flows are further adjusted to incorporate the impact of loan prepayments which will vary by loan segment and interest rate conditions. In general, prepayment rates are based on observed prepayment rates occurring in the loan portfolio and consideration of forecasted interest rates.

Forecast Factors –

In developing loss rates, adjustments are made to incorporate the impact of forecasted conditions. Certain assumptions are also applied, including the length of the forecast and reversion periods. The forecast period is the period within which management is able to make a reasonable and supportable assessment of future conditions. The reversion period is the period beyond which management believes it can develop a reasonable and supportable forecast, and bridges the gap between the forecast period and the use of historical default and loss rates. The remainder period reflects the remaining life of the loan. The length of the forecast and reversion periods are periodically evaluated and based on management's assessment of current and forecasted conditions and may vary by loan pool. For purposes of developing a reasonable and supportable assessment of future conditions, management utilizes established industry and economic data points and sources, including the Federal Open Market Committee forecast, with the forecasted unemployment rate being a significant factor. PD rates for the forecast period will be adjusted accordingly based on management's assessment of future conditions. PD rates for the remainder period will reflect the historical mean PD rate. Reversion period PD rates reflect the difference between forecast and remainder period PD rates calculated using a straight-line adjustment over the reversion period.

Qualitative Factors –

Loss rates are further adjusted to account for other risk factors that impact loan defaults and losses. These basis point adjustments are based on management's assessment of trends and conditions that impact credit risk and resulting loan losses, more specifically internal and external factors that are independent of and not reflected in the quantitative loss rate calculations. Risk factors management considers in this assessment include trends in underwriting standards, nature/volume/terms of loan originations, past due loans, loan review systems, collateral valuations, concentrations, legal/regulatory/political conditions, and the unforeseen impact of natural disasters.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which it is exposed to credit risk through a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense and is recorded in other liabilities. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life and applies the same estimated loss rate as determined for current outstanding loan balances by segment. Off-balance sheet credit exposures are identified and classified in the same categories as the allowance for credit losses with similar risk characteristics that have been previously mentioned.

Mortgage Banking Activities

Mortgage Loans Held for Sale and Revenue Recognition

Mortgage loans held for sale ("HFS") are carried at fair value under the fair value option with changes in fair value recorded in gain on sale of mortgage loans held for sale on the consolidated statements of income. The fair value of mortgage loans held for sale committed to investors is calculated using observable market information such as the investor commitment, assignment of trade (AOT) or other mandatory delivery commitment prices. The Company bases loans committed to Agency investors based on the Agency's quoted mortgage backed security (MBS) prices. The fair value of mortgage loans held for sale not committed to investors is based on quoted best execution secondary market prices. If no such quoted price exists, the fair value is determined using quoted prices for a similar asset or assets, such as MBS prices, adjusted for the specific attributes of that loan, which would be used by other market participants.

Gains and losses from the sale of mortgage loans held for sale are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and are recorded in gain on sale of mortgage loans held for sale on the consolidated statements of income. Sales proceeds reflect the cash received from investors through the sale of the loan and servicing release premium. If the related mortgage servicing right (MSR) is sold servicing retained, the MSR addition is recorded in gain on sale of mortgage loans held for sale on the consolidated statements of income. Gain on sale of mortgage loans held for sale also includes the unrealized gains and losses associated with the changes in the fair value of mortgage loans held for sale, and the realized and unrealized gains and losses from derivative instruments.

Mortgage loans held for sale are considered sold when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and its creditors; the purchaser obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through either an agreement that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific assets. The Company typically considers the above criteria to have been met upon acceptance and receipt of sales proceeds from the purchaser.

Derivative Instruments (IRLC/Forward Commitments)

The Company holds and issues derivative financial instruments such as interest rate lock commitments (IRLCs) and other forward sale commitments. IRLCs are subject to price risk primarily related to fluctuations in market interest rates. To hedge the interest rate risk on certain IRLCs, the Company uses forward sale commitments, such as to-be-announced securities (TBAs) or mandatory delivery commitments with investors. Management expects these forward sale commitments to experience changes in fair value opposite to the changes in fair value of the IRLCs thereby reducing earnings volatility. Forward sale commitments are also used to hedge the interest rate risk on mortgage loans held for sale that are not committed to investors and still subject to price risk. If the mandatory delivery commitments are not fulfilled, the Company pays a pair-off fee. Best effort forward sale commitments are also executed with investors, whereby certain loans are locked with a borrower and simultaneously committed to an investor at a fixed price. If the best effort IRLC does not fund, there is no obligation to fulfill the investor commitment.

The Company considers various factors and strategies in determining what portion of the IRLCs and uncommitted mortgage loans held for sale to economically hedge. All derivative instruments are recognized as other assets or other liabilities on the consolidated statements of financial condition at their fair value. Changes in the fair value of the derivative instruments are recognized in gain on sale of mortgage loans held for sale on the consolidated statements of income in the period in which they occur. Gains and losses resulting from the pairing-out of forward sale commitments are recognized in gain on sale of mortgage loans held for sale on the consolidated statements of income. The Company accounts for all derivative instruments as free-standing derivative instruments and does not designate any for hedge accounting.

Mortgage Servicing Rights (“MSRs”) and Revenue Recognition

The Company sells residential mortgage loans in the secondary market and may retain the right to service the loans sold. Upon sale, an MSR asset is capitalized, which represents the then current fair value of future net cash flows expected to be realized for performing servicing activities. As the Company has not elected to subsequently measure any class of servicing assets under the fair value measurement method, the Company follows the amortization method. MSRs are amortized to noninterest income (other income) in proportion to and over the period of estimated net servicing income, and assessed for impairment at each reporting date. MSRs are carried at the lower of the initial capitalized amount, net of accumulated amortization, or estimated fair value, and included in other assets, net, on the consolidated statements of financial condition.

The Company periodically evaluates its MSRs asset for impairment. Impairment is assessed based on fair value at each reporting date using estimated prepayment speeds of the underlying mortgage loans serviced and stratifications based on the risk characteristics of the underlying loans (predominantly loan type and note interest rate). As mortgage interest rates fall, prepayment speeds are usually faster and the value of the MSRs asset generally decreases, requiring additional valuation reserve. Conversely, as mortgage interest rates rise, prepayment speeds are usually slower and the value of the MSRs asset generally increases, requiring less valuation reserve. A valuation allowance is established, through a charge to earnings, to the extent the amortized cost of the MSRs exceeds the estimated fair value by stratification. If it is later determined that all or a portion of the temporary impairment no longer exists for a stratification, the valuation is reduced through a recovery to earnings. An other-than-temporary impairment (i.e., recoverability is considered remote when considering interest rates and loan pay off activity) is recognized as a write-down of the MSRs asset and the related valuation allowance (to the extent a valuation allowance is available) and then against earnings. A direct write-down permanently reduces the carrying value of the MSRs asset and valuation allowance, precluding subsequent recoveries.

Derivative/Hedging Activities

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to the likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("standalone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods, in which the hedged transactions will affect earnings.

Accounting Standards Updates

ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. ASU 2019-12 simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intra-period tax allocation when there is a loss from continuing operations or a gain from other items and the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. ASU 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for the Company on January 1, 2021 and is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2020-01, "Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815). ASU 2020-01 clarifies the interaction of the accounting for equity securities under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. ASU 2020-01 is effective for the Company on January 1, 2021 and is not expected to have a material impact on the Company's consolidated financial statements.

ASU 2020-02, "Financial Instruments - Credit Losses (Topic 326) and Leases (Topic 842)". ASU 2020-02 incorporates SEC SAB 119 (updated from SAB 102) into the Accounting Standards Codification (the "Codification") by aligning SEC recommended policies and procedures with ASC 326. ASU 2020-02 was effective on January 1, 2020 and had no material impact on the Company's documentation requirements.

ASU 2020-04, "Reference Rate Reform (Topic 848). ASU 2020-04 provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from LIBOR toward new interest rate benchmarks. For transactions that are modified because of reference rate reform and that meet certain scope guidance (i) modifications of loan agreements should be accounted for by prospectively adjusting the effective interest rate and the modification will be considered "minor" so that any existing unamortized origination fees/costs would carry forward and continue to be amortized and (ii) modifications of lease agreements should be accounted for as a continuation of the existing agreement with no reassessments of the lease classification and the discount rate or re-measurements of lease payments that otherwise would be required for modifications not accounted for as separate contracts. ASU 2020-04 also provides numerous optional expedients for derivative accounting. ASU 2020-04 is effective March 12, 2020 through December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. Once elected for a Topic or an Industry Subtopic within the Codification, the amendments in this ASU must be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic. It is anticipated this ASU will simplify any modifications executed between the selected start date (yet to be determined) and December 31, 2022 that are directly related to LIBOR transition by allowing prospective recognition of the continuation of the contract, rather than extinguishment of the old contract resulting in writing off unamortized fees/costs. The Company is evaluating the impact of this ASU and has not yet determined if the LIBOR transition and this ASU will have material effects on the Company's business operations and consolidated financial statements.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. Section 4013 of the CARES Act, "Temporary Relief From Troubled Debt Restructurings," provides banks the option to temporarily suspend certain requirements under U.S. GAAP related to troubled debt restructurings ("TDR") for a limited period of time to account for the effects of COVID-19. To qualify for Section 4013 of the CARES Act, borrowers must have been current at December 31, 2019. All modifications are eligible so long as they are executed between March 1, 2020 and the earlier of (i) December 31, 2020, or (ii) the 60th day after the end of the COVID-19 national emergency declared by the President of the U.S. Multiple modifications of the same credits are allowed and there is no cap on the duration of the modification. See MD&A (Credit Quality/COVID-19 Exposure) for disclosure of the impact to date.

In March 2020, various regulatory agencies, including the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, (the "Agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by the Coronavirus. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification 310-40, "Receivables – Troubled Debt Restructurings by Creditors," a restructuring of debt constitutes a TDR if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The Agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. All of the Company's modifications fall under Section 4013 of the CARES Act and thus, the interagency statement has had very little impact on the Company to date.

NOTE 2 – INVESTMENT SECURITIES

Investment Portfolio Composition. The following table summarizes the amortized cost and related market value of investment securities available-for-sale and securities held-to-maturity and the corresponding amounts of gross unrealized gains and losses.

	September 30, 2020				December 31, 2019			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value	Amortized Cost	Unrealized Gain	Unrealized Losses	Market Value
Available for Sale								
U.S. Government Treasury	$ 118,566	$ 1,550	$ -	$ 120,116	$ 231,996	$ 849	$ 67	$ 232,778
U.S. Government Agency	192,283	2,814	103	194,994	155,706	697	325	156,078
States and Political Subdivisions	4,722	108	-	4,830	6,310	9	-	6,319
Mortgage-Backed Securities	472	63	-	535	693	80	-	773
Equity Securities[1]	7,778	-	-	7,778	7,653	-	-	7,653
Total	$ 323,821	$ 4,535	$ 103	$ 328,253	$ 402,358	$ 1,635	$ 392	$ 403,601
Held to Maturity								
U.S. Government Treasury	$ 15,007	$ 51	$ -	$ 15,058	$ 20,036	$ 15	$ 9	$ 20,042
States and Political Subdivisions	-	-	-	-	1,376	-	-	1,376
Mortgage-Backed Securities	187,586	5,622	-	193,208	218,127	2,064	180	220,011
Total	$ 202,593	$ 5,673	$ -	$ 208,266	$ 239,539	$ 2,079	$ 189	$ 241,429
Total Investment Securities	$ 526,414	$ 10,208	$ 103	$ 536,519	$ 641,897	$ 3,714	$ 581	$ 645,030

(1) *Includes Federal Home Loan Bank and Federal Reserve Bank stock, recorded at cost of $3.0 million and $4.8 million, respectively, at September 30, 2020 and includes Federal Home Loan Bank and Federal Reserve Bank stock recorded at cost of $2.9 million and $4.8 million, respectively, at December 31, 2019.*

Securities with an amortized cost of $288.6 million and $353.8 million at September 30, 2020 and December 31, 2019, 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, 2020, the Company's investment securities had the following maturity distribution based on contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations. Mortgage-backed securities and certain amortizing U.S. government agency securities are shown separately because they are not due at a certain maturity date.

(Dollars in Thousands)	Available for Sale		Held to Maturity	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	$ 114,346	$ 115,664	$ 15,007	$ 15,058
Due after one year through five years	28,946	29,291	-	-
Mortgage-Backed Securities	472	535	187,586	193,208
U.S. Government Agency	172,279	174,985	-	-
Equity Securities	7,778	7,778	-	-
Total	$ 323,821	$ 328,253	$ 202,593	$ 208,266

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

(Dollars in Thousands)	Less Than 12 Months		Greater Than 12 Months		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
September 30, 2020						
Available for Sale						
U.S. Government Agency	$ 20,692	$ 80	$ 3,656	$ 23	$ 24,348	$ 103
Total	$ 20,692	$ 80	$ 3,656	$ 23	$ 24,348	$ 103
December 31, 2019						
Available for Sale						
U.S. Government Treasury	$ 9,955	$ -	$ 93,310	$ 67	$ 103,265	$ 67
U.S. Government Agency	36,361	244	17,364	81	53,725	325
States and Political Subdivisions	578	-	-	-	578	-
Mortgage-Backed Securities	8	-	-	-	8	-
Total	$ 46,902	$ 244	$ 110,674	$ 148	$ 157,576	$ 392

At September 30, 2020, there were 30 available-for-sale ("AFS") positions with unrealized losses totaling $0.1 million. All of these positions were U.S. government agency securities issued by U.S. government sponsored entities. 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 record any allowance for credit losses on any investment securities at September 30, 2020. Additionally, none of the AFS or held-to-maturity securities held by the Company were past due or in nonaccrual status at September 30, 2020.

Credit Quality Indicators

The Company monitors the credit quality of its investment securities through various risk management procedures, including the monitoring of credit ratings. A majority of the debt securities in the Company's investment portfolio were issued by a U.S. government entity or agency and are either explicitly or implicitly guaranteed by the U.S. government. The Company believes the long history of no credit losses on these securities indicates that the expectation of nonpayment of the amortized cost basis is zero, even if the U.S. government were to technically default. Further, certain municipal securities held by the Company have been pre-refunded and secured by government guaranteed treasuries. Therefore, for the aforementioned securities, the Company does not assess or record expected credit losses due to the zero loss assumption. The Company monitors the credit quality of its municipal securities portfolio via credit ratings which are updated on a quarterly basis. On a quarterly basis, municipal securities in an unrealized loss position are evaluated to determine if the loss is attributable to credit related factors and if an allowance for credit loss is needed.

NOTE 3 – LOANS HELD FOR INVESTMENT AND ALLOWANCE FOR CREDIT LOSSES

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

(Dollars in Thousands)	September 30, 2020	December 31, 2019
Commercial, Financial and Agricultural	$ 402,997	$ 255,365
Real Estate – Construction	125,804	115,018
Real Estate – Commercial Mortgage	656,064	625,556
Real Estate – Residential(1)	346,201	361,450
Real Estate – Home Equity	197,363	197,360
Consumer(2)	269,732	281,180
Loans HFI, Net of Unearned Income	$ 1,998,161	$ 1,835,929

(1) *Includes loans in process with outstanding balances of $11.5 million and $8.3 million at September 30, 2020 and December 31, 2019, respectively.*

(2) *Includes overdraft balances of $1.3 million and $1.6 million at September 30, 2020 and December 31, 2019, respectively.*

Net deferred fees, which include premiums on purchased loans, included in loans were $1.3 million at September 30, 2020 and net deferred costs were $1.8 million at December 31, 2019.

Accrued interest receivable on loans which is excluded from amortized cost totaled $7.3 million at September 30, 2020 and $5.5 million at December 31, 2019, and is reported separately in Other Assets.

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.

Loan Purchases. The Company will periodically purchase newly originated 1-4 family real estate secured adjustable rate loans from Capital City Home Loans, a related party effective on March 1, 2020 (see Note 1). Loan purchases totaled $29.5 million for the nine month period ended September 30, 2020, and were not credit impaired.

Allowance for Credit Losses. The methodology for estimating the amount of credit losses reported in the allowance for credit losses ("ACL") has two basic components: first, an asset-specific component involving loans that do not share risk characteristics and the measurement of expected credit losses for such individual loans; and second, a pooled component for expected credit losses for pools of loans that share similar risk characteristics. This methodology is discussed further in Note 1 – Business and Basis of Presentation/Significant Accounting Policies.

The following table details the activity in the allowance for credit losses by portfolio segment. 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, 2020							
Beginning Balance	$ 2,468	$ 1,955	$ 6,640	$ 5,440	$ 2,753	$ 3,201	$ 22,457
Provision for Credit Losses	(195)	161	616	(344)	196	831	1,265
Charge-Offs	(137)	-	(17)	(1)	(58)	(1,069)	(1,282)
Recoveries	74	-	30	35	41	517	697
Net Charge-Offs	(63)	-	13	34	(17)	(552)	(585)
Ending Balance	$ 2,210	$ 2,116	$ 7,269	$ 5,130	$ 2,932	$ 3,480	$ 23,137
Nine Months Ended September 30, 2020							
Beginning Balance	$ 1,675	$ 370	$ 3,416	$ 3,128	$ 2,224	$ 3,092	$ 13,905
Impact of Adopting ASC 326	488	302	1,458	1,243	374	(596)	3,269
Provision for Credit Losses	544	1,444	2,132	745	337	2,668	7,870
Charge-Offs	(685)	-	(28)	(112)	(141)	(3,810)	(4,776)
Recoveries	188	-	291	126	138	2,126	2,869
Net Charge-Offs	(497)	-	263	14	(3)	(1,684)	(1,907)
Ending Balance	$ 2,210	$ 2,116	$ 7,269	$ 5,130	$ 2,932	$ 3,480	$ 23,137
Three Months Ended September 30, 2019							
Beginning Balance	$ 1,648	$ 521	$ 3,889	$ 3,210	$ 2,383	$ 2,942	$ 14,593
Provision for Credit 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 Credit 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

On January 1, 2020, we adopted ASC 326 and recorded a pre-tax cumulative effect transition adjustment of $3.3 million. The adoption of ASC 326 is discussed further in Note 1 – Business and Basis of Presentation/Accounting Standards Updates. For the first nine months ended September 30, 2020, the provision for credit losses totaled $7.9 million for held for investment loans and net loan charge-offs totaled $1.9 million. See Note 7 – Commitments and Contingencies for information on the provision for credit losses related to off-balance sheet commitments. The $6.0 million build (provision of $7.9 million less net charge-offs of $1.9 million) in the allowance for credit losses for the first nine months of 2020 was attributable to a deterioration in economic conditions, primarily a higher rate of unemployment due to the COVID-19 pandemic and its potential effect on rates of default. Three unemployment rate forecast scenarios were utilized to estimate probability of default and were weighted based on management's estimate of probability. The mitigating impact of the unprecedented fiscal stimulus, including direct payments to individuals, increased unemployment benefits, as well as various government sponsored loan programs, was also considered.

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 amortized cost basis 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	Nonaccrual Loans	Total Loans
September 30, 2020							
Commercial, Financial and Agricultural	$ 163	$ 87	$ -	$ 250	$ 402,417	$ 330	$ 402,997
Real Estate – Construction	-	-	-	-	125,521	283	125,804
Real Estate – Commercial Mortgage	76	109	-	185	654,514	1,365	656,064
Real Estate – Residential	650	126	-	776	342,610	2,815	346,201
Real Estate – Home Equity	176	20	-	196	196,575	592	197,363
Consumer	1,495	289	-	1,784	267,828	120	269,732
Total Loans HFI	$ 2,560	$ 631	$ -	$ 3,191	$ 1,989,465	$ 5,505	$ 1,998,161
December 31, 2019							
Commercial, Financial and Agricultural	$ 489	$ 191	$ -	$ 680	$ 254,239	$ 446	$ 255,365
Real Estate – Construction	300	10	-	310	114,708	-	115,018
Real Estate – Commercial Mortgage	148	84	-	232	623,890	1,434	625,556
Real Estate – Residential	629	196	-	825	359,233	1,392	361,450
Real Estate – Home Equity	155	20	-	175	196,388	797	197,360
Consumer	2,000	649	-	2,649	278,128	403	281,180
Total Loans HFI	$ 3,721	$ 1,150	$ -	$ 4,871	$ 1,826,586	$ 4,472	$ 1,835,929

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 amortized cost basis of loans in nonaccrual status and loans past due over 90 days and still on accrual by class of loans.

	September 30, 2020			December 31, 2019		
(Dollars in Thousands)	Nonaccrual With ACL	Nonaccrual With No ACL	90 + Days Still Accruing	Nonaccrual With ACL	Nonaccrual With No ACL	90 + Days Still Accruing
Commercial, Financial and Agricultural	$ 330	$ -	$ -	$ 446	$ -	$ -
Real Estate – Construction	-	283	-	-	-	-
Real Estate – Commercial Mortgage	290	1,075	-	476	958	-
Real Estate – Residential	1,301	1,514	-	1,165	227	-
Real Estate – Home Equity	592	-	-	797	-	-
Consumer	120	-	-	403	-	-
Total Nonaccrual Loans	$ 2,633	$ 2,872	$ -	$ 3,287	$ 1,185	$ -

The Company recognized $28,000 of interest income on nonaccrual loans for the nine months ended September 30, 2020.

Collateral Dependent Loans.

The following table presents the amortized cost basis of collateral-dependent loans at September 30, 2020.

	September 30, 2020	
(Dollars in Thousands)	Real Estate Secured	Non Real Estate Secured
Commercial, Financial and Agricultural	$ -	$ -
Real Estate – Construction	283	-
Real Estate – Commercial Mortgage	3,954	-
Real Estate – Residential	3,032	-
Real Estate – Home Equity	298	-
Consumer	-	33
Total	$ 7,567	$ 33

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is dependent on the sale or operation of the underlying collateral.

The Bank's collateral dependent loan portfolio is comprised primarily of real estate secured loans, collateralized by either residential or commercial collateral types. The loans are carried at fair value based on current values determined by either independent appraisals or internal evaluations, adjusted for selling costs or other amounts to be deducted when estimating expected net sales proceeds.

Residential Real Estate Loans In Process of Foreclosure At September 30, 2020 and December 31, 2019, the Company had $1.2 million and $0.6 million, respectively, in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

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 credit 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.

At September 30, 2020, the Company had $15.3 million in TDRs, of which $14.7 million were performing in accordance with the modified terms. At December 31, 2019 the Company had $17.6 million in TDRs, of which $16.9 million were performing in accordance with modified terms. For TDRs, the Company estimated $0.8 million and $1.5 million of credit loss reserves at September 30, 2020 and December 31, 2019, respectively.

The modifications made to TDRs involved either an extension of the loan term, a principal moratorium, a reduction in the interest rate, or a combination thereof. For the three months ended September 30, 2020, there were no loans modified. For the three months ended September 30, 2019, there werefour loans modified with a recorded investment of $0.3 million. For the nine months period ended September 30, 2020, there werethreeloans modified with a recorded investment totaling $0.2 million. For the nine months period ended September 30, 2019, there wereseven loans modified with a recorded investment totaling $0.5 million. The financial impact of these modifications was not material.

For the three and nine month periods ended September 30, 2020 and September 30, 2019, there wereno loans classified as TDRs, for which there was a payment default and the loans were modified within the 12 months prior to default.

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

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

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

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

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

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

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

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

Credit Quality Indicators. As part of the ongoing monitoring of the Company's loan portfolio quality, management categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment performance, credit documentation, and current economic 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 below 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.

Performing/Nonperforming – Loans within certain homogenous loan pools (home equity and consumer) are not individually reviewed, but are monitored for credit quality via the aging status of the loan and by payment activity. The performing or nonperforming status is updated on an on-going basis dependent upon improvement and deterioration in credit quality.

The following table summarizes gross loans held for investment at September 30, 2020 by years of origination and internally assigned credit risk ratings (refer to Credit Risk Management section for detail on risk rating system).

	Term Loans by Origination Year						Revolving	
(Dollars in Thousands)	2020	2019	2018	2017	2016	Prior	Loans	Total
Commercial, Financial, Agriculture:								
Pass	$ 230,847	$ 49,683	$ 40,767	$ 17,780	$ 15,419	$ 12,374	$ 35,191	$ 402,061
Special Mention	1	4	33	-	-	59	-	97
Substandard	-	212	410	192	12	9	4	839
Total	$ 230,848	$ 49,899	$ 41,210	$ 17,972	$ 15,431	$ 12,442	$ 35,195	$ 402,997
Real Estate - Construction:								
Pass	$ 44,592	$ 64,158	$ 9,019	$ 1,848	$ -	$ -	$ 5,213	$ 124,830
Substandard	-	974	-	-	-	-	-	974
Total	$ 44,592	$ 65,132	$ 9,019	$ 1,848	$ -	$ -	$ 5,213	$ 125,804
Real Estate - Commercial Mortgage:								
Pass	$ 115,966	$ 113,732	$ 145,628	$ 91,828	$ 49,478	$ 100,856	$ 19,650	$ 637,138
Special Mention	5,849	123	-	215	390	6,126	-	12,703
Substandard	206	137	87	2,738	30	2,531	494	6,223
Total	$ 122,021	$ 113,992	$ 145,715	$ 94,781	$ 49,898	$ 109,513	$ 20,144	$ 656,064
Real Estate - Residential:								
Pass	$ 71,096	$ 75,094	$ 49,849	$ 42,965	$ 20,807	$ 71,879	$ 6,685	$ 338,375
Special Mention	142	25	127	177	96	334	-	901
Substandard	680	1,154	1,203	890	848	2,150	-	6,925
Total	$ 71,918	$ 76,273	$ 51,179	$ 44,032	$ 21,751	$ 74,363	$ 6,685	$ 346,201
Real Estate - Home Equity:								
Performing	$ 1,416	$ 337	$ 246	$ 852	$ 190	$ 2,486	$ 191,244	$ 196,771
Nonperforming	-	-	-	-	-	17	575	592
Total	$ 1,416	$ 337	$ 246	$ 852	$ 190	$ 2,503	$ 191,819	$ 197,363
Consumer:								
Performing	$ 78,369	$ 79,432	$ 59,009	$ 29,446	$ 13,469	$ 4,078	$ 5,809	$ 269,612
Nonperforming	4	-	44	-	33	39	-	120
Total	$ 78,373	$ 79,432	$ 59,053	$ 29,446	$ 13,502	$ 4,117	$ 5,809	$ 269,732

NOTE 4 – MORTGAGE BANKING ACTIVITIES

Pursuant to the Brand acquisition on March 1, 2020, the Company's mortgage banking activities at its subsidiary Capital City Homes Loans have expanded to include mandatory delivery loan sales, forward sales contracts used to manage residential loan pipeline price risk, utilization of warehouse lines to fund secondary market residential loan closings, and residential mortgage servicing. Information provided below reflects CCHL activities post acquisition for the period March 1, 2020 to September 30, 2020 and CCB legacy residential real estate activities for the period January 1, 2020 to March 1, 2020.

Residential Mortgage Loan Production

The Company originates, markets, and services conventional and government-sponsored residential mortgage loans. Generally, conforming fixed rate residential mortgage loans are held for sale in the secondary market and non-conforming and adjustable-rate residential mortgage loans may be held for investment. The volume of residential mortgage loans originated for sale and secondary market prices are the primary drivers of origination revenue.

Residential mortgage loan commitments are generally outstanding for 30 to 90 days, which represents the typical period from commitment to originate a residential mortgage loan to when the closed loan is sold to an investor. Residential mortgage loan commitments are subject to both credit and price risk. Credit risk is managed through underwriting policies and procedures, including collateral requirements, which are generally accepted by the secondary loan markets. Price risk is primarily related to interest rate fluctuations and is partially managed through forward sales of residential mortgage-backed securities (primarily to-be announced securities, or TBAs) or mandatory delivery commitments with investors.

The unpaid principal balance of residential mortgage loans held for sale, notional amounts of derivative contracts related to residential mortgage loan commitments and forward contract sales and their related fair values are set- forth below.

	September 30, 2020	
(Dollars in Thousands)	**Unpaid Principal Balance/Notional**	**Fair Value**
Residential Mortgage Loans Held for Sale	$ 111,947	$ 116,561
Residential Mortgage Loan Commitments ("IRLCs")(1)	192,935	6,031
Forward Sales Contracts(2)	210,500	(400)
		$ 122,192

(1)*Recorded in other assets at fair value*
(2)*Recorded in other liabilities at fair value*

Residential mortgage loans held for sale that were 90 days or more outstanding or on nonaccrual totaled $0.5 million at September 30, 2020.

Mortgage banking revenue was as follows:

(Dollars in Thousands)	**Three Months Ended September 30, 2020**	**Nine Months Ended September 30, 2020**
Net realized gains on sales of mortgage loans	$ 21,423	$ 39,410
Net change in unrealized gain on mortgage loans held for sale	1,499	3,329
Net change in the fair value of mortgage loan commitments (IRLCs)	691	3,833
Net change in the fair value of forward sales contracts	560	791
Pair-Offs on net settlement of forward sales contracts	(3,049)	(7,445)
Mortgage servicing rights additions	763	2,813
Net origination fees	1,096	2,902
Total mortgage banking revenues	$ 22,983	$ 45,633

Residential Mortgage Servicing

The Company may retain the right to service residential mortgage loans sold. The unpaid principal balance of loans serviced for others is the primary driver of servicing revenue.

The following represents a summary of mortgage servicing rights.

(Dollars in Thousands)	September 30, 2020
Number of residential mortgage loans serviced for others	1,544
Outstanding principal balance of residential mortgage loans serviced for others	$ 409,801
Weighted average interest rate	3.73%
Remaining contractual term (in months)	321

Conforming conventional loans serviced by the Company are sold to FNMA on a non-recourse basis, whereby foreclosure losses are generally the responsibility of FNMA and not the Company. The government loans serviced by the Company are secured through GNMA, whereby the Company is insured against loss by the Federal Housing Administration or partially guaranteed against loss by the Veterans Administration. At September 30, 2020, the servicing portfolio balance consisted of the following loan types: FNMA (59%), GNMA (14%), and private investor (27%). FNMA and private investor loans are structured as actual/actual payment remittance.

Activity in the capitalized mortgage servicing rights for the nine month period ended September 30, 2020 was as follows:

(Dollars in Thousands)	
Beginning balance	$ 910
Additions due to loans sold with servicing retained	2,813
Deletions and amortization	(375)
Ending balance	$ 3,348

The Company did not record any permanent impairment losses on mortgage servicing rights for the nine month period ended September 30, 2020.

At September 30, 2020, the key unobservable inputs used in determining the fair value of the Company's mortgage servicing rights were as follows:

	Minimum	Maximum
Discount rates	11.00%	15.00%
Annual prepayment speeds	9.54%	21.24%
Cost of servicing (basis points)	90	110

Changes in residential mortgage interest rates directly affect the prepayment speeds used in valuing the Company's mortgage servicing rights. A separate third party model is used to estimate prepayment speeds based on interest rates, housing turnover rates, estimated loan curtailment, anticipated defaults, and other relevant factors. The weighted average annual prepayment speed was 14.64% at September 30, 2020.

Warehouse Line Borrowings

The Company has the following warehouse lines of credit and master repurchase agreements with various financial institutions at September 30, 2020.

(Dollars in Thousands)		Amounts Outstanding
$25 million warehouse line of credit agreement expiring October 2020. Interest is at LIBOR plus 2.25%, with a floor rate of 3.50%. A cash pledge deposit of $0.1 million is required by the lender.[1]	$	23,860
$50 million master repurchase agreement without defined expiration. Interest is at the LIBOR plus 2.24% to 3.00%, with a floor rate of 3.25%. A cash pledge deposit of $0.5 million is required by the lender.		41,528
$50 million warehouse line of credit agreement expiring in September 2020. Interest is at the LIBOR plus 2.25%.[2]		19,585
	$	84,973

[1] In October 2020, the warehouse line was extended to November 15, 2020 with a $40 million line of credit.

[2] In October 2020, the warehouse line was renewed through September 30, 2021 with an interest rate of LIBOR plus 2.75%.

Warehouse line borrowings are classified as short-term borrowings. At September 30, 2020, the Company had mortgage loans held for sale pledged as collateral under the above warehouse lines of credit and master repurchase agreements. The above agreements also contain covenants which include certain financial requirements, including maintenance of minimum tangible net worth, minimum liquid assets, maximum debt to net worth ratio and positive net income, as defined in the agreements. The Company was in compliance with all significant debt covenants at September 30, 2020.

The Company intends to renew the warehouse lines of credit and master repurchase agreements when they mature.

The Company has extended a $30 million warehouse line of credit to CCHL, a 51% owned subsidiary entity. Balances and transactions under this line of credit are eliminated in the Company's consolidated financial statements and thus not included in the total short term borrowings noted on the consolidated statement of financial condition. The balance of this line of credit at September 30, 2020 was $22.8 million.

NOTE 5 – DERIVATIVES

The Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's subordinated debt.

Cash Flow Hedges of Interest Rate Risk

Interest rate swaps with notional amounts totaling $30 million at September 30, 2020 were designed as a cash flow hedge for subordinated debt. Under the swap arrangement, the Company will pay a fixed interest rate of 2.50% and receive a variable interest rate based on three-month LIBOR plus a weighted average margin of 1.83%.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in accumulated other comprehensive income ("AOCI") and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate subordinated debt.

The following table reflects the cash flow hedges included in the consolidated statements of financial condition at September 30, 2020

(Dollars in Thousands)		Notional Amount		Fair Value	Balance Sheet Location	Weighted Average Maturity (Years)
Interest rate swaps related to subordinated debt	$	30,000	$	48	Other Assets	9.8

The following table presents the net gains (losses) recorded in accumulated other comprehensive income and the consolidated statements of income related to the cash flow derivative instruments (interest rate swaps related to subordinated debt) for the three and nine months ended September 30, 2020.

(Dollars in Thousands)		**Amount of Gain (Loss) Recognized in AOCI**	**Category**		**Amount of Gain (Loss) Reclassified from AOCI to Income**
Three months ended September 30, 2020	$	129	Interest Expense	$	(28)
Nine months ended September 30, 2020		21	Interest Expense		(31)

The Company estimates there will be approximately $0.1 million reclassified as an increase to interest expense within the next 12 months.

At September 30, 2020, the Company had no collateral posted related to these agreements.

NOTE 6 – 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 statements of income.

The Company's operating leases primarily relate to banking offices with remaining lease terms from1 to 29 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, 2020, the operating lease ROU assets and liabilities were $6.4 million and $7.2 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

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
(Dollars in Thousands)		**2020**		**2019**		**2020**		**2019**
Operating lease expense	$	273	$	81	$	695	$	243
Short-term lease expense		145		27		378		90
Total lease expense	$	418	$	108	$	1,073	$	333
Other information:								
Cash paid for amounts included in the measurement of lease liabilities:								
Operating cash flows from operating leases	$	271	$	85	$	695	$	254
Right-of-use assets obtained in exchange for new operating lease liabilities		85		13		5,206		1,794
Weighted average remaining lease term — operating leases (in years)		15.4		7.0		15.4		7.0
Weighted average discount rate — operating leases		2.3%		2.9%		2.3%		2.9%

The table below summarizes the maturity of remaining lease liabilities:

(Dollars in Thousands)		September 30, 2020
2020	$	317
2021		1,275
2022		1,116
2023		718
2024		666
2025 and thereafter		5,272
Total	$	**9,364**
Less: Interest		(2,161)
Present Value of Lease liability	$	7,203

At September 30, 2020, the Company had additional operating lease payments forthree banking offices that have not yet commenced totaling $7.1 million based on the initial contract term of 15 years. Payments for the banking offices are expected to commence after the construction period ends, which is expected to occur during the fourth quarter of 2020, the fourth quarter of 2021, and the first quarter of 2022.

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 $0.8 million at September 30, 2020.

NOTE 7 - 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") and a Supplemental Executive Retirement Plan II ("SERP II") covering its executive officers. The defined benefit plan was amended in December 2019 to remove plan eligibility for new associates hired after December 31, 2019. The SERP II was adopted by the Company's Board on May 21, 2020 and covers certain executive officers that were not covered by the SERP.

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)		2020		2019		2020		2019
Service Cost	$	1,457	$	1,529	$	4,371	$	4,587
Interest Cost		1,400		1,545		4,212		4,635
Expected Return on Plan Assets		(2,748)		(2,382)		(8,245)		(7,146)
Prior Service Cost Amortization		4		4		11		12
Net Loss Amortization		974		965		2,959		2,895
Special Termination Charge		-		-		61		-
Net Periodic Benefit Cost	$	1,087	$	1,661	$	3,369	$	4,983
Discount Rate		3.53%		4.43%		3.53%		4.43%
Long-term Rate of Return on Assets		7.00%		7.25%		7.00%		7.25%

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in Thousands)		2020		2019		2020		2019
Service Cost	$	10	$	-	$	21	$	-
Interest Cost	$	83	$	87	$	238	$	261
Prior Service Cost Amortization		109		-		218		-
Net Loss Amortization		93		190		410		570
Net Periodic Benefit Cost	$	295	$	277	$	887	$	831
Discount Rate		3.16%		4.23%		3.16%		4.23%

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 8 - 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, 2020			December 31, 2019		
(Dollars in Thousands)	**Fixed**	**Variable**	**Total**	**Fixed**	**Variable**	**Total**
Commitments to Extend Credit [1]	$ 135,749	$ 568,514	$ 704,263	$ 114,903	$ 404,345	$ 519,248
Standby Letters of Credit	6,916	-	6,916	5,783	-	5,783
Total	$ 142,665	$ 568,514	$ 711,179	$ 120,686	$ 404,345	$ 525,031

(1) *Commitments include unfunded loans, revolving lines of credit, and off-balance sheet residential loan 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.

The allowance for credit losses for off-balance sheet credit commitments that are not unconditionally cancellable by the bank totaled $1.5 million at September 30, 2020 and $0.2 million at December 31, 2019. The allowance is adjusted as a provision for credit loss expense and is recorded in other liabilities. The allowance was increased by $0.7 million on January 1, 2020 upon the adoption of ASC 326. The following table shows the activity in the allowance.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	**2020**	**2019**	**2020**	**2019**
Beginning Balance	$ 1,033	$ 156	$ 157	$ 160
Impact of Adoption of ASC 326	-	-	658	-
Provision for Credit Losses	434	(1)	652	(5)
Ending Balance	$ 1,467	$ 155	$ 1,467	$ 155

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.

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 $173,000. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred.

NOTE 9 – 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.

Loans Held for Sale. The fair value of residential mortgage loans held for sale based on Level 2 inputs is determined, when possible, using either quoted secondary-market prices or investor commitments. If no such quoted price exists, the fair value is determined using quoted prices for a similar asset or assets, adjusted for the specific attributes of that loan, which would be used by other market participants. The Company has elected the fair value option accounting for its held for sale loans.

Mortgage Banking Derivative Instruments. The fair values of interest rate lock commitments (“IRLCs”) are derived by valuation models incorporating market pricing for instruments with similar characteristics, commonly referred to as best execution pricing, or investor commitment prices for best effort IRLCs which have unobservable inputs, such as an estimate of the fair value of the servicing rights expected to be recorded upon sale of the loans, net estimated costs to originate the loans, and the pull-through rate, and are therefore classified as Level 3 within the fair value hierarchy. The fair value of forward sale commitments is based on observable market pricing for similar instruments and are therefore classified as Level 2 within the fair value hierarchy.

Interest Rate Swap. The Company's derivative positions are classified as level 2 within the fair value hierarchy and are valued using models generally accepted in the financial services industry and that use actively quoted or observable market input values from external market data providers. The fair value derivatives are determined using discounted cash flow models.

Fair Value Swap. The Company entered into a stand-alone derivative contract with the purchaser of its Visa Class B shares. The valuation represents the amount due and payable to the counterparty based upon the revised share conversion rate, if any, during the period.

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, 2020				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	$ 120,116	$ -	$ -	$ 120,116
U.S. Government Agency	-	194,994	-	194,994
States and Political Subdivisions	-	4,830	-	4,830
Mortgage-Backed Securities	-	535	-	535
Equity Securities	-	7,778	-	7,778
Loans Held for Sale	-	116,561	-	116,561
Interest Rate Swap Derivative Asset	-	48	-	48
Mortgage Banking Derivative Asset	-	-	6,031	6,031
LIABILITIES:				
Mortgage Banking Derivative Liability	-	400	-	400
December 31, 2019				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	$ 232,778	$ -	$ -	$ 232,778
U.S. Government Agency	-	156,078	-	156,078
States and Political Subdivisions	-	6,319	-	6,319
Mortgage-Backed Securities	-	773	-	773
Equity Securities	-	7,653	-	7,653

Mortgage Banking Activities. The Company had Level 3 issuances and transfers of $34.0 million and $40.3 million, respectively, for the period March 1, 2020 to September 30, 2020 related to mortgage banking activities. Issuances are valued based on the change in fair value of the underlying mortgage loan from inception of the IRLC to the balance sheet date, adjusted for pull-through rates and costs to originate. IRLCs transferred out of Level 3 represent IRLCs that were funded and moved to mortgage loans held for sale, at fair value.

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.

Collateral Dependent 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. Collateral-dependent loans had a carrying value of $7.1 million with a valuation allowance of $0.1 million at September 30, 2020 and $6.6 million and $0.5 million, respectively, at December 31, 2019.

Other Real Estate Owned. During the first nine months of 2020, certain foreclosed assets, upon initial recognition, were measured and reported at fair value through a charge-off to the allowance for credit 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.

Mortgage Servicing Rights. Residential mortgage loan servicing rights are evaluated for impairment at each reporting period based upon the fair value of the rights as compared to the carrying amount. Fair value is determined by a third party valuation model using estimated prepayment speeds of the underlying mortgage loans serviced and stratifications based on the risk characteristics of the underlying loans (predominantly loan type and note interest rate). The fair value is estimated using Level 3 inputs, including a discount rate, weighted average prepayment speed, and the cost of loan servicing. Further detail on the key inputs utilized are provided in Note 4 – Mortgage Banking Activities. At September 30, 2020, there was no valuation allowance for loan servicing rights.

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, 2020			
(Dollars in Thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$ 76,509	$ 76,509	$ -	$ -
Short-Term Investments	626,104	626,104	-	-
Investment Securities, Available for Sale	328,253	120,116	208,137	-
Investment Securities, Held to Maturity	202,593	15,058	193,208	-
Equity Securities[(1)]	3,588	-	3,588	-
Loans Held for Sale	116,561	-	116,561	-
Interest Rate Swap Derivative Asset	48	-	48	-
Loans, Net of Allowance for Credit Losses	1,975,024	-	-	1,982,055
Mortgage Banking Derivative Asset	6,031	-	-	6,031
Mortgage Servicing Rights	3,348	-	-	3,485
LIABILITIES:				
Deposits	$ 3,009,446	$ -	$ 3,129,020	$ -
Short-Term Borrowings	90,936	-	90,936	-
Subordinated Notes Payable	52,887	-	41,223	-
Long-Term Borrowings	5,268	-	5,430	-
Mortgage Banking Derivative Liability	400	-	400	-

	December 31, 2019			
(Dollars in Thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$ 60,087	$ 60,087	$ -	$ -
Short-Term Investments	318,336	318,336	-	-
Investment Securities, Available for Sale	403,601	232,778	170,823	-
Investment Securities, Held to Maturity	239,539	20,042	221,387	-
Loans Held for Sale	9,509	-	9,509	-
Equity Securities[(1)]	3,591	-	3,591	-
Loans, Net of Allowance for Credit Losses	1,822,024	-	-	1,804,930
LIABILITIES:				
Deposits	$ 2,645,454	$ -	$ 2,644,430	$ -
Short-Term Borrowings	6,404	-	6,404	-
Subordinated Notes Payable	52,887	-	40,280	-
Long-Term Borrowings	6,514	-	6,623	-

[(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 10 – 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, 2020			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	$ (773)	$ 191	$ (582)
Amortization of losses on securities transferred from available for sale to held to maturity	10	(3)	7
Total Investment Securities	(763)	188	(575)
Change in net unrealized gain/loss on interest rate swap	157	(39)	118
Total Other Comprehensive Loss	$ (606)	$ 149	$ (457)
Nine Months Ended September 30, 2020			
Investment Securities:			
Change in net unrealized gain/loss on securities available for sale	$ 3,189	$ (781)	$ 2,408
Amortization of losses on securities transferred from available for sale to held to maturity	28	(7)	21
Total Investment Securities	3,217	(788)	2,429
Change in net unrealized gain/loss on interest rate swap	52	(13)	39
Total Other Comprehensive Income	$ 3,269	$ (801)	$ 2,468

(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

Accumulated other comprehensive loss was comprised of the following components:

(Dollars in Thousands)	Securities Available for Sale	Interest Rate Swap	Retirement Plans	Accumulated Other Comprehensive Loss
Balance as of January 1, 2020	$ 864	$ -	$ (29,045)	$ (28,181)
Other comprehensive income during the period	2,429	39	-	2,468
Balance as of September 30, 2020	$ 3,293	$ 39	$ (29,045)	$ (25,713)
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)

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 2020 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 2019 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. We offer residential mortgage banking services through Capital City Home Loans.

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 credit 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 2019 Form 10-K.

Strategic Alliance. On March 1, 2020, CCB completed its acquisition of a 51% membership interest in Brand Mortgage Group, LLC ("Brand") which is now operated as a Capital City Home Loans ("CCHL"). CCHL was consolidated into CCBG's financial statements effective March 1, 2020. See Note 1 – Business Combination in the Consolidated Financial Statements. The primary reasons for the strategic alliance with Brand were to gain access to an expanded residential mortgage product line-up and investor base (including mandatory delivery channel for loan sales), to hedge our net interest income business and to generate other operational synergies and cost savings.

RESPONSE TO COVID-19 PANDEMIC

In March 2020, the outbreak of the novel Coronavirus Disease 2019 ("COVID-19") was recognized as a pandemic by the World Health Organization. The spread of COVID-19 has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that we serve. Governmental responses to the pandemic have included orders closing businesses not deemed essential and directing individuals to restrict their movements, observe social distancing, and shelter in place. These actions, together with responses to the pandemic by businesses and individuals, resulted in rapid decreases in commercial and consumer activity, temporary closures of many businesses that led to a loss of revenues and a rapid increase in unemployment, material decreases in oil and gas prices and in business valuations, disrupted global supply chains, market downturns and volatility, changes in consumer behavior related to pandemic fears, related emergency response legislation, monetary stimulus, and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future.

We have taken deliberate actions to ensure that we have the balance sheet strength to serve our clients and communities, including a strong liquidity position and adequate reserves supported by a strong capital position. Our business and consumer clients are experiencing varying degrees of financial distress, which may continue in the coming months. In order to protect the health of our clients and associates and comply with applicable government directives, we have modified our business practices as noted below. We will continue to closely monitor this pandemic and respond with needed changes as this situation evolves. We discuss the potential impacts on our financial performance in more detail throughout parts of the MD&A section.

COVID-19 Update

- Lobby access remains open for all of our banking offices and operations are subject to national guidelines and local safety ordinances to protect both clients and associates – we continue to monitor changing conditions with the pandemic and their impacts on client and associate interactions within our banking offices
- Most operational associates returned to work in early June 2020, but we have extended some remote work arrangements on a case-by-case basis
- Enhanced digital access options are available for banking products and access to sales associates
- We continue to monitor COVID-19 case count trends in our markets and respond appropriately to help ensure client and associate safety
- We continue to support clients with the Small Business Administration Payment Protection Program ("SBA PPP") by actively assisting with the forgiveness process

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 38 is provided below.

		2020			2019				2018
(Dollars in Thousands, except per share data)		Third	Second	First	Fourth	Third	Second	First	Fourth
Shareowners' Equity (GAAP)		$ 339,425	$ 335,057	$ 328,507	$ 327,016	$ 321,562	$ 314,595	$ 308,986	$ 302,587
Less: Goodwill (GAAP)		89,095	89,095	89,275	84,811	84,811	84,811	84,811	84,811
Tangible Shareowners' Equity (non-GAAP)	A	250,330	245,962	239,232	242,205	236,751	229,784	224,175	217,776
Total Assets (GAAP)		3,587,041	3,499,524	3,086,523	3,088,953	2,934,513	3,017,654	3,052,051	2,959,183
Less: Goodwill (GAAP)		89,095	89,095	89,275	84,811	84,811	84,811	84,811	84,811
Tangible Assets (non-GAAP)	B	$ 3,497,946	$ 3,410,429	$ 2,997,248	$ 3,004,142	$ 2,849,702	$ 2,932,843	$ 2,967,240	$ 2,874,372
Tangible Common Equity Ratio (non-GAAP)	**A/B**	**7.16%**	**7.21%**	**7.98%**	**8.06%**	**8.31%**	**7.83%**	**7.56%**	**7.58%**
Actual Diluted Shares Outstanding (GAAP)	C	16,800,563	16,821,743	16,845,462	16,855,161	16,797,241	16,773,449	16,840,496	16,808,542
Diluted Tangible Book Value (non-GAAP)	**A/C**	**14.90**	**14.62**	**14.20**	**14.37**	**14.09**	**13.70**	**13.31**	**12.96**

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in Thousands, Except Per Share Data)	2020			2019				2018
	Third	Second	First	Fourth	Third	Second	First	Fourth
Summary of Operations:								
Interest Income	$ 26,166	$ 26,512	$ 27,365	$ 28,008	$ 28,441	$ 28,665	$ 27,722	$ 26,370
Interest Expense	1,044	1,054	1,592	1,754	2,244	2,681	2,814	2,022
Net Interest Income	25,122	25,458	25,773	26,254	26,197	25,984	24,908	24,348
Provision for Credit Losses	1,308	2,005	4,990	(162)	776	646	767	457
Net Interest Income After Provision for Credit Losses	23,814	23,453	20,783	26,416	25,421	25,338	24,141	23,891
Noninterest Income	34,965	30,199	15,478	13,828	13,903	12,770	12,552	13,238
Noninterest Expense	40,342	37,303	30,969	29,142	27,873	28,396	28,198	26,505
Income Before Income Taxes	18,437	16,349	5,292	11,102	11,451	9,712	8,495	10,624
Income Tax Expense	3,165	2,950	1,282	2,537	2,970	2,387	2,059	2,166
(Income) Loss Attributable to NCI	(4,875)	(4,253)	277	-	-	-	-	-
Net Income Attributable to CCBG	10,397	9,146	4,287	8,565	8,481	7,325	6,436	8,458
Net Interest Income (FTE)	$ 25,233	$ 25,564	$ 25,877	$ 26,378	$ 26,333	$ 26,116	$ 25,042	$ 24,513
Per Common Share								
Net Income Basic	$ 0.62	$ 0.55	$ 0.25	$ 0.51	$ 0.51	$ 0.44	$ 0.38	$ 0.50
Net Income Diluted	0.62	0.55	0.25	0.51	0.50	0.44	0.38	0.50
Cash Dividends Declared	0.14	0.14	0.14	0.13	0.13	0.11	0.11	0.09
Diluted Book Value	20.20	19.92	19.50	19.40	19.14	18.76	18.35	18.00
Diluted Tangible Book Value[(1)]	14.90	14.62	14.20	14.37	14.09	13.70	13.31	12.96
Market Price:								
High	21.71	23.99	30.62	30.95	28.00	25.00	25.87	26.95
Low	17.55	16.16	15.61	25.75	23.70	21.57	21.04	19.92
Close	18.79	20.95	20.12	30.50	27.45	24.85	21.78	23.21
Selected Average Balances:								
Loans, Net	$ 2,097,700	$ 2,057,925	$ 1,882,703	$ 1,846,190	$ 1,837,548	$ 1,823,311	$ 1,780,406	$ 1,785,570
Earning Assets	3,223,838	3,016,772	2,751,880	2,694,700	2,670,081	2,719,217	2,704,802	2,554,482
Total Assets	3,539,332	3,329,226	3,038,788	2,982,204	2,959,310	3,010,662	2,996,511	2,849,245
Deposits	2,971,277	2,783,453	2,552,690	2,524,951	2,495,755	2,565,431	2,564,715	2,412,375
Shareowners' Equity	340,073	333,515	331,891	326,904	320,273	313,599	307,262	302,196
Common Equivalent Average Shares:								
Basic	16,771	16,797	16,808	16,750	16,747	16,791	16,791	16,989
Diluted	16,810	16,839	16,842	16,834	16,795	16,818	16,819	17,050
Performance Ratios:								
Return on Average Assets	1.17 %	1.10 %	0.57 %	1.14 %	1.14 %	0.98 %	0.87 %	1.18 %
Return on Average Equity	12.16	11.03	5.20	10.39	10.51	9.37	8.49	11.10
Net Interest Margin (FTE)	3.12	3.41	3.78	3.89	3.92	3.85	3.75	3.81
Noninterest Income as % of Operating Revenue	58.19	54.26	37.52	34.50	34.67	32.95	33.51	35.22
Efficiency Ratio	67.01	66.90	74.89	72.48	69.27	73.02	75.01	70.21
Asset Quality:								
Allowance for Credit Losses ("ACL")	$ 23,137	$ 22,457	$ 21,083	$ 13,905	$ 14,319	$ 14,593	$ 14,120	$ 14,210
ACL to Loans HFI	1.16 %	1.11 %	1.13 %	0.75 %	0.78 %	0.79 %	0.78 %	0.80 %
Nonperforming Assets ("NPAs")	6,732	8,025	6,337	5,425	5,454	6,632	6,949	9,101
NPAs to Total Assets	0.19	0.23	0.21	0.18	0.19	0.22	0.23	0.31
NPAs to Loans HFI plus OREO	0.34	0.40	0.34	0.29	0.30	0.36	0.39	0.51
ACL to Non-Performing Loans	420.30	322.37	432.61	310.99	290.55	259.55	279.77	206.79
Net Charge-Offs to Average Loans HFI	0.11	0.05	0.23	0.05	0.23	0.04	0.20	0.10
Capital Ratios:								
Tier 1 Capital	16.77 %	16.59 %	16.12 %	17.16 %	16.83 %	16.36 %	16.34 %	16.36 %
Total Capital	17.88	17.60	17.19	17.90	17.59	17.13	17.09	17.13
Common Equity Tier 1	14.20	14.01	13.55	14.47	14.13	13.67	13.62	13.58
Leverage	9.64	10.12	10.81	11.25	11.09	10.64	10.53	10.89
Tangible Common Equity[(1)]	7.16	7.21	7.98	8.06	8.31	7.83	7.56	7.58

[(1)]*Non-GAAP financial measure. See non-GAAP reconciliation on page 37.*

FINANCIAL OVERVIEW

A summary overview of our financial performance is provided below.

Results of Operations

Performance Summary. Net income of $10.4 million, or $0.62 per diluted share, for the third quarter of 2020 compared to net income of $9.1 million, or $0.55 per diluted share, for the second quarter of 2020, and $8.5 million, or $0.50 per diluted share, for the third quarter of 2019. For the first nine months of 2020, net income totaled $23.8 million, or $1.42 per diluted share, compared to net income of $22.2 million, or $1.32 per diluted share, for the same period of 2019.

Net Interest Income. Tax-equivalent net interest income for the third quarter of 2020 was $25.2 million compared to $25.6 million for the second quarter of 2020 and $26.3 million for the third quarter of 2019. For the first nine months of 2020, tax-equivalent net interest income totaled $76.7 million compared to $77.5 million in 2019. The decrease compared to all prior periods reflected lower rates earned on overnight funds, investment securities and variable rate loans, partially offset by lower cost for deposits.

Provision and Allowance for Credit Losses. Provision for credit losses was $1.3 million for the third quarter of 2020 compared to $2.0 million for the second quarter of 2020 and $0.8 million for the third quarter of 2019. For the first nine months of 2020, the provision was $8.3 million compared to $2.2 million for the same period of 2019. The higher provision in 2020 reflected expected losses due to deterioration in economic conditions related to COVID-19. At September 30, 2020, excluding SBA PPP loans, the allowance represented 1.28% of loans held for investment.

Noninterest Income and Noninterest Expense. The consolidation of CCHL's mortgage banking operations on March 1, 2020 impacted our noninterest income and noninterest expense comparisons for the three and nine month periods ended September 30, 2020. To better understand the impact, we provide an analysis of Noninterest Income and Noninterest Expense for CCBG excluding CCHL ("Core CCBG") and CCHL under those respective headings below (Pages 42-44). CCHL operations contributed $3.8 million, or $0.23 per diluted share, to CCBG earnings for the third quarter of 2020 compared to $3.4 million, or $0.20 per diluted share for the second quarter of 2020 driven by continued robust mortgage production. At Core CCBG, noninterest income increased $1.1 million, or 9.8%, over the second quarter of 2020 driven by increased consumer spending (deposit and bank card fees) and improved financial markets (wealth fees). Compared to the three and nine month periods of 2019, Core CCBG noninterest expense increased $0.5 million, or 1.9%, and decreased $2.6 million, or 3.0%, respectively.

Financial Condition

Earning Assets. Average earning assets were $3.224 billion for the third quarter of 2020, an increase of $207.1 million, or 6.9% over the second quarter of 2020, and an increase of $529.1 million, or 19.6% over the fourth quarter of 2019. The increase over both prior periods was primarily driven by higher deposit balances and reflected strong core deposit growth and funding retained at the bank from SBA PPP loans and various other stimulus programs.

Loans. Average loans held for investment increased $22.2 million, or 1.1%, over the second quarter of 2020 and $171.1 million, or 9.3%, over the fourth quarter of 2019. Period end loan balances decreased $24.0 million, or 1.2%, from the second quarter of 2020 and increased $162.2 million, or 8.8%, over the fourth quarter of 2019. SBA PPP loans averaged and ended the third quarter of 2020 at $190 million compared to $134 million and $190 million, respectively, at the end of the second quarter.

Credit Quality. Nonaccrual loans totaled $5.5 million (0.28% of HFI loans) at September 30, 2020 compared to $7.0 million (0.34% of HFI loans) at June 30, 2020 and $4.5 million (0.27% of HFI loans) at December 31, 2019. Classified loans totaled $16.8 million, $17.1 million, and $20.8 million at the same respective periods. We continue to closely monitor borrowers and loan portfolio segments impacted by the pandemic and loans still on extension totaled $40 million at September 30, 2020, of which $2 million was classified. Approximately $285 million in loans extended have resumed making regularly scheduled payments.

Deposits. Average total deposits increased $187.8 million, or 6.8%, over the second quarter of 2020, and $446.3 million, or 17.7%, over the fourth quarter of 2019. Period end deposit balances grew $54.4 million and $364.0 million over the second quarter of 2020 and fourth quarter of 2019, respectively, indicating strong growth in core deposit balances. The estimated initial deposit inflows related to two of the pandemic related stimulus programs that occurred primarily during the second quarter were $179 million (SBA PPP) and $64 million (Economic Impact Payment stimulus checks).

Capital. At September 30, 2020, we were well-capitalized with a total risk-based capital ratio of 17.88% and a tangible common equity ratio (a non-GAAP financial measure) of 7.16% compared to 17.60% and 7.21%, respectively, at June 30, 2020 and 17.90% and 8.06%, respectively, at December 31, 2019. At September 30, 2020, 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 2020, we realized net income of $10.4 million, or $0.62 per diluted share, compared to net income of $9.1 million, or $0.55 per diluted share, for the second quarter of 2020 and net income of $8.5 million, or $0.50 per diluted share, for the third quarter of 2019.

For the first nine months of 2020, net income totaled $23.8 million, or $1.42 per diluted share, compared to net income of $22.2 million, or $1.32 per diluted share, for the same period of 2019.

Compared to the second quarter of 2020, the $2.1 million increase in operating profit was attributable to a $4.7 million increase in noninterest income and a $0.7 million decrease in the provision for credit losses, partially offset by higher noninterest expense of $3.0 million and lower net interest income of $0.3 million.

Compared to the third quarter of 2019, the $7.0 million increase in operating profit was attributable to a $21.1 million increase in noninterest income, partially offset by higher noninterest expense of $12.5 million, a $0.5 million increase in the provision for credit losses and lower net interest income of $1.1 million.

The $10.4 million increase in operating profit for the first nine months of 2020 versus the comparable period of 2019 was attributable to higher noninterest income of $41.4 million, partially offset by higher noninterest expense of $24.2 million, a $6.1 million increase in the provision for credit losses and lower net interest income of $0.7 million.

The aforementioned period over period variances reflect the acquisition of a 51% membership interest and consolidation of CCHL late in the first quarter of 2020.

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, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest Income	$ 26,166	$ 26,512	$ 28,441	$ 80,043	$ 84,828
Taxable Equivalent Adjustments	111	106	136	321	402
Total Interest Income (FTE)	26,277	26,618	28,577	80,364	85,230
Interest Expense	1,044	1,054	2,244	3,690	7,739
Net Interest Income (FTE)	25,233	25,564	26,333	76,674	77,491
Provision for Credit Losses	1,308	2,005	776	8,303	2,189
Taxable Equivalent Adjustments	111	106	136	321	402
Net Interest Income After Provision for Credit Losses	23,814	23,453	25,421	68,050	74,900
Noninterest Income	34,965	30,199	13,903	80,642	39,225
Noninterest Expense	40,342	37,303	27,873	108,614	84,467
Income Before Income Taxes	18,437	16,349	11,451	40,078	29,658
Income Tax Expense	3,165	2,950	2,970	7,397	7,416
Pre-Tax Income Attributable to Noncontrolling Interest	(4,875)	(4,253)	-	(8,851)	-
Net Income Attributable to Common Shareowners	$ 10,397	$ 9,146	$ 8,481	$ 23,830	$ 22,242
Basic Net Income Per Share	$ 0.62	$ 0.55	$ 0.51	$ 1.42	$ 1.33
Diluted Net Income Per Share	$ 0.62	$ 0.55	$ 0.50	$ 1.42	$ 1.32

Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets less interest expense paid on interest bearing liabilities. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and state and local government debt obligations. We provide an analysis of our net interest income including average yields and rates in Table I on page 52.

Tax-equivalent net interest income for the third quarter of 2020 was $25.2 million compared to $25.6 million for the second quarter of 2020 and $26.3 million for the third quarter of 2019. For the first nine months of 2020, tax-equivalent net interest income totaled $76.7 million compared to $77.5 million in 2019. The decrease compared to all prior periods reflected lower rates earned on overnight funds, investment securities and variable rate loans, partially offset by lower cost for deposits.

The federal funds target rate has remained in the range of 0.00%-0.25% since March 2020 when the Fed reduced its overnight rate by 150 basis points, and as a result, we continue to experience lower repricing of our variable/adjustable rate earning assets. Our overall cost of funds remained low during the third quarter of 2020 at 0.13% compared to 0.14% for the second quarter of 2020. 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 2020 was 3.12%, a decrease of 29 basis points from the second quarter of 2020 and a decline of 80 basis points from the third quarter of 2019. For the first nine months of 2020, the net interest margin decreased 42 basis points to 3.42%. The decrease compared to all prior periods was primarily attributable to a combination of lower rates and considerable growth in overnight funds, which reduced our margin. Our net interest margin for the third quarter of 2020, excluding the impact of SBA PPP loans, was 3.17%. Given our extremely low cost of funds with limited ability to lower rates much further, we anticipate the margin to remain at these lower levels until more of the funding from various stimulus programs is paid down or deployed into higher yielding assets. We discuss the effect of the pandemic related stimulus programs on our balance sheet in more detail below under *Financial Condition*.

Provision for Credit Losses

The provision for credit losses for the third quarter of 2020 was $1.3 million compared to $2.0 million for the second quarter of 2020 and $0.8 million for the third quarter of 2019. For the first nine months of 2020, the provision was $8.3 million compared to $2.2 million in 2019. The higher provision in 2020 reflected expected losses due to deterioration in economic conditions related to COVID-19. We further discuss the various factors that have impacted our provision expense for 2020 below under the heading Allowance for Credit Losses.

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, 2020**	**June 30, 2020**	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
CHARGE-OFFS					
Commercial, Financial and Agricultural	$ 137	$ 186	$ 289	$ 685	$ 619
Real Estate - Construction	-	-	223	-	223
Real Estate - Commercial Mortgage	17	-	26	28	181
Real Estate - Residential	1	1	44	112	373
Real Estate - Home Equity	58	52	333	141	430
Consumer[1]	1,069	1,175	744	3,810	2,059
Total Charge-offs	$ 1,282	$ 1,414	$ 1,659	$ 4,776	$ 3,885
RECOVERIES					
Commercial, Financial and Agricultural	$ 74	$ 74	$ 86	$ 188	$ 218
Real Estate - Construction	-	-	-	-	-
Real Estate - Commercial Mortgage	30	70	142	291	312
Real Estate - Residential	35	51	46	126	313
Real Estate - Home Equity	41	64	58	138	150
Consumer[1]	517	914	277	2,126	812
Total Recoveries	$ 697	$ 1,173	$ 609	$ 2,869	$ 1,805
Net Charge-offs	$ 585	$ 241	$ 1,050	$ 1,907	$ 2,080
Net Charge-offs (Annualized) as a percent of Average Loans HFI	0.11 %	0.05 %	0.23 %	0.13 %	0.15 %

[1]Includes overdrafts. Prior to the first quarter 2020, overdraft losses were netted against deposit fees in noninterest income.

Noninterest Income

Noninterest income for the third quarter of 2020 totaled $35.0 million compared to $30.2 million for the second quarter of 2020 and $13.9 million for the third quarter of 2019. For the first nine months of 2020, noninterest income totaled $80.6 million compared to $39.2 million for same period of 2019. The improvement over all prior periods was primarily attributable to higher mortgage banking revenues at CCHL. Higher deposit fees, bank card fees, and wealth management fees contributed to the increase over the second quarter of 2020. Compared to both prior year periods, deposit fees declined primarily due to the impact of government stimulus during the second quarter related to the COVID-19 pandemic, but were partially offset by higher debit card activity, which drove improvement in bank card fees. Relative to the second quarter, deposit fees improved in the third quarter of 2020 reflecting higher utilization of our overdraft service.

Noninterest income represented 58.2% of operating revenues (net interest income plus noninterest income) in the third quarter of 2020 compared to 54.3% in the second quarter of 2020 and 34.7% in the third quarter of 2019. For the first nine months of 2020, noninterest income represented 51.4% of operating revenues compared to 33.7% for the same period of 2019.

CCHL's mortgage banking operations were consolidated on March 1, 2020. The table below reflects the major components of noninterest income for Core CCBG and CCHL to facilitate a better understanding of period over period comparisons.

	Three Months Ended						Nine Months Ended			
	Sep 30, 2020		Jun 30, 2020		Sep 30, 2019		Sep 30, 2020		Sep 30, 2019	
(Dollars in thousands)	Core CCBG	CCHL	Core CCBG	CCHL	Core CCBG	CCHL	Core CCBG	CCHL	Core CCBG	CCHL
Deposit Fees	$ 4,316	-	$ 3,756	$ -	$ 4,961	$ -	$ 13,087	$ -	$ 14,492	$ -
Bank Card Fees	3,389	-	3,142	-	2,972	-	9,582	-	8,863	-
Wealth Management Fees	2,808	-	2,554	-	2,992	-	7,966	-	7,719	-
Mortgage Banking Revenues	208	22,775	241	19,156	1,587	-	1,587	44,046	3,779	-
Other	1,182	287	1,147	203	1,391	-	3,787	587	4,372	-
Total Noninterest Income	$ 11,903	$ 23,062	$ 10,840	$ 19,359	$ 13,903	$ -	$ 36,009	$ 44,633	$ 39,225	$ -

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

Mortgage Banking Revenues. Mortgage banking revenues totaled $23.0 million for the third quarter of 2020 compared to $19.4 million for the second quarter of 2020 and $1.6 million for the third quarter of 2019. For the first nine months of 2020, revenues totaled $45.6 million compared to $3.8 million for the same period of 2019. The increase over all prior periods was attributable to the strategic alliance with CCHL that began on March 1, 2020. For the third quarter of 2020, the purchase/refinance mortgage production mix was 60%/40% compared to 50%/50% for the second quarter of 2020.

Deposit Fees. Deposit fees for the third quarter of 2020 totaled $4.3 million, an increase of $0.6 million, or 14.9%, over the second quarter of 2020, and a decrease of $0.6 million, or 13.0%, from the third quarter of 2019. For the first nine months of 2020, deposit fees totaled $13.1 million, a decrease of $1.4 million, or 9.7%, from the same period of 2019. Compared to the second quarter of 2020, the improvement was due to higher utilization of our overdraft service driven by increased consumer spending. The decrease from the prior year periods reflected lower utilization of our overdraft service driven by slower consumer spending and the impact of stimulus payments in the second quarter of 2020 related to the COVID-19 pandemic.

Bank Card Fees. Bank card fees for the third quarter of 2020 totaled $3.4 million, a $0.2 million, or 7.9% increase over the second quarter of 2020, and a $0.4 million, or 14.0%, increase over the third quarter of 2019. For the first nine months of 2020, bank card fees totaled $9.6 million, an increase of $0.7 million, or 8.1%, over the same period of 2019. Compared to the second quarter of 2020, the improvement reflected higher card activity driven by increased consumer spending. The increase over both prior year periods reflected various initiatives aimed at growing our bank card revenues, including an account acquisition initiative that began in early 2019 as well as periodic debit and credit card promotions.

Wealth Management Fees. Wealth management fees, which include both trust fees (i.e., managed accounts and trusts/estates) and retail brokerage fees (i.e., investment, insurance products, and retirement accounts) totaled $2.8 million for the third quarter of 2020, a $0.3 million, or 9.9%, increase over the second quarter of 2020 and a $0.2 million, or 6.1%, decrease from the third quarter of 2019. For the first nine months of 2020, wealth management fees totaled $8.0 million, an increase of $0.2 million, or 3.2%, over the same period of 2019. The favorable variances versus the second quarter of 2020 and nine month period of 2019 reflected higher assets under management. In the third quarter of 2019, we realized very strong insurance product sales which is the cause of the slight decline in fees versus the third quarter of 2019. At September 30, 2020, total assets under management were approximately $1.823 billion compared to $1.774 billion at December 31, 2019 and $1.692 billion at September 30, 2019.

Other. Other income for the third quarter of 2020 totaled $1.5 million, an increase of $0.1 million, or 8.8%, over the second quarter of 2020, and $0.1 million, or 5.6%, over the third quarter of 2019. For the first nine months of 2020, other income totaled $4.4 million, comparable to the same period of 2019.

Noninterest Expense

Noninterest expense for the third quarter of 2020 totaled $40.3 million compared to $37.3 million for the second quarter of 2020 and $27.9 million for the third quarter of 2019. The increase over the second quarter of 2020 was primarily attributable to higher compensation expense of $2.5 million and other expense of $0.4 million. The increase in compensation reflected higher commission expense of $1.6 million related to higher mortgage production volume at CCHL and lower realized loan cost (credit offset to salary expense) of $1.0 million related to the high level of SBA PPP loan originations in the second quarter. Higher amortization expense for mortgage servicing rights at CCHL and Core CCBG expenses (debit card losses, activity based costs, and miscellaneous expenses) drove the increase in other expense. The increase in expenses compared to the third quarter of 2019 is solely attributable to the addition of CCHL as CCBG Core Bank expenses declined reflecting lower commission expense attributable to the transfer of residential mortgage operations to CCHL.

For the first nine months of 2020, noninterest expense totaled $108.6 million, an increase of $24.2 million over the same period of 2019 attributable to the addition of expenses at CCHL, including compensation expense of $21.8 million, occupancy expense of $1.8 million, and other expense of $3.1 million. Core CCBG noninterest expense decreased $2.4 million and reflected lower compensation expense of $1.2 million (primarily commissions - attributable to transfer of residential mortgage operations to CCHL), ORE expense of $0.9 million (gain on sale of banking office), and other expense of $1.4 million (pension plan), partially offset by higher occupancy expense of $1.1 million (technology investment and upgrades, premises maintenance, and pandemic related costs).

CCHL's mortgage banking operations were consolidated on March 1, 2020. The table below reflects the major components of noninterest expense for Core CCBG and CCHL to facilitate better understanding of period over period comparisons.

	Three Months Ended						Nine Months Ended			
	Sep 30, 2020		Jun 30, 2020		Sep 30, 2019		Sep 30, 2020		Sep 30, 2019	
(Dollars in thousands)	Core CCBG	CCHL	Core CCBG	CCHL	Core CCBG	CCHL	Core CCBG	CCHL	Core CCBG	CCHL
Salaries	$ 11,603	10,753	$ 11,596	$ 8,381	$ 12,533	$ -	$ 36,687	$ 21,376	$ 37,314	$ -
Associate Benefits	3,616	192	3,477	204	3,670	-	11,049	446	11,675	-
Total Compensation	15,219	10,945	15,073	8,585	16,203	-	47,736	21,822	48,989	-
Premises	2,356	407	2,247	381	2,305	-	6,854	921	6,506	-
Equipment	2,705	438	2,783	387	2,405	-	7,985	923	7,250	-
Total Occupancy	5,061	845	5,030	768	4,710	-	14,839	1,844	13,756	-
Legal Fees	340	3	477	(65)	361	-	1,285	(61)	1,176	-
Professional Fees	1,000	175	1,126	208	1,042	-	3,182	448	3,116	-
Processing Services	1,529	-	1,447	-	1,605	-	4,533	-	4,534	-
Advertising	537	288	468	331	531	-	1,466	742	1,670	-
Travel and Entertainment	114	90	115	39	282	-	470	205	763	-
Printing and Supplies	198	32	181	31	189	-	566	76	524	-
Telephone	573	110	724	105	664	-	1,873	248	1,952	-
Postage	175	30	172	31	180	-	523	72	514	-
Insurance - Other	434	-	420	-	4	-	1,150	-	803	-
Other Real Estate Owned, Net	248	(29)	102	14	6	-	(449)	(14)	444	-
Miscellaneous	1,782	643	1,367	554	2,096	-	4,726	1,332	6,226	-
Total Other Expense	6,930	1,342	6,599	1,248	6,960	-	19,325	3,048	21,722	-
Total Noninterest Expense	$ 27,210	$ 13,132	$ 26,702	$ 10,601	$ 27,873	$ -	$ 81,900	$ 26,714	$ 84,467	$ -

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

Compensation. Compensation expense totaled $26.2 million for the third quarter of 2020 compared to $23.7 million for the second quarter of 2020 and $16.2 million for the third quarter of 2019. For the first nine months of 2020, compensation expense totaled $69.6 million compared to $49.0 million for the same period of 2019.

Compared to the second quarter of 2020, the increase in consolidated compensation expense was primarily attributable to higher commission expense of $1.6 million related to higher mortgage production volume at CCHL and lower realized loan cost (credit offset to salary expense) of $1.0 million at Core CCBG related to the high level of SBA PPP loan originations in the second quarter. Compared to the third quarter of 2019, lower commission expense drove the decrease at Core CCBG and reflected the transfer of residential mortgage operations to CCHL.

Compared to the nine month period of 2019, the $20.6 million increase in consolidated compensation expense reflected the addition of compensation expense from the integration of the CCHL acquisition. Core CCBG compensation expense declined by $1.2 million attributable to lower commission expense of $1.4 million (transfer of residential mortgage operations to CCHL), higher realized loan cost (credit offset to salary expense) of $0.6 million and lower associate benefit expense of $0.6 million (primarily stock compensation), partially offset by higher cash incentives of $0.6 million, base salaries of $0.3 million, and contractual employment of $0.3 million (tax advisory services for CCHL transaction).

Occupancy. Occupancy expense totaled $5.9 million for the third quarter of 2020 compared to $5.8 million for the second quarter of 2020 and $4.7 million for the third quarter of 2019. For the first nine months of 2020, occupancy expense totaled $16.7 million compared to $13.8 million for the same period of 2019. Compared to both prior year periods, the increase in consolidated occupancy expense was primarily attributable to the addition of occupancy expense from the integration of the CCHL acquisition. Higher occupancy expense at Core CCBG also contributed to the increase, but to a lesser extent, and reflected increases in FF&E depreciation and maintenance agreements (related to technology investment and upgrades), maintenance for premises, and pandemic related cleaning/supply costs. Pandemic related costs reflected in occupancy expense for 2020 at Core CCBG totaled approximately $0.3 million and will phase out over a period of time as the pandemic subsides.

Other. Other noninterest expense totaled $8.3 million for the third quarter of 2020 compared to $7.8 million for the second quarter of 2020 and $7.0 million for the third quarter of 2019. For the first nine months of 2020, other noninterest expense totaled $22.4 million compared to $21.7 million for the same period of 2019. Compared to the second quarter of 2020, the $0.4 million increase was driven by higher amortization expense for mortgage servicing rights at CCHL and higher debit card losses at Core CCBG. The $1.3 million increase over the third quarter of 2019 was attributable to the addition of expenses at CCHL. Compared to the nine month period of 2019, the $0.7 million increase reflected the addition of $3.0 million in expenses at CCHL partially offset by a $2.4 million decrease in other expenses at Core CCBG. Lower ORE expense of $0.9 million (primarily due to a $1.0 million gain from the sale of a banking office) and a $1.4 million reduction in expense for our pension plan drove the decrease in other expenses at Core CCBG.

Our operating efficiency ratio (expressed as noninterest expense as a percentage of the sum of taxable-equivalent net interest income plus noninterest income) was 67.01% for the third quarter of 2020 compared to 66.90% for the second quarter of 2020 and 69.27% for the third quarter of 2019. For the first nine months of 2020, this ratio was 69.04% compared to 72.37% for the same period of 2019. The improvement in this metric was primarily attributable to higher noninterest income driven by our strategic alliance with CCHL.

Income Taxes

We realized income tax expense of $3.2 million (effective rate of 17%) for the third quarter of 2020 compared to $2.9 million (effective rate of 18%) for the second quarter of 2020 and $3.0 million (effective rate of 26%) for the third quarter of 2019. For the first nine months of 2020, we realized income tax expense of $7.4 million (effective rate of 18%) compared to $7.4 million (effective rate of 25%) for the same period of 2019. The decrease in our effective tax rate in 2020 reflected the impact of converting CCHL to a partnership for tax purposes in the second quarter of 2020. Absent discrete items, we expect our annual effective tax rate to approximate 18%-19% for the remainder of 2020.

FINANCIAL CONDITION

Average earning assets were $3.224 billion for the third quarter of 2020, an increase of $207.1 million, or 6.9%, over the second quarter of 2020, and an increase of $529.1 million, or 19.6%, over the fourth quarter of 2019. The increase over both prior periods was primarily driven by higher deposit balances which funded growth in the loan portfolio and overnight funds sold. Deposit balances increased as a result of strong core deposit growth, in addition to funding retained at the bank from SBA PPP loans, and various other stimulus programs. The impact of pandemic related stimulus programs on our balance sheet in the third quarter of 2020 is discussed below under *Loans* and *Deposits*.

Investment Securities

In the third quarter of 2020, our average investment portfolio decreased $49.1 million, or 8.1%, from the second quarter of 2020 and decreased $62.1 million, or 10.0%, from the fourth quarter of 2019. Securities in our investment portfolio represented 17.3% of our average earning assets for the third quarter of 2020 compared to 20.1% for the second quarter of 2020, and 23.0% for the fourth quarter of 2019. For the remainder of 2020, we will continue to monitor the interest rate environment for opportunities to purchase additional investment securities where appropriate.

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 2020, we purchased securities under the AFS designation. At September 30, 2020, $328.3 million, or 61.8%, of our investment portfolio was classified as AFS, and $202.6 million, or 38.2%, classified as HTM. The average maturity of our total portfolio at September 30, 2020 was 2.22 years compared to 2.24 years and 2.11 years at June 30, 2020 and December 31, 2019, 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, 2020 there were 30 positions (all SBA securities) with unrealized losses at September 30, 2020 totaling $0.1 million (all AFS). SBA securities carry the full faith and credit guarantee of the US Government, and are 0% risk-weighted assets for regulatory purposes. None of these positions with unrealized losses are considered impaired, and all are expected to mature at par. Further, we believe the long history of no credit losses on these securities indicates that the expectation of nonpayment of the amortized cost basis is zero, even if the U.S. government were to technically default.

Loans

Average loans held for investment ("HFI") increased $22.2 million, or 1.1%, over the second quarter of 2020 and $171.1 million, or 9.3%, over the fourth quarter of 2019. We have originated SBA PPP loans totaling $190 million (reflected in the commercial loan category) which averaged and ended the third quarter at $190 million. SBA PPP loans averaged $134 million in the second quarter of 2020. Period-end HFI loans decreased $24.0, or 1.2%, from the second quarter of 2020 and increased $162.2 million, or 8.8%, over the fourth quarter of 2019. The decline in the core loan portfolio (excluding SBA PPP loans) has been driven by residential real estate loan run-off reflective of the lower rate environment and refinancing activity as well as lower utilization of commercial lines of credit reflective of the economic slowdown.

To date, our borrowers have submitted a nominal level of SBA PPP forgiveness applications, but these applications are expected to accelerate over the next six months. Amortized SBA PPP loan fees totaled approximately $0.6 million for the third quarter of 2020 and $0.4 million for the second quarter of 2020. At September 30, 2020, we had approximately $4.0 million (net) in deferred SBA PPP loan fees.

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.

Credit Quality

Nonperforming assets (nonaccrual loans and OREO) totaled $6.7 million at September 30, 2020, a $1.3 million decrease from June 30, 2020, and a $1.3 million increase over December 31, 2019. Nonaccrual loans totaled $5.5 million (0.28% of HFI loans) at September 30, 2020 compared to $7.0 million (0.34% of HFI loans) at June 30, 2020 and $4.5 million (0.27% of HFI loans) at December 31, 2019. The balance of OREO totaled $1.2 million at September 30, 2020, an increase of $0.2 million over June 30, 2020 and a $0.3 million increase over December 31, 2019.

(Dollars in Thousands)	**September 30, 2020**	**June 30, 2020**	**December 31, 2019**
Nonaccruing Loans:			
Commercial, Financial and Agricultural	$ 330	$ 548	$ 446
Real Estate - Construction	283	146	-
Real Estate - Commercial Mortgage	1,365	2,580	1,434
Real Estate - Residential	2,815	2,400	1,392
Real Estate - Home Equity	592	1,010	797
Consumer	120	282	403
Total Nonaccruing Loans ("NALs")[1]	$ 5,505	$ 6,966	$ 4,472
Other Real Estate Owned	1,227	1,059	953
Total Nonperforming Assets ("NPAs")	$ 6,732	$ 8,025	$ 5,425
Past Due Loans 30 – 89 Days	$ 3,191	$ 2,948	$ 4,871
Performing Troubled Debt Restructurings	14,693	15,133	16,888
Nonaccruing Loans/Loans HFI	0.28 %	0.34 %	0.24 %
Nonperforming Assets/Total Assets	0.19	0.23	0.18
Nonperforming Assets/Loans HFI Plus OREO	0.34	0.4	0.29
Allowance/Nonaccruing Loans	420.30	322.37	310.99

(1) Nonaccrual TDRs totaling $0.6 million, $0.9 million, and $0.7 million are included in NALs for September 30, 2020, June 30, 2020 and December 31, 2019, respectively.

COVID-19 Exposure

We continue to analyze our loan portfolio for segments that have been affected by the stressed economic and business conditions caused by the pandemic. Certain at-risk segments total 8% of our loan balances at September 30, 2020, including hotel (3%), restaurant (1%), retail and shopping centers (3%), and other (1%). The other segment includes churches, non-profits, education, and recreational. To assist our clients, in mid-March of 2020, we began allowing short term 60 to 90 day loan extensions for affected borrowers. A roll-forward of loan extension activity is provided in the table below. Approximately 83% of the $325 million in loans extended were for commercial borrowers and 17% for consumer borrowers. Approximately $285 million, or 88% of the loan balances associated with these borrowers have resumed making regularly scheduled payments. Of the $40 million that remains on extension, approximately $2 million was classified at September 30, 2020 and $26 million is related to six hotel loans which were not classified, but continue to be monitored closely.

			% Loans Extended	
At October 2, 2020 *(Dollars in thousands)*	# Loans	Loan Amount	# Loans	$ Loans
Loans Extended	2,333	$ 325,014		
Loans Resuming Payments	(2,129)	(284,548)	91%	88%
Loans Still on Extension	204	$ 40,466	9%	12%
Loans Still on Extension / Loans HFI (excluding SBA PPP)		2.2%		

Allowance for Credit Losses

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The allowance for credit losses is adjusted by a credit loss provision which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Expected credit loss inherent in non-cancellable off-balance sheet credit exposures is provided through the credit loss provision, but recorded as a separate liability included in other liabilities.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loan default and loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information incorporate management's view of current conditions and forecasts.

Detailed information regarding the methodology for estimating the amount reported in the allowance for credit losses is provided in Note 1 – Business and Basis of Presentation/Allowance for Credit Losses in the Consolidated Financial Statements.

At September 30, 2020, the allowance for credit losses totaled $23.1 million compared to $22.5 million at June 30, 2020 and $13.9 million at December 31, 2019. At September 30, 2020, the allowance represented 1.16% of outstanding loans held for investment (HFI) and provided coverage of 420% of nonperforming loans compared to 1.11% and 322%, respectively, at June 30, 2020 and 0.75% and 311%, respectively, at December 31, 2019. At September 30, 2020, excluding SBA PPP loans (100% government guaranteed), the allowance represented 1.28% of loans held for investment.

The adoption of ASC 326 ("CECL") on January 1, 2020 had an impact of $4.0 million ($3.3 million increase in the allowance for credit losses and $0.7 million increase in the allowance for unfunded loan commitments (other liability account)). The $6.4 million build (provision of $8.3 million less net charge-offs of $1.9 million) in the allowance for credit losses for the first nine months of 2020 reflected a higher forecasted rate of unemployment due to stressed economic conditions related the COVID-19 pandemic.

Deposits

Average total deposits were $2.971 billion for the third quarter of 2020, an increase of $187.8 million, or 6.8%, over the second quarter of 2020, and an increase of $446.3 million, or 17.7%, over the fourth quarter of 2019. Period end deposit balances grew $54.4 million and $364.0 million over the second quarter of 2020 and fourth quarter of 2019, respectively, indicating strong growth in core deposit balances. The estimated deposit inflows related to the two pandemic related stimulus programs that occurred primarily during the second quarter were $179 million (SBA PPP) and $64 million (Economic Impact Payment stimulus checks). Given these large increases, the potential exists for our deposit levels to be volatile over the coming quarters due to the uncertain timing of the outflows of the stimulus related deposits and the economic recovery. It is anticipated that current liquidity levels will remain robust due to our strong overnight funds sold position.

We monitor deposit rates on an ongoing basis and adjust if necessary, as a prudent pricing discipline remains the key to managing our mix of deposits.

MARKET RISK AND INTEREST RATE SENSITIVITY

Market Risk and Interest Rate Sensitivity

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

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

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

We prepare a current base case and several alternative simulations at least once per quarter and present the analysis to ALCO, with the risk metrics 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, 2020	30.4%	22.4%	14.5%	6.9%	-2.5%
June 30,2020	22.2%	16.2%	10.3%	4.9%	-2.1%

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, 2020	42.5%	29.0%	15.9%	3.4%	-11.8%
June 30,2020	38.9%	26.9%	15.0%	3.7%	-10.1%

The Net Interest Income at Risk position indicates that in the short-term, all rising rate environments will positively impact the net interest margin of the Company, while a declining rate environment of 100bp will have a negative impact on the net interest margin. Compared to the prior quarter-end, the 12-month and 24-month periods of Net Interest Income at Risk positions became more favorable in the rising rate scenarios, and were slightly less favorable in the falling rate scenario. The primary driver for the negative impact quarter-over-quarter in the falling rate scenario was due to higher levels of nonmaturity deposits, and our limited ability to lower these rates relative to the decline in market rates. The favorable comparisons in the rising rate environment were primarily due to our growth in overnight funds as a result of growth in our nonmaturity deposits and runoff from the investment portfolio.

All measures of Net Interest Income at Risk are within our prescribed policy limits over the next 12-months. Over the 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 rate and the additional 12 months for the lower rates to migrate through the earning asset portfolios.

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, 2020	113.3%	90.2%	64.0%	34.8%	-60.9%
June 30,2020	106.1%	84.8%	60.4%	32.9%	-63.0%

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

At September 30, 2020, the economic value of equity results are favorable in all rising rate environments and are within prescribed tolerance levels. In the down 100 bp scenario, the projected change in EVE is outside of the desired parameters. Given the current interest rate environment and the historically high levels of liquidity, management is monitoring the EVE analysis in light of the current economic environment, but has chosen not to institute immediate balance sheet changes to address the down 100 bp scenario.

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, 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, 2020, we had the ability to generate $1.253 billion in additional liquidity through all of our available resources (this excludes $626 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, 2020, 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 2.22 years at September 30, 2020, and the available for sale portfolio had a net unrealized pre-tax gain of $4.4 million.

Our average overnight funds position (defined deposits with banks plus Fed funds sold less Fed funds purchased) was $567.9 million during the third quarter of 2020 compared to an average net overnight funds sold position of $351.5 million in the second quarter of 2020 and $228.1 million in the fourth quarter of 2019. The increase compared to both prior periods was driven by deposit inflows related to pandemic related stimulus programs and growth in our core deposits (see *Deposits*).

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, 2020, short term borrowings totaled $90.9 million compared to $64.0 million at June 30, 2020 and $6.4 million at December 31, 2019. The increase over both prior periods was attributable to higher residential mortgage warehouse borrowings at CCHL. Additional detail on these borrowings is provided in Note 4 – Mortgage Banking Activities in the Consolidated Financial Statements.

At September 30, 2020, fixed rate credit advances from the FHLB totaled $4.3 million in outstanding debt consisting of eight notes. During the first nine months of 2020, the Bank made FHLB advance payments totaling approximately $1.0 million, which included an advance of $0.3 million that matured. No advances paid off early, 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.

During the second quarter of 2020 we entered into a derivative cash flow hedge of our interest rate risk related to our subordinated debt. The notional amount of the derivative is $30 million ($10 million of the CCBG Capital Trust I borrowing and $20 million of the CCBG Capital Trust II borrowing). The interest rate swap agreement requires CCBG to pay fixed and receive variable (Libor plus spread) and has an average all-in fixed rate of 2.50% for 10 years. Additional detail on the interest rate swap agreement is provided in Note 5 – Derivatives in the Consolidated Financial Statements.

CAPITAL

Our capital ratios are presented below. At September 30, 2020, our regulatory capital ratios exceeded the threshold to be designated as "well-capitalized" under the Basel III capital standards.

(Dollars in Thousands)	September 30, 2020	June 30, 2020	December 31, 2019
Shareowner's Equity	$ 339,425	$ 335,057	$ 327,016
Leverage Ratio	9.64 %	10.12 %	11.25 %
Tier 1 Capital Ratio	16.77	16.59	17.16
Total Risk Based Capital Ratio	17.88	17.60	17.90
Common Equity Tier 1 Capital Ratio	14.20	14.01	14.47
Tangible Common Equity Ratio[1]	7.16 %	7.21 %	8.06 %

[1] Non-GAAP financial measure. See non-GAAP reconciliation on page 37.

Shareowners' equity was $339.4 million at September 30, 2020 compared to $335.1 million at June 30, 2020 and $327.0 million at December 31, 2019. For the first nine months of 2020, shareowners' equity was positively impacted by net income of $23.8 million, a $2.4 million increase in the unrealized gain on investment securities, net adjustments totaling $0.9 million related to transactions under our stock compensation plans, and stock compensation accretion of $0.6 million. Shareowners' equity was reduced by common stock dividends of $7.1 million ($0.42 per share), a $3.1 million (net of tax) adjustment to retained earnings for the adoption of CECL, reclassification of $3.1 million to temporary equity to increase the redemption value of the non-controlling interest in CCHL, and share repurchases of $2.0 million (99,952 shares).

At September 30, 2020, our common stock had a book value of $20.20 per diluted share compared to $19.92 at June 30, 2020 and $19.40 at December 31, 2019. Book value is impacted by the net after-tax unrealized gains and losses on AFS investment securities. At September 30, 2020, the net gain was $3.3 million compared to a $3.9 million net gain at June 30, 2020 and a $0.9 million net gain at December 31, 2019. Book value is also impacted by the recording of our unfunded pension liability through other comprehensive income in accordance with Accounting Standards Codification Topic 715. At September 30, 2020, the net pension liability reflected in other comprehensive loss was $29.0 million compared to $29.0 million at December 31, 2019 and $26.8 million at September 30, 2019. 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 2019 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 $5.9 million (after-tax) using the balances from the December 31, 2019 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 first nine months of 2020, we repurchased a total of 99,952 shares (23,000 shares in the third quarter) at an average price of $20.39 per share under the plan. For 2019, we purchased a total of 77,000 shares at an average price of $23.40.

OFF-BALANCE SHEET ARRANGEMENTS

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, 2020, we had $704.3 million in commitments to extend credit and $6.9 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.

Certain agreements provide that the commitments are unconditionally cancellable by the bank and for those agreements no allowance for credit losses has been recorded. We have recorded an allowance for credit losses on loan commitments that are not unconditionally cancellable by the bank, which is included in other liabilities on the consolidated statements of financial condition and totaled $1.5 million at September 30, 2020.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2019 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 credit 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 2019 Form 10-K.

As discussed in Note 1 – Business and Basis of Presentation/Significant Accounting Policies, our policies related to the allowance for credit losses changed on January 1, 2020 in connection with the adoption of ASC 326. The amount of the allowance for credit losses represents management's best estimate of current expected credit losses considering available information, from internal and external sources, relevant to assessing exposure to credit loss over the contractual term of the instrument. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. While management utilizes its best judgment and information available, the ultimate adequacy of our allowance accounts is dependent upon a variety of factors beyond our control, including the performance of our portfolios, the economy, changes in interest rates and the view of the regulatory authorities toward classification of assets.

TABLE I
AVERAGE BALANCES & INTEREST RATES

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2020			2019			2020			2019		
(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 HFI and HFS, Net [(1)] [(2)]	$ 2,097,700	$ 23,698	4.50%	$ 1,837,548	$ 24,113	5.21%	$ 2,013,243	$ 71,175	4.73%	$ 1,813,964	$ 70,705	5.21%
Taxable Securities[(2)]	553,395	2,401	1.73	607,363	3,249	2.13	594,654	8,104	1.82	613,382	9,936	2.16
Tax-Exempt Securities	4,860	32	2.66	18,041	73	1.63	5,338	94	2.34	29,237	347	1.59
Funds Sold	567,883	146	0.10	207,129	1,142	2.19	385,245	991	0.34	241,323	4,242	2.35
Total Earning Assets	3,223,838	26,277	3.25%	2,670,081	28,577	4.25%	2,998,480	80,364	3.58%	2,697,906	85,230	4.22%
Cash & Due From Banks	69,893			50,981			66,512			52,210		
Allowance For Credit Losses	(22,948)			(14,863)			(19,672)			(14,576)		
Other Assets	268,549			253,111			257,993			253,152		
TOTAL ASSETS	$ 3,539,332			$ 2,959,310			$ 3,303,313			$ 2,988,692		
Liabilities:												
NOW Accounts	$ 826,776	$ 61	0.03%	$ 749,678	$ 1,235	0.65%	$ 808,389	$ 864	0.14%	$ 821,819	$ 4,613	0.75%
Money Market Accounts	247,185	32	0.05	238,565	264	0.44	227,331	189	0.11	238,664	775	0.43
Savings Accounts	438,762	54	0.05	372,593	46	0.05	409,230	150	0.05	369,726	136	0.05
Other Time Deposits	104,522	43	0.16	111,447	51	0.18	104,925	144	0.18	115,215	159	0.18
Total Interest Bearing Deposits	1,617,245	190	0.05	1,472,283	1,596	0.43	1,549,875	1,347	0.12	1,545,424	5,683	0.49
Short-Term Borrowings	74,557	498	2.66	8,697	27	1.24	60,335	1,051	2.33	9,890	93	1.27
Subordinated Notes Payable	52,887	316	2.34	52,887	558	4.13	52,887	1,161	2.89	52,887	1,762	4.39
Other Long-Term Borrowings	5,453	40	2.91	7,158	63	3.47	5,842	131	3.00	7,619	201	3.52
Total Interest Bearing Liabilities	1,750,142	1,044	0.24%	1,541,025	2,244	0.58%	1,668,939	3,690	0.30%	1,615,820	7,739	0.64%
Noninterest Bearing Deposits	1,354,032			1,023,472			1,220,002			996,290		
Other Liabilities	83,192			74,540			71,661			62,823		
TOTAL LIABILITIES	3,187,366			2,639,037			2,960,602			2,674,933		
Temporary Equity	11,893			-			7,534			-		
TOTAL SHAREOWNERS' EQUITY	340,073			320,273			335,177			313,759		
TOTAL LIABILITIES, TEMPORARY AND SHAREOWNERS' EQUITY	$ 3,539,332			$ 2,959,310			$ 3,303,313			$ 2,988,692		
Interest Rate Spread			3.01%			3.67%			3.29%			3.58%
Net Interest Income		$ 25,233			$ 26,333			$ 76,674			$ 77,491	
Net Interest Margin[(3)]			3.12%			3.92%			3.42%			3.84%

[(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 earning assets.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2019.

Item 4. CONTROLS AND PROCEDURES

At September 30, 2020, 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, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report these disclosure controls and procedures were effective.

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). During the quarter ended on September 30, 2020, other than the above, 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 2019 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2019 Form 10-K and our subsequent quarterly reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of our share repurchase program[1]	Maximum Number of shares that may yet be purchased under our share repurchase program
July 1, 2020 to July 31, 2020	-	-	-	596,048
August 1, 2020 to August 31, 2020	23,000	20.42	23,000	573,048
September 1, 2020 to September 30, 2020	-	-	-	573,048
Total	23,000	$20.42	23,000	573,048

(1) This balance represents the number of shares that were repurchased during the third quarter of 2020 through the Capital City Bank Group, Inc. Share Repurchase Program (the "Program"), which was approved on January 31, 2019 for a five-year period, under which we were originally authorized to repurchase up to 750,000 shares of our common stock. The Program is flexible and shares are acquired from the public markets and other sources using free cash flow. No shares are repurchased outside of the Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

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.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 3, 2020

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 3, 2020

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 3, 2020

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, I, William G. Smith Jr., Chairman, President, and Chief Executive Officer of Capital City Bank Group, Inc., hereby certify that to my knowledge (1) this Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2020, 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 3, 2020

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, I, J. Kimbrough Davis, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., hereby certify that to my knowledge (1) this Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2020, 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 3, 2020

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.