

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 0-13358

Capital City Bank Group, Inc.

(Exact name of Registrant as specified in its charter)

Florida

(State or other jurisdiction of incorporation or organization)

59-2273542

(I.R.S. Employer Identification No.)

217 North Monroe Street, Tallahassee, Florida

(Address of principal executive office)

32301

(Zip Code)

(850) 402-7821

(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 May 2, 2022, 16,947,627 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 THREE MONTHS ENDED MARCH 31, 2022
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INTRODUCTORY NOTE
Caution Concerning Forward-Looking Statements

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

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

Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Part II, Item 1A. “Risk Factors” in this Quarterly Report on Form 10-Q and the following sections of our Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Form 10-K”): (a) “Introductory Note” in Part I, Item 1. “Business”; (b) “Risk Factors” in Part I, Item 1A, as updated in our subsequent quarterly reports filed on Form 10-Q; and (c) “Introduction” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in Part II, Item 7, as well as:

- our ability to successfully manage 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 allowance for credit losses, 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;
- structural changes in the markets for origination, sale and servicing of residential mortgages;
- uncertainty in the pricing of residential mortgage loans that we sell, as well as competition for the mortgage servicing rights related to these loans and related interest rate risk or price risk resulting from retaining mortgage servicing rights and the potential effects of higher interest rates on our loan origination volumes;
- 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 magnitude and duration of the ongoing COVID-19 pandemic and its impact on the global economy and financial market conditions and our business;
- 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;
- climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact our business;
- 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

<i>(Dollars in Thousands, Except Par Value)</i>	(Unaudited) March 31, 2022	December 31, 2021
ASSETS		
Cash and Due From Banks	\$ 77,963	\$ 65,313
Federal Funds Sold and Interest Bearing Deposits	790,465	970,041
Total Cash and Cash Equivalents	868,428	1,035,354
Investment Securities, Available for Sale, at fair value (amortized cost of \$ 655,927 and \$ 660,732)	624,361	654,611
Investment Securities, Held to Maturity (fair value of \$ 501,277 and \$ 339,699)	518,678	339,601
Equity Securities	855	861
Total Investment Securities	1,143,894	995,073
Loans Held For Sale, at fair value	50,815	52,532
Loans Held for Investment	1,985,509	1,931,465
Allowance for Credit Losses	(20,756)	(21,606)
Loans Held for Investment, Net	1,964,753	1,909,859
Premises and Equipment, Net	82,518	83,412
Goodwill and Other Intangibles	93,213	93,253
Other Real Estate Owned	17	17
Other Assets	106,407	94,349
Total Assets	<u>\$ 4,310,045</u>	<u>\$ 4,263,849</u>
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	\$ 1,704,329	\$ 1,668,912
Interest Bearing Deposits	2,061,178	2,043,950
Total Deposits	3,765,507	3,712,862
Short-Term Borrowings	30,865	34,557
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	806	884
Other Liabilities	77,323	67,735
Total Liabilities	3,927,388	3,868,925
Temporary Equity	10,512	11,758
SHAREOWNERS' EQUITY		
Preferred Stock, \$0.01 par value; 3,000,000 shares authorized; no shares issued and outstanding	-	-
Common Stock, \$0.01 par value; 90,000,000 shares authorized; 16,947,602 and 16,892,060 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively	169	169
Additional Paid-In Capital	35,188	34,423
Retained Earnings	370,531	364,788
Accumulated Other Comprehensive Loss, net of tax	(33,743)	(16,214)
Total Shareowners' Equity	372,145	383,166
Total Liabilities, Temporary Equity, and Shareowners' Equity	<u>\$ 4,310,045</u>	<u>4,263,849</u>

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

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

<i>(Dollars in Thousands, Except Per Share Data)</i>	Three Months Ended March 31,	
	2022	2021
INTEREST INCOME		
Loans, including Fees	\$ 22,133	\$ 23,350
Investment Securities:		
Taxable Securities	2,890	1,863
Tax Exempt Securities	6	20
Federal Funds Sold and Interest Bearing Deposits	409	213
Total Interest Income	<u>25,438</u>	<u>25,446</u>
INTEREST EXPENSE		
Deposits	224	208
Short-Term Borrowings	192	412
Subordinated Notes Payable	317	307
Other Long-Term Borrowings	9	21
Total Interest Expense	<u>742</u>	<u>948</u>
NET INTEREST INCOME	24,696	24,498
Provision for Credit Losses	-	(982)
Net Interest Income After Provision For Credit Losses	<u>24,696</u>	<u>25,480</u>
NONINTEREST INCOME		
Deposit Fees	5,191	4,271
Bank Card Fees	3,763	3,618
Wealth Management Fees	6,070	3,090
Mortgage Banking Revenues	8,946	17,125
Other	1,848	1,722
Total Noninterest Income	<u>25,818</u>	<u>29,826</u>
NONINTEREST EXPENSE		
Compensation	24,856	26,064
Occupancy, Net	6,093	5,967
Other Real Estate Owned, Net	25	(118)
Pension Settlement	209	-
Other	8,050	8,563
Total Noninterest Expense	<u>39,233</u>	<u>40,476</u>
INCOME BEFORE INCOME TAXES	11,281	14,830
Income Tax Expense	2,235	2,787
NET INCOME	\$ 9,046	\$ 12,043
Income Attributable to Noncontrolling Interests	(591)	(2,537)
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	<u>\$ 8,455</u>	<u>\$ 9,506</u>
BASIC NET INCOME PER SHARE	<u>\$ 0.50</u>	<u>\$ 0.56</u>
DILUTED NET INCOME PER SHARE	<u>\$ 0.50</u>	<u>\$ 0.56</u>
Average Basic Shares Outstanding	<u>16,931</u>	<u>16,838</u>
Average Diluted Shares Outstanding	<u>16,946</u>	<u>16,862</u>

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)

<i>(Dollars in Thousands)</i>	Three Months Ended March 31,	
	2022	2021
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	\$ 8,455	\$ 9,506
Other comprehensive (loss) income, before tax:		
Investment Securities:		
Change in net unrealized (loss) gain on securities available for sale	(25,445)	(1,952)
Derivative:		
Change in net unrealized gain on effective cash flow derivative	1,836	2,125
Benefit Plans:		
Reclassification adjustment for service cost	-	24
Actuarial gain	-	166
Pension Settlement	209	-
Total Benefit Plans	209	190
Other comprehensive (loss) income, before tax	(23,400)	363
Deferred tax (benefit) expense related to other comprehensive income	(5,871)	92
Other comprehensive (loss) income, net of tax	(17,529)	271
TOTAL COMPREHENSIVE (LOSS) INCOME	\$ (9,074)	\$ 9,777

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)

<i>(Dollars In Thousands, Except Share Data)</i>	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net of Taxes	Total
Balance, January 1, 2022	16,892,060	\$ 169	\$ 34,423	\$ 364,788	\$ (16,214)	\$ 383,166
Net Income Attributable to Common Shareowners	-	-	-	8,455	-	8,455
Other Comprehensive Loss, net of tax	-	-	-	-	(17,529)	(17,529)
Cash Dividends (\$0.1600 per share)	-	-	-	(2,712)	-	(2,712)
Stock Based Compensation	-	-	245	-	-	245
Stock Compensation Plan Transactions, net	55,542	-	520	-	-	520
Balance, March 31, 2022	<u>16,947,602</u>	<u>\$ 169</u>	<u>\$ 35,188</u>	<u>\$ 370,531</u>	<u>\$ (33,743)</u>	<u>\$ 372,145</u>
Balance, January 1, 2021	16,790,573	\$ 168	\$ 32,283	\$ 332,528	\$ (44,142)	\$ 320,837
Net Income Attributable to Common Shareowners	-	-	-	9,506	-	9,506
Reclassification to Temporary Equity ⁽¹⁾	-	-	-	(4,182)	-	(4,182)
Other Comprehensive Income, net of tax	-	-	-	-	271	271
Cash Dividends (\$0.1500 per share)	-	-	-	(2,528)	-	(2,528)
Stock Based Compensation	-	-	219	-	-	219
Stock Compensation Plan Transactions, net	61,305	1	302	-	-	303
Balance, March 31, 2021	<u>16,851,878</u>	<u>\$ 169</u>	<u>\$ 32,804</u>	<u>\$ 335,324</u>	<u>\$ (43,871)</u>	<u>\$ 324,426</u>

⁽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)

<i>(Dollars in Thousands)</i>	Three Months Ended March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income Attributable to Common Shareowners	\$ 8,455	\$ 9,506
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Credit Losses	-	(982)
Depreciation	1,907	1,942
Amortization of Premiums, Discounts and Fees, net	2,907	2,428
Amortization of Intangible Asset	40	-
Pension Plan Settlement Charge	209	-
Originations of Loans Held-for-Sale	(246,887)	(470,248)
Proceeds From Sales of Loans Held-for-Sale	257,550	519,331
Mortgage Banking Revenues	(8,946)	(17,125)
Net Additions for Capitalized Mortgage Servicing Rights	227	119
Change in Valuation Provision for Mortgage Servicing Rights	-	(250)
Stock Compensation	245	219
Net Tax Benefit From Stock-Based Compensation	(19)	(4)
Deferred Income Taxes	(6,167)	(378)
Net Change in Operating Leases	(27)	(41)
Net Gain on Sales and Write-Downs of Other Real Estate Owned	-	(202)
Net Decrease (Increase) in Other Assets	1,441	(1,370)
Net Increase in Other Liabilities	7,036	7,935
Net Cash Provided By Operating Activities	17,971	50,880
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	(194,448)	(54,382)
Payments, Maturities, and Calls	14,441	24,629
Securities Available for Sale:		
Purchases	(25,139)	(133,628)
Proceeds from Sale or Securities	3,365	-
Payments, Maturities, and Calls	24,824	49,349
Purchases of Loans Held for Investment	(26,713)	(23,686)
Net Increase in Loans Held for Investment	(28,405)	(29,437)
Proceeds From Sales of Other Real Estate Owned	-	1,084
Purchases of Premises and Equipment	(1,013)	(1,592)
Noncontrolling Interest Contributions	1,838	1,259
Net Cash Used In Investing Activities	(231,250)	(166,404)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Increase in Deposits	52,645	140,548
Net Decrease in Short-Term Borrowings	(3,692)	(24,181)
Repayment of Other Long-Term Borrowings	(78)	(1,014)
Dividends Paid	(2,712)	(2,528)
Issuance of Common Stock Under Purchase Plans	190	33
Net Cash Provided By Financing Activities	46,353	112,858
NET DECREASE IN CASH AND CASH EQUIVALENTS	(166,926)	(2,666)
Cash and Cash Equivalents at Beginning of Period	1,035,354	928,549
Cash and Cash Equivalents at End of Period	<u>\$ 868,428</u>	<u>\$ 925,883</u>
Supplemental Cash Flow Disclosures:		
Interest Paid	\$ 715	1,009
Income Taxes Paid	\$ 20	-
Noncash Investing and Financing Activities:		
Loans Transferred to Other Real Estate Owned	\$ -	\$ 184

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

CAPITAL CITY BANK GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – 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 notes 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, 2021 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2021.

Acquisition. On April 30, 2021, a newly formed subsidiary of CCBG, Capital City Strategic Wealth, LLC (“CCSW”) acquired substantially all of the assets of Strategic Wealth Group, LLC and certain related businesses (“SWG”), including advisory, service, and insurance carrier agreements, and the assignment of all related revenues thereof. Under the terms of the purchase agreement, SWG principals became officers of CCSW and will continue the operation of their five offices in South Georgia offering wealth management services and comprehensive risk management and asset protection services for individuals and businesses. CCBG paid \$4.5 million in cash consideration and recorded goodwill of \$2.8 million and a customer relationship intangible asset of \$1.6 million.

Accounting Standards Updates

Accounting Standards Update (“ASU”) 2022-02, “Financial Instruments – Credit Losses (Topic 326). In March 2022, the Financial Accounting Standards Board (“FASB”) issued ASU 2022-02, “Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures”. ASU 2022-02 eliminates the accounting guidance for troubled debt restructurings (“TDRs”) in ASC 310-40, “Receivables - Troubled Debt Restructurings by Creditors” for entities that have adopted the current expected credit loss model introduced by ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. ASU 2022-02 also requires that public business entities disclose current-period gross charge-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, “Financial Instruments—Credit Losses—Measured at Amortized Cost”. ASU 2022-02 is effective for the Company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. The Company is evaluating the effect that ASU 2022-02 will have on its consolidated financial statements and related disclosures.

NOTE 2 – INVESTMENT SECURITIES

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

<i>(Dollars in Thousands)</i>	Available for Sale				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
March 31, 2022					
U.S. Government Treasury	\$ 190,049	\$ 15	\$ 10,051	\$ -	\$ 180,013
U.S. Government Agency	232,067	547	8,179	-	224,435
States and Political Subdivisions	47,107	11	3,753	(15)	43,350
Mortgage-Backed Securities ⁽¹⁾	91,169	15	5,121	-	86,063
Corporate Debt Securities	88,208	4	5,018	(21)	83,173
Other Securities ⁽²⁾	7,327	-	-	-	7,327
Total	<u>\$ 655,927</u>	<u>\$ 592</u>	<u>\$ 32,122</u>	<u>\$ (36)</u>	<u>\$ 624,361</u>
December 31, 2021					
U.S. Government Treasury	\$ 190,409	\$ 65	\$ 2,606	\$ -	\$ 187,868
U.S. Government Agency	238,490	1,229	2,141	-	237,578
States and Political Subdivisions	47,762	44	811	(15)	46,980
Mortgage-Backed Securities ⁽¹⁾	89,440	27	598	-	88,869
Corporate Debt Securities	87,537	10	1,304	(21)	86,222
Other Securities ⁽²⁾	7,094	-	-	-	7,094
Total	<u>\$ 660,732</u>	<u>\$ 1,375</u>	<u>\$ 7,460</u>	<u>\$ (36)</u>	<u>\$ 654,611</u>
Held to Maturity					
<i>(Dollars in Thousands)</i>	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	
March 31, 2022					
U.S. Government Treasury	\$ 289,237	\$ 10	\$ 9,355	\$ 279,892	
Mortgage-Backed Securities ⁽¹⁾	229,441	414	8,470	221,385	
Total	<u>\$ 518,678</u>	<u>\$ 424</u>	<u>\$ 17,825</u>	<u>\$ 501,277</u>	
December 31, 2021					
U.S. Government Treasury	\$ 115,499	\$ -	\$ 1,622	\$ 113,877	
Mortgage-Backed Securities ⁽¹⁾	224,102	2,819	1,099	225,822	
Total	<u>\$ 339,601</u>	<u>\$ 2,819</u>	<u>\$ 2,721</u>	<u>\$ 339,699</u>	

⁽¹⁾ Comprised of residential mortgage-backed securities

⁽²⁾ Includes Federal Home Loan Bank and Federal Reserve Bank stock, recorded at cost of \$2.3 million and \$5.1 million, respectively, at March 31, 2022 and \$2.0 million and \$5.1 million, respectively, at December 31, 2021.

At March 31, 2022, the investment portfolio had \$0.9 million in equity securities. These securities do not have a readily determinable fair value and were not credit impaired.

Securities with an amortized cost of \$453.3 million and \$463.8 million at March 31, 2022 and December 31, 2021, respectively, were pledged to secure public deposits and for other purposes.

The Bank, as a member of the Federal Home Loan Bank of Atlanta (“FHLB”), is required to own capital stock in the FHLB based generally upon the balances of residential and commercial real estate loans and FHLB advances. FHLB stock, which is included in other securities, is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted fair 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.

Investment Sales. There were sales of investment securities totaling \$ 3.4 million for the three months ended March 31, 2022. There were no significant sales of investment securities for the three months ended December 31, 2021 and March 31, 2021.

Maturity Distribution. At March 31, 2022, 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.

<i>(Dollars in Thousands)</i>	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 36,321	\$ 34,519	\$ -	\$ -
Due after one year through five years	306,432	290,613	289,237	279,892
Due after five year through ten years	62,103	56,445	-	-
Mortgage-Backed Securities	91,169	86,063	229,441	221,385
U.S. Government Agency	152,575	149,394	-	-
Equity Securities	7,327	7,327	-	-
Total	\$ 655,927	\$ 624,361	\$ 518,678	\$ 501,277

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:

<i>(Dollars in Thousands)</i>	Less Than 12 Months		Greater Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2022						
Available for Sale						
U.S. Government Treasury	\$ 117,369	\$ 6,723	\$ 57,638	\$ 3,328	\$ 175,007	\$ 10,051
U.S. Government Agency	122,572	5,952	43,637	2,227	166,209	8,179
States and Political Subdivisions	42,181	3,719	444	34	42,625	3,753
Mortgage-Backed Securities	85,848	5,121	-	-	85,848	5,121
Corporate Debt Securities	79,718	5,018	-	-	79,718	5,018
Total	447,688	26,533	101,719	5,589	549,407	32,122
Held to Maturity						
U.S. Government Treasury	261,362	9,355	-	-	261,362	9,355
Mortgage-Backed Securities	166,472	7,633	10,496	837	176,968	8,470
Total	\$ 427,834	\$ 16,988	\$ 10,496	\$ 837	\$ 438,330	\$ 17,825
December 31, 2021						
Available for Sale						
U.S. Government Treasury	\$ 172,206	\$ 2,606	\$ -	\$ -	\$ 172,206	\$ 2,606
U.S. Government Agency	127,484	1,786	17,986	355	145,470	2,141
States and Political Subdivisions	42,122	811	-	-	42,122	811
Mortgage-Backed Securities	81,832	598	-	-	81,832	598
Corporate Debt Securities	69,354	1,304	-	-	69,354	1,304
Total	\$ 492,998	\$ 7,105	\$ 17,986	\$ 355	\$ 510,984	\$ 7,460
Held to Maturity						
U.S. Government Treasury	113,877	1,622	-	-	113,877	1,622
Mortgage-Backed Securities	115,015	1,099	-	-	115,015	1,099
Total	\$ 228,892	\$ 2,721	\$ -	\$ -	\$ 228,892	\$ 2,721

At March 31, 2022, there were 673 positions (combined Available-for-Sale and Held-to-Maturity) with unrealized losses totaling \$49.9 million. 553 of these positions were U.S. government agency securities issued by U.S. government sponsored entities. Municipal securities totaled 48 positions. The remaining 72 positions were corporate debt and asset backed securities. These investment securities had allowance for credit losses totaling less than \$ 0.1 million at March 31, 2022. The declines in the fair values of these securities were attributable to changes in interest rates and not credit quality.

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 and corporate securities portfolio via credit ratings which are updated on a quarterly basis. On a quarterly basis, municipal and corporate 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 held for investment (“HFI”) loan portfolio was as follows:

<i>(Dollars in Thousands)</i>	March 31, 2022	December 31, 2021
Commercial, Financial and Agricultural	\$ 230,213	\$ 223,086
Real Estate – Construction	174,293	174,394
Real Estate – Commercial Mortgage	669,110	663,550
Real Estate – Residential ⁽¹⁾	374,712	360,021
Real Estate – Home Equity	188,174	187,821
Consumer ⁽²⁾	349,007	322,593
Loans Held For Investment, Net of Unearned Income	<u>\$ 1,985,509</u>	<u>\$ 1,931,465</u>

⁽¹⁾ Includes loans in process balances of \$6.7 million and \$13.6 million at March 31, 2022 and December 31, 2021, respectively.

⁽²⁾ Includes overdraft balances of \$1.2 million and \$1.1 million at March 31, 2022 and December 31, 2021, respectively.

Net deferred loan costs, which include premiums on purchased loans, included in loans were \$4.4 million at March 31, 2022 and \$3.9 million at December 31, 2021.

Accrued interest receivable on loans which is excluded from amortized cost totaled \$5.8 million at March 31, 2022 and \$5.3 million at December 31, 2021, 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 of Atlanta and has pledged a blanket floating lien on all consumer loans, commercial loans, and construction loans to support available borrowing capacity at the Federal Reserve Bank of Atlanta.

Loan Purchase and Sales. The Company will periodically purchase newly originated 1-4 family real estate secured adjustable rate loans from Capital City Home Loans (“CCHL”), a related party. Residential loan purchases from CCHL totaled \$26.3 million and \$22.2 million for the three months ended March 31, 2022 and March 31, 2021, respectively, 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 allowance methodology is discussed further in Note 1 – Significant Accounting Policies in the Company’s 2021 Form 10-K.

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.

<i>(Dollars in Thousands)</i>	Commercial,		Real Estate			Consumer	Total
	Financial, Agricultural	Real Estate Construction	Commercial Mortgage	Real Estate Residential	Real Estate Home Equity		
Three Months Ended							
March 31, 2022							
Beginning Balance	\$ 2,191	\$ 3,302	\$ 5,810	\$ 4,129	\$ 2,296	\$ 3,878	\$ 21,606
Provision for Credit Losses	(161)	(714)	(181)	314	(405)	1,068	(79)
Charge-Offs	(73)	-	(266)	-	(33)	(1,402)	(1,774)
Recoveries	165	8	29	27	58	716	1,003
Net (Charge-Offs) Recoveries	92	8	(237)	27	25	(686)	(771)
Ending Balance	<u>\$ 2,122</u>	<u>\$ 2,596</u>	<u>\$ 5,392</u>	<u>\$ 4,470</u>	<u>\$ 1,916</u>	<u>\$ 4,260</u>	<u>\$ 20,756</u>

Three Months Ended							
March 31, 2021							
Beginning Balance	\$ 2,204	\$ 2,479	\$ 7,029	\$ 5,440	\$ 3,111	\$ 3,553	\$ 23,816
Provision for Credit Losses	(314)	(225)	(718)	(305)	(655)	(95)	(2,312)
Charge-Offs	(69)	-	-	(6)	(5)	(1,056)	(1,136)
Recoveries	136	-	645	75	124	678	1,658
Net (Charge-Offs) Recoveries	67	-	645	69	119	(378)	522
Ending Balance	<u>\$ 1,957</u>	<u>\$ 2,254</u>	<u>\$ 6,956</u>	<u>\$ 5,204</u>	<u>\$ 2,575</u>	<u>\$ 3,080</u>	<u>\$ 22,026</u>

For the three months ended March 31, 2022, the allowance decreased by \$0.9 million and reflected a provision benefit of \$0.1 million and net loan charge-offs of \$0.8 million. For the three months ended March 31, 2021, the allowance decreased \$1.8 million which reflected a provision benefit of \$2.3 million and net loan recoveries of \$0.5 million. The provision benefit for the three months ended March 31, 2022 and March 31, 2021 reflected improvement in the forecasted level of unemployment 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. See Note 8 – Commitments and Contingencies for information on the allowance for off-balance sheet credit commitments.

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.

<i>(Dollars in Thousands)</i>	30-59 DPD	60-89 DPD	90 + DPD	Total Past Due	Total Current	Nonaccrual Loans	Total Loans
March 31, 2022							
Commercial, Financial and Agricultural	\$ 205	\$ 79	\$ -	\$ 284	\$ 229,898	\$ 31	\$ 230,213
Real Estate – Construction	-	-	-	-	174,293	-	174,293
Real Estate – Commercial Mortgage	502	-	-	502	668,186	422	669,110
Real Estate – Residential	474	29	-	503	373,005	1,204	374,712
Real Estate – Home Equity	47	-	-	47	187,283	844	188,174
Consumer	1,152	632	-	1,784	346,996	227	349,007
Total	\$ 2,380	\$ 740	\$ -	\$ 3,120	\$ 1,979,661	\$ 2,728	\$ 1,985,509

December 31, 2021							
Commercial, Financial and Agricultural	\$ 100	\$ 23	\$ -	\$ 123	\$ 222,873	\$ 90	\$ 223,086
Real Estate – Construction	-	-	-	-	174,394	-	174,394
Real Estate – Commercial Mortgage	151	-	-	151	662,795	604	663,550
Real Estate – Residential	365	151	-	516	357,408	2,097	360,021
Real Estate – Home Equity	210	-	-	210	186,292	1,319	187,821
Consumer	1,964	636	-	2,600	319,781	212	322,593
Total	\$ 2,790	\$ 810	\$ -	\$ 3,600	\$ 1,923,543	\$ 4,322	\$ 1,931,465

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.

<i>(Dollars in Thousands)</i>	March 31, 2022			December 31, 2021		
	Nonaccrual With No ACL	Nonaccrual With ACL	90 + Days Still Accruing	Nonaccrual With No ACL	Nonaccrual With ACL	90 + Days Still Accruing
	Commercial, Financial and Agricultural	\$ -	\$ 31	\$ -	\$ 67	\$ 23
Real Estate – Construction	-	-	-	-	-	-
Real Estate – Commercial Mortgage	-	422	-	-	604	-
Real Estate – Residential	728	476	-	928	1,169	-
Real Estate – Home Equity	-	844	-	463	856	-
Consumer	-	227	-	-	212	-
Total Nonaccrual Loans	\$ 728	\$ 2,000	\$ -	\$ 1,458	\$ 2,864	\$ -

Collateral Dependent Loans. The following table presents the amortized cost basis of collateral-dependent loans.

	March 31, 2022		December 31, 2021	
	Real Estate Secured	Non Real Estate Secured	Real Estate Secured	Non Real Estate Secured
<i>(Dollars in Thousands)</i>				
Commercial, Financial and Agricultural	\$ -	\$ -	\$ -	\$ 67
Real Estate – Construction	-	-	-	-
Real Estate – Commercial Mortgage	-	-	455	-
Real Estate – Residential	855	-	1,645	-
Real Estate – Home Equity	601	-	649	-
Consumer	-	-	-	-
Total Collateral Dependent Loans	\$ 1,456	\$ -	\$ 2,749	\$ 67

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 March 31, 2022 and December 31, 2021, the Company had \$0.9 million and \$0.9 million, respectively, in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

Troubled Debt Restructurings ("TDRs"). At March 31, 2022, the Company had \$7.5 million in TDRs, of which \$7.3 million were performing in accordance with the modified terms. At December 31, 2021 the Company had \$8.0 million in TDRs, of which \$7.6 million were performing in accordance with modified terms. For TDRs, the Company estimated \$0.3 million and \$0.3 million of credit loss reserves at March 31, 2022 and December 31, 2021, 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 March 31, 2022 there were no loans modified. For the three months ended March 31, 2021, there were two loans modified with a recorded investment of \$0.4 million. For the three months ended March 31, 2022 and March 31, 2021, there were no 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 category consists of direct and indirect 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 March 31, 2022 by years of origination and internally assigned credit risk ratings (refer to Credit Risk Management section for detail on risk rating system).

<i>(Dollars in Thousands)</i>	Term Loans by Origination Year						Revolving Loans	Total
	2022	2021	2020	2019	2018	Prior		
Commercial, Financial, Agriculture:								
Pass	\$ 22,526	\$ 60,369	\$ 27,910	\$ 26,368	\$ 18,565	\$ 18,863	\$ 54,707	\$ 229,308
Special Mention	-	100	187	268	16	24	-	595
Substandard	-	-	58	-	184	68	-	310
Total	\$ 22,526	\$ 60,469	\$ 28,155	\$ 26,636	\$ 18,765	\$ 18,955	\$ 54,707	\$ 230,213
Real Estate - Construction:								
Pass	\$ 11,641	\$ 109,459	\$ 42,522	\$ 8,684	\$ -	\$ 129	\$ 1,858	\$ 174,293
Total	\$ 11,641	\$ 109,459	\$ 42,522	\$ 8,684	\$ -	\$ 129	\$ 1,858	\$ 174,293
Real Estate - Commercial Mortgage:								
Pass	\$ 50,302	\$ 165,574	\$ 123,213	\$ 73,444	\$ 73,824	\$ 131,407	\$ 26,092	\$ 643,856
Special Mention	-	-	410	1,750	2,615	5,761	1,250	11,786
Substandard	-	10,055	405	640	-	2,298	70	13,468
Total	\$ 50,302	\$ 175,629	\$ 124,028	\$ 75,834	\$ 76,439	\$ 139,466	\$ 27,412	\$ 669,110
Real Estate - Residential:								
Pass	\$ 46,698	\$ 117,058	\$ 55,670	\$ 34,111	\$ 23,957	\$ 81,162	\$ 6,255	\$ 364,911
Special Mention	61	-	132	18	60	570	1,348	2,189
Substandard	74	576	1,007	1,085	971	3,899	-	7,612
Total	\$ 46,833	\$ 117,634	\$ 56,809	\$ 35,214	\$ 24,988	\$ 85,631	\$ 7,603	\$ 374,712
Real Estate - Home Equity:								
Performing	\$ -	\$ 146	\$ 13	\$ 255	\$ 130	\$ 2,191	\$ 184,595	\$ 187,330
Nonperforming	-	-	-	17	-	-	827	844
Total	\$ -	\$ 146	\$ 13	\$ 272	\$ 130	\$ 2,191	\$ 185,422	\$ 188,174
Consumer:								
Performing	\$ 61,883	\$ 159,135	\$ 56,232	\$ 33,402	\$ 22,026	\$ 10,370	\$ 5,731	\$ 348,779
Nonperforming	-	58	59	22	58	31	-	228
Total	\$ 61,883	\$ 159,193	\$ 56,291	\$ 33,424	\$ 22,084	\$ 10,401	\$ 5,731	\$ 349,007

NOTE 4 – MORTGAGE BANKING ACTIVITIES

The Company's mortgage banking activities at its subsidiary, CCHL, 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.

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.

<i>(Dollars in Thousands)</i>	March 31, 2022		December 31, 2021	
	Unpaid Principal Balance/Notional	Fair Value	Unpaid Principal Balance/Notional	Fair Value
Residential Mortgage Loans Held for Sale	\$ 49,991	\$ 50,815	\$ 50,733	\$ 52,532
Residential Mortgage Loan Commitments ("IRLCs") ⁽¹⁾	99,399	1,117	51,883	1,258
Forward Sales Contracts ⁽²⁾	55,000	850	48,000	(7)
		<u>\$ 52,782</u>		<u>\$ 53,783</u>

⁽¹⁾Recorded in other assets at fair value

⁽²⁾Recorded in other assets and other liabilities at fair value at March 31, 2022 and December 31, 2021, respectively

The Company had no residential mortgage loans held for sale that were 90 days or more outstanding or on nonaccrual at March 31, 2022, and loans held for sale that were 30-69 days outstanding totaled \$ 0.2 million at December 31, 2021.

Mortgage banking revenue was as follows:

<i>(Dollars in Thousands)</i>	Three Months Ended March 31,	
	2022	2021
Net realized gains on sales of mortgage loans	\$ 5,136	\$ 14,424
Net change in unrealized gain on mortgage loans held for sale	(975)	(2,031)
Net change in the fair value of mortgage loan commitments (IRLCs)	(141)	(1,843)
Net change in the fair value of forward sales contracts	857	2,263
Pair-Offs on net settlement of forward sales contracts	2,255	3,310
Mortgage servicing rights additions	632	187
Net origination fees	1,182	815
Total mortgage banking revenues	<u>\$ 8,946</u>	<u>\$ 17,125</u>

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.

<i>(Dollars in Thousands)</i>	March 31, 2022	December 31, 2021
Number of residential mortgage loans serviced for others	2,224	2,106
Outstanding principal balance of residential mortgage loans serviced for others	\$ 577,297	\$ 532,967
Weighted average interest rate	3.62%	3.59%
Remaining contractual term (in months)	317	317

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 March 31, 2022, the servicing portfolio balance consisted of the following loan types: FNMA (60%), GNMA (8%), and private investor (32%). FNMA and private investor loans are structured as actual/actual payment remittance.

The Company had \$1.3 million and \$2.0 million in delinquent residential mortgage loans currently in GNMA pools serviced by the Company at March 31, 2022 and December 31, 2021, respectively. The right to repurchase these loans and the corresponding liability has been recorded in other assets and other liabilities, respectively, in the Consolidated Statement of Financial Condition. For the three months ended March 31, 2022, the Company repurchased \$0.4 million in delinquent residential loans currently in GNMA pools. For the three months ended March 31, 2021, the Company repurchased \$1.5 million of GNMA delinquent or defaulted mortgage loans with the intention to modify their terms and include the loans in new GNMA pools.

Activity in the capitalized mortgage servicing rights was as follows:

<i>(Dollars in Thousands)</i>	Three Months Ended March 31,	
	2022	2021
Beginning balance	\$ 3,774	\$ 3,452
Additions due to loans sold with servicing retained	632	187
Deletions and amortization	(405)	(306)
Valuation allowance reversal	-	250
Ending balance	\$ 4,001	\$ 3,583

The Company did not record any permanent impairment losses on mortgage servicing rights for the three months ended March 31, 2022 and March 31, 2021.

The key unobservable inputs used in determining the fair value of the Company's mortgage servicing rights were as follows:

	March 31, 2022		December 31, 2021	
	Minimum	Maximum	Minimum	Maximum
Discount rates	10.00%	15.00%	11.00%	15.00%
Annual prepayment speeds	7.12%	19.55%	11.98%	23.79%
Cost of servicing (per loan)	\$ 60	\$ 73	\$ 60	\$ 73

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 10.56% at March 31, 2022 and 15.85% at December 31, 2021.

Warehouse Line Borrowings

The Company has the following warehouse lines of credit and master repurchase agreements with various financial institutions at March 31, 2022.

<i>(Dollars in Thousands)</i>	Amounts Outstanding
\$75 million master repurchase agreement without defined expiration. Interest is at the Prime rate minus 1.00% to plus 1.00%, with a floor rate of 3.25%. A cash pledge deposit of \$0.5 million is required by the lender.	6,705
\$75 million warehouse line of credit agreement expiring in November 2022. Interest is at the SOFR plus 2.25%, to 3.25%.	19,191
Total Warehouse Borrowings	<u>\$ 25,896</u>

Warehouse line borrowings are classified as short-term borrowings. At December 31, 2021, warehouse line borrowings totaled \$ 29.0 million. At March 31, 2022, the Company had residential mortgage loans held for sale and construction loans held for investment 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, and maximum debt to net worth ratio, as defined in the agreements. The Company was in compliance with all significant debt covenants at March 31, 2022.

The Company has extended a \$50 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 December 31, 2021 and March 31, 2022 was \$ 14.8 and \$15.3 million, respectively.

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 March 31, 2022 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 .

<i>(Dollars in Thousands)</i>	Statement of Financial Condition Location	Notional Amount	Fair Value	Weighted Average Maturity (Years)
March 31, 2022				
Interest rate swaps related to subordinated debt	Other Assets	\$ 30,000	\$ 3,886	8.3
December 31, 2021				
Interest rate swaps related to subordinated debt	Other Assets	\$ 30,000	\$ 2,050	8.5

The following table presents the net gains (losses) recorded in AOCI and the consolidated statements of income related to the cash flow derivative instruments (interest rate swaps related to subordinated debt) for the three months ended March 31, 2022.

<i>(Dollars in Thousands)</i>	Category	Amount of Gain (Loss) Recognized in AOCI	Amount of Gain (Loss) Reclassified from AOCI to Income
Three months ended March 31, 2022	Interest expense	\$ 1,370	\$ (28)
Three months ended March 31, 2021	Interest expense	\$ 1,587	\$ (33)

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

The Company had a collateral liability of \$ 4.0 million and \$ 2.0 million at March 31, 2022 and December 31, 2021, respectively.

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.

The Company’s operating leases primarily relate to banking offices with remaining lease terms from 1 to 44 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 Consolidated Statement of Financial Condition and the related lease expense is recognized on a straight-line basis over the lease term. At March 31, 2022, the operating lease ROU assets and liabilities were \$ 11.7 million and \$ 12.3 million, respectively. At December 31, 2021, ROU assets and liabilities were \$ 11.5 million and \$ 12.2 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.

<i>(Dollars in Thousands)</i>	Three Months Ended	
	March 31,	
	2022	2021
Operating lease expense	\$ 384	\$ 344
Short-term lease expense	179	140
Total lease expense	<u>\$ 563</u>	<u>\$ 484</u>
Other information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 429	\$ 385
Right-of-use assets obtained in exchange for new operating lease liabilities	592	75
Weighted average remaining lease term — operating leases (in years)	24.9	25.5
Weighted average discount rate — operating leases	2.0%	2.1%

The table below summarizes the maturity of remaining lease liabilities:

<i>(Dollars in Thousands)</i>	March 31, 2022
2022	\$ 1,581
2023	1,190
2024	1,120
2025	977
2026	875
2027 and thereafter	10,341
Total	<u>\$ 16,084</u>
Less: Interest	<u>(3,773)</u>
Present Value of Lease liability	<u>\$ 12,311</u>

At March 31, 2022, the Company had four additional operating lease obligations for banking offices (to be constructed) that have not yet commenced. Three of the leases have payments totaling \$ 9.3 million based on the initial contract terms of 15 years, and the fourth lease has payments totaling \$ 1.4 million based on the initial contract term of 10 years. Payments for the banking offices are expected to commence after the construction periods end, which are each expected to occur during the fourth quarter of 2022 and the first quarter of 2023.

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 \$ 0.5 million at March 31, 2022.

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:

<i>(Dollars in Thousands)</i>	Three Months Ended March 31,	
	2022	2021
Service Cost	\$ 1,572	\$ 1,743
Interest Cost	1,166	1,221
Expected Return on Plan Assets	(2,675)	(2,787)
Prior Service Cost Amortization	4	4
Net Loss Amortization	428	1,691
Pension Settlement	209	-
Net Periodic Benefit Cost	<u>\$ 704</u>	<u>\$ 1,872</u>
Discount Rate Used for Benefit Cost	3.11%	2.88%
Long-term Rate of Return on Assets	6.75%	6.75%

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

<i>(Dollars in Thousands)</i>	Three Months Ended March 31,	
	2022	2021
Service Cost	\$ 8	\$ 9
Interest Cost	79	59
Prior Service Cost Amortization	69	19
Net Loss Amortization	180	198
Net Periodic Benefit Cost	<u>\$ 336</u>	<u>\$ 285</u>
Discount Rate Used for Benefit Cost	2.80%	2.38%

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:

<i>(Dollars in Thousands)</i>	March 31, 2022			December 31, 2021		
	Fixed	Variable	Total	Fixed	Variable	Total
Commitments to Extend Credit ⁽¹⁾	\$ 200,236	\$ 563,634	\$ 763,870	\$ 217,531	\$ 505,897	\$ 723,428
Standby Letters of Credit	5,020	-	5,020	5,205	-	5,205
Total	\$ 205,256	\$ 563,634	\$ 768,890	\$ 222,736	\$ 505,897	\$ 728,633

⁽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 is adjusted as a provision for credit loss expense and is recorded in other liabilities. The following table shows the activity in the allowance.

<i>(Dollars in Thousands)</i>	Three Months Ended March 31,	
	2022	2021
Beginning Balance	\$ 2,897	\$ 1,644
Provision for Credit Losses	79	1,330
Ending Balance	\$ 2,976	\$ 2,974

Other Commitments. In the normal course of business, the Company enters into lease commitments which are classified as operating leases. See Note 6 – Leases for additional information on the maturity of the Company's operating lease commitments. Furthermore, the Company has an outstanding commitment of up to \$ 1.0 million in a bank tech venture capital fund focused on finding and funding technology solutions for community banks. At March 31, 2022 and at December 31, 2021, the Company had contributed \$0.1 million of the commitment.

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 \$0.2 million. 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. At March 31, 2022, no amount was payable. At December 31, 2021, there was a \$0.1 million payable.

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

<i>(Dollars in Thousands)</i>	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
March 31, 2022				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	\$ 180,013	\$ -	\$ -	\$ 180,013
U.S. Government Agency	-	224,435	-	224,435
States and Political Subdivisions	-	43,350	-	43,350
Mortgage-Backed Securities	-	86,063	-	86,063
Corporate Debt Securities	-	83,173	-	83,173
Other Securities	-	7,327	-	7,327
Loans Held for Sale	-	50,815	-	50,815
Interest Rate Swap Derivative	-	3,886	-	3,886
Mortgage Banking Hedge Derivative	-	850	-	850
Mortgage Banking IRLC Derivative	-	-	1,117	1,117
Mortgage Servicing Rights	-	-	7,177	7,177
December 31, 2021				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	\$ 187,868	\$ -	\$ -	\$ 187,868
U.S. Government Agency	-	237,578	-	237,578
States and Political Subdivisions	-	46,980	-	46,980
Mortgage-Backed Securities	-	88,869	-	88,869
Corporate Debt Securities	-	86,222	-	86,222
Other Securities	-	7,094	-	7,094
Loans Held for Sale	-	52,532	-	52,532
Interest Rate Swap Derivative	-	2,050	-	2,050
Mortgage Banking IRLC Derivative	-	-	1,258	1,258
Mortgage Servicing Rights	-	-	4,718	4,718
LIABILITIES:				
Mortgage Banking Hedge Derivative	\$ -	\$ 7	\$ -	\$ 7

Mortgage Banking Activities. The Company had Level 3 issuances and transfers related to mortgage banking activities of \$4.3 million and \$13.6 million, respectively, for the three months ended March 31, 2022 and \$15.4 million and \$10.5 million, respectively, for the three months ended March 31, 2021. Issuances are valued based on the change in fair value of the underlying mortgage loan from inception of the IRLC to the Consolidated Statement of Financial Condition 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. Collateral dependent 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 \$ 1.5 million with a valuation allowance of \$0.1 million at March 31, 2022 and \$2.8 million and \$0.2 million, respectively, at December 31, 2021.

Other Real Estate Owned. During the first three months of 2022, 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 March 31, 2022, there was no valuation allowance for loan servicing rights compared to \$0.3 million valuation allowance at December 31, 2021.

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 the caption “Assets and Liabilities Measured at Fair Value on a Recurring Basis – Securities Available for Sale”.

Loans. The loan portfolio is segregated into categories and the fair value of each loan category is calculated using present value techniques based upon projected cash flows and estimated discount rates. Pursuant to the adoption of ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, the values reported reflect the incorporation of 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:

March 31, 2022				
<i>(Dollars in Thousands)</i>	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	\$ 77,963	\$ 77,963	\$ -	\$ -
Short-Term Investments	790,465	790,465	-	-
Investment Securities, Available for Sale	624,361	180,013	444,348	-
Investment Securities, Held to Maturity	518,678	279,892	221,385	-
Equity Securities ⁽¹⁾	855	-	855	-
Loans Held for Sale	50,815	-	50,815	-
Other Equity Securities ⁽²⁾	2,898	-	2,898	-
Interest Rate Swap Derivative	3,886	-	3,886	-
Mortgage Banking Hedge Derivative	850	-	850	-
Mortgage Servicing Rights	4,001	-	-	7,177
Mortgage Banking IRLC Derivative	1,117	-	-	1,117
Loans, Net of Allowance for Credit Losses	1,964,753	-	-	1,934,570
LIABILITIES:				
Deposits	\$ 3,765,507	\$ -	\$ 3,417,626	\$ -
Short-Term Borrowings	30,865	-	30,865	-
Subordinated Notes Payable	52,887	-	45,336	-
Long-Term Borrowings	806	-	834	-
December 31, 2021				
<i>(Dollars in Thousands)</i>	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	\$ 65,313	\$ 65,313	\$ -	\$ -
Short-Term Investments	970,041	970,041	-	-
Investment Securities, Available for Sale	654,611	187,868	466,743	-
Investment Securities, Held to Maturity	339,601	113,877	225,822	-
Equity Securities ⁽¹⁾	861	-	861	-
Loans Held for Sale	52,532	-	52,532	-
Other Equity Securities ⁽²⁾	2,848	-	2,848	-
Interest Rate Swap Derivative	2,050	-	2,050	-
Mortgage Servicing Rights	3,774	-	-	4,718
Mortgage Banking IRLC Derivative	1,258	-	-	1,258
Loans, Net of Allowance for Credit Losses	1,909,859	-	-	1,903,640
LIABILITIES:				
Deposits	\$ 3,712,862	\$ -	\$ 3,713,478	\$ -
Short-Term Borrowings	34,557	-	34,557	-
Subordinated Notes Payable	52,887	-	42,609	-
Long-Term Borrowings	884	-	938	-
Mortgage Banking Hedge Derivative	7	-	7	-

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

(2) Accounted for under the equity method – 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 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The amounts allocated to accumulated other comprehensive income (loss) are presented in the table below.

<i>(Dollars in Thousands)</i>	Securities Available for Sale	Interest Rate Swap	Retirement Plans	Accumulated Other Comprehensive (Loss) Income
Balance as of January 1, 2022	\$ (4,588)	\$ 1,530	\$ (13,156)	\$ (16,214)
Other comprehensive (loss) income during the period	(19,055)	1,370	156	(17,529)
Balance as of March 31, 2022	<u>\$ (23,643)</u>	<u>\$ 2,900</u>	<u>\$ (13,000)</u>	<u>\$ (33,743)</u>
Balance as of January 1, 2021	\$ 2,700	\$ 428	\$ (47,270)	\$ (44,142)
Other comprehensive (loss) income during the period	(1,458)	1,587	142	271
Balance as of March 31, 2021	<u>\$ 1,242</u>	<u>\$ 2,015</u>	<u>\$ (47,128)</u>	<u>\$ (43,871)</u>

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 2022 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," "vision," "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 2021 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"). We offer a broad array of products and services through a total of 57 full-service offices located in Florida, Georgia, and Alabama. We provide a full range of banking services, including traditional deposit and credit services, mortgage banking, asset management, trust, merchant services, bankcards, securities brokerage services and financial advisory services, including life insurance products, risk management and asset protection services.

Our profitability, like most financial institutions, is dependent to a large extent upon net interest income, which is the difference between the interest and fees received on interest 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, operating expenses such as salaries and employee benefits, occupancy and other operating expenses including income taxes, and noninterest income such as mortgage banking revenues, wealth management fees, deposit fees, and bank card fees.

We have included a detailed discussion of the economic conditions in our markets and our long-term strategic objectives as part of the MD&A section of our 2021 Form 10-K.

Acquisitions

On April 30, 2021, a newly formed subsidiary of CCBG, Capital City Strategic Wealth, LLC ("CCSW"), completed its acquisition of substantially all of the assets of Strategic Wealth Group, LLC and certain related businesses ("SWG"). CCSW was consolidated into CCBG's financial statements effective May 1, 2021. A detailed discussion regarding the acquisition of Capital City Strategic Wealth, LLC is included as part of the MD&A section of our 2021 Form 10-K.

NON-GAAP FINANCIAL MEASURES

We present a tangible common equity ratio and a tangible book value per diluted share that, in each case, removes the effect of goodwill and other intangibles that resulted 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. The generally accepted accounting principles ("GAAP") to non-GAAP reconciliation for each quarter presented is provided below.

	2022		2021			
	First	Fourth	Third	Second	First	
<i>(Dollars in Thousands, except per share data)</i>						
Shareowners' Equity (GAAP)	\$ 372,145	\$ 383,166	\$ 348,868	\$ 335,880	\$ 324,426	
Less: Goodwill and Other Intangibles (GAAP)	93,213	93,253	93,293	93,333	89,095	
Tangible Shareowners' Equity (non-GAAP)	A 278,932	289,913	255,575	242,547	235,331	
Total Assets (GAAP)	4,310,045	4,263,849	4,048,733	4,011,459	3,929,884	
Less: Goodwill and Other Intangibles (GAAP)	93,213	93,253	93,293	93,333	89,095	
Tangible Assets (non-GAAP)	B \$ 4,216,832	\$ 4,170,596	\$ 3,955,440	\$ 3,918,126	\$ 3,840,789	
Tangible Common Equity Ratio (non-GAAP)	A/B 6.61%	6.95%	6.46%	6.19%	6.13%	
Actual Diluted Shares Outstanding (GAAP)	C 16,962,362	16,935,389	16,911,715	16,901,375	16,875,719	
Tangible Book Value per Diluted Share (non-GAAP)	A/C 16.44	17.12	15.11	14.35	13.94	

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollars in Thousands, Except

Per Share Data)

	2022		2021		
	First	Fourth	Third	Second	First
Summary of Operations:					
Interest Income	\$ 25,438	\$ 25,549	\$ 28,520	\$ 26,836	\$ 25,446
Interest Expense	742	838	848	856	948
Net Interest Income	24,696	24,711	27,672	25,980	24,498
Provision for Credit Losses	-	-	-	(571)	(982)
Net Interest Income After					
Provision for Credit Losses	24,696	24,711	27,672	26,551	25,480
Noninterest Income	25,818	24,672	26,574	26,473	29,826
Noninterest Expense	39,233	40,207	39,702	42,123	40,476
Income Before Income Taxes	11,281	9,176	14,544	10,901	14,830
Income Tax Expense	2,235	2,040	2,949	2,059	2,787
Income Attributable to NCI	(591)	(764)	(1,504)	(1,415)	(2,537)
Net Income Attributable to CCBG	8,455	6,372	10,091	7,427	9,506
Net Interest Income (FTE)	24,774	24,790	27,750	26,064	24,606
Per Common Share:					
Net Income Basic	\$ 0.50	\$ 0.38	\$ 0.60	\$ 0.44	\$ 0.56
Net Income Diluted	0.50	0.38	0.60	0.44	0.56
Cash Dividends Declared	0.16	0.16	0.16	0.15	0.15
Diluted Book Value	21.94	22.63	20.63	19.87	19.22
Diluted Tangible Book Value ⁽¹⁾	16.44	17.12	15.11	14.35	13.94
Market Price:					
High	28.88	29.00	26.10	27.39	28.98
Low	25.96	24.77	22.02	24.55	21.42
Close	26.36	26.40	24.74	25.79	26.02
Selected Average Balances:					
Loans Held for Investment	\$ 1,963,578	\$ 1,948,324	\$ 1,974,132	\$ 2,036,781	\$ 2,044,363
Earning Assets	3,938,824	3,791,313	3,693,123	3,623,910	3,497,929
Total Assets	4,266,775	4,127,937	4,026,613	3,956,349	3,821,521
Deposits	3,714,062	3,549,145	3,447,688	3,387,352	3,239,508
Shareowners' Equity	383,956	350,140	341,460	329,040	326,330
Common Equivalent Average Shares:					
Basic	16,931	16,880	16,875	16,858	16,838
Diluted	16,946	16,923	16,909	16,885	16,862
Performance Ratios:					
Return on Average Assets	0.80 %	0.61 %	0.99 %	0.75 %	1.01
Return on Average Equity	8.93	7.22	11.72	9.05	11.81
Net Interest Margin (FTE)	2.55	2.60	2.98	2.89	2.85
Noninterest Income as % of					
Operating Revenue	51.11	49.96	48.99	50.47	54.90
Efficiency Ratio	77.55	81.29	73.09	80.18	74.36
Asset Quality:					
Allowance for Credit Losses ("ACL")	\$ 20,756	\$ 21,606	\$ 21,500	\$ 22,175	\$ 22,026
ACL to Loans HFI	1.05 %	1.12 %	1.11 %	1.10 %	1.07
Nonperforming Assets ("NPAs")	2,745	4,339	3,218	6,302	5,472
NPAs to Total Assets	0.06	0.10	0.08	0.16	0.14
NPAs to Loans HFI plus OREO	0.14	0.22	0.17	0.31	0.27
ACL to Non-Performing Loans	760.83	499.93	710.39	433.93	410.78
Net Charge-Offs to Average Loans HFI	0.16	0.02	0.03	(0.07)	(0.10)
Capital Ratios:					
Tier 1 Capital	15.98 %	16.14 %	15.69 %	15.44 %	16.08
Total Capital	16.98	17.15	16.70	16.48	17.20
Common Equity Tier 1	13.77	13.86	13.45	13.14	13.63
Leverage	8.78	8.95	9.05	8.84	8.97
Tangible Common Equity ⁽¹⁾	6.61	6.95	6.46	6.19	6.13

⁽¹⁾Non-GAAP financial measure. See non-GAAP reconciliation on page 31.

FINANCIAL OVERVIEW

Results of Operations

Performance Summary. Net income attributable to common shareowners of \$8.5 million, or \$0.50 per diluted share, for the first quarter of 2022 compared to net income of \$6.4 million, or \$0.38 per diluted share, for the fourth quarter of 2021, and \$9.5 million, or \$0.56 per diluted share, for the first quarter of 2021.

Net Interest Income. Tax-equivalent net interest income for the first quarter of 2022 totaled \$24.8 million, comparable to the fourth quarter of 2021, and \$24.6 million for the first quarter of 2021. Compared to the fourth quarter of 2021, higher rates on overnight funds and growth in the investment portfolio was offset by two less calendar days during the quarter. Compared to the first quarter of 2021, interest income grew as a result of our larger investment portfolio, in addition to a reduction in interest expense, partially offset by lower loan fees.

Provision and Allowance for Credit Losses. We did not record a provision for credit losses for the first quarter of 2022 or the fourth quarter of 2021 and recorded a negative provision of \$1.0 million for the first quarter of 2021. The lack of provision for the first quarter of 2022 reflected continued strong credit quality and slight improvement in the forecasted level of unemployment.

Noninterest Income. Noninterest income for the first quarter of 2022 totaled \$25.8 million, an increase of \$1.1 million, or 4.5%, over the fourth quarter of 2021 and a decrease of \$4.0 million, or 13.4%, from the first quarter of 2021. The increase over the fourth quarter of 2021 was due to higher wealth management fees, primarily insurance revenues. The decline from the first quarter 2021 was driven by lower mortgage banking revenues (largely attributable to lower loan refinancing activity and a lower gain on sale margin) that were partially offset by higher activity based fees (deposit and bank card).

Noninterest Expense. Noninterest expense for the first quarter of 2022 totaled \$39.2 million, a decrease of \$1.0 million, or 2.4%, from the fourth quarter of 2021 and a \$1.3 million, or 3.1%, decrease from the first quarter of 2021. The decrease from the fourth quarter of 2021 was primarily attributable to a decrease in other miscellaneous expense, primarily pension expense. The decrease from the first quarter of 2021 was driven by lower mortgage banking commissions and pension expense. These favorable variances were partially offset by higher insurance commissions, associate benefits, other real estate and miscellaneous expenses.

Financial Condition

Earning Assets. Average earning assets totaled \$3.939 billion for the first quarter of 2022, an increase of \$147.5 million, or 3.9%, over the fourth quarter of 2021, and an increase of \$440.9 million, or 12.6%, over the first quarter of 2021. The increase over the fourth quarter of 2021 was primarily attributable to seasonal growth in our public fund deposits. The increase compared to the first quarter of 2021 was primarily driven by higher deposit balances.

Loans. Average loans held for investment (“HFI”) increased \$15.3 million, or 0.8%, over the fourth quarter of 2021 and decreased \$80.8 million, or 4.0%, from the first quarter of 2021. Excluding small business (“SBA PPP”) loans, average loans HFI increased \$18.8 million compared to the fourth quarter of 2021, and increased \$115.9 million compared to the first quarter of 2021. New loan production strengthened in the latter part of the first quarter of 2022 resulting in period end loan growth of \$54 million over the fourth quarter of 2021.

Credit Quality. Overall credit quality is strong and continues to improve. Nonaccrual loans totaled \$2.7 million at March 31, 2022, a \$1.6 million decrease from December 31, 2021 and a \$2.7 million decrease from March 31, 2021. At March 31, 2022 and December 31, 2021, nonaccrual loans as a percentage of total loans was 0.13% and 0.21%, respectively. Classified loans increased \$4.4 million over the fourth quarter of 2021 and reflected one loan relationship that is in the loan workout process and has been reserved for at March 31, 2022.

Deposits. Average total deposits were \$3.714 billion for the first quarter of 2022, an increase of \$164.9 million, or 4.6%, over the fourth quarter of 2021 and \$474.6 million, or 14.6%, over the first quarter of 2021. Growth over the fourth quarter of 2021 was primarily attributable to an increase in seasonal public fund deposits. Various government stimulus programs contributed to the year over year increase.

Capital. At March 31, 2022, we were well-capitalized with a total risk-based capital ratio of 16.98% and a tangible common equity ratio (a non-GAAP financial measure) of 6.61% compared to 17.15% and 6.95%, respectively, at December 31, 2021 and 17.20% and 6.13%, respectively, at March 31, 2021. At March 31, 2022, 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 first quarter of 2022, we realized net income attributable to common shareowners of \$8.5 million, or \$0.50 per diluted share, compared to net income of \$6.4 million, or \$0.38 per diluted share, for the fourth quarter of 2021, and \$9.5 million, or \$0.56 per diluted share, for the first quarter of 2021.

For the first quarter of 2022, we realized income before income taxes of \$11.3 million compared to \$9.2 million for the fourth quarter of 2021 and \$14.8 million for the first quarter of 2021. Compared to the fourth quarter of 2021, the \$2.1 million increase was attributable to a \$1.1 million increase in noninterest income and lower noninterest expense of \$1.0 million. Compared to the first quarter of 2021, the \$3.5 million decrease in income before income taxes was attributable to a \$4.0 million decrease in noninterest income and a \$1.0 million increase in the provision for credit losses that was partially offset by lower noninterest expense of \$1.3 million and higher net interest income of \$0.2 million.

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

<i>(Dollars in Thousands, except per share data)</i>	Three Months Ended		
	March 31, 2022	December 31, 2021	March 31, 2021
Interest Income	\$ 25,438	\$ 25,549	\$ 25,446
Taxable Equivalent Adjustments	78	79	108
Total Interest Income (FTE)	25,516	25,628	25,554
Interest Expense	742	838	948
Net Interest Income (FTE)	24,774	24,790	24,606
Provision for Credit Losses	-	-	(982)
Taxable Equivalent Adjustments	78	79	108
Net Interest Income After Provision for Credit Losses	24,696	24,711	25,480
Noninterest Income	25,818	24,672	29,826
Noninterest Expense	39,233	40,207	40,476
Income Before Income Taxes	11,281	9,176	14,830
Income Tax Expense	2,235	2,040	2,787
Income Attributable to Noncontrolling Interests	(591)	(764)	(2,537)
Net Income Attributable to Common Shareowners	\$ 8,455	\$ 6,372	\$ 9,506
Basic Net Income Per Share	\$ 0.50	\$ 0.38	\$ 0.56
Diluted Net Income Per Share	\$ 0.50	\$ 0.38	\$ 0.56

Net Interest Income

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

Tax-equivalent net interest income for the first quarter of 2022 totaled \$24.8 million, comparable to the fourth quarter of 2021, and \$24.6 million for the first quarter of 2021. Compared to the fourth quarter of 2021, higher rates on overnight funds and growth in the investment portfolio was offset by two less calendar days during the quarter. Compared to the first quarter of 2021, interest income grew as a result of our larger investment portfolio and a reduction in interest expense, partially offset by lower loan fees.

Our net interest margin for the first quarter of 2022 was 2.55%, a decrease of five basis points from the fourth quarter of 2021 and a decrease of 30 basis points from the first quarter of 2021. Compared to both prior periods, the decrease was primarily attributable to growth in earning assets (driven by deposit inflows), which negatively impacted our margin percentage. Our net interest margin for the first quarter of 2022, excluding the impact of overnight funds in excess of \$200 million, was 3.11%.

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.

Provision for Credit Losses

We did not record a provision for credit losses for the first quarter of 2022 or the fourth quarter of 2021 and recorded a provision benefit of \$1.0 million for the first quarter of 2021. The lack of provision for the first quarter of 2022 reflected continued strong credit quality and slight improvement in the forecasted level of unemployment. The provision benefit for the first quarter of 2021 generally reflected improving economic conditions and a lower level of expected losses related to COVID-19. We discuss the allowance for credit losses further below.

Noninterest Income

Noninterest income for the first quarter of 2022 totaled \$25.8 million compared to \$24.7 million for the fourth quarter of 2021 and \$29.8 million for the first quarter of 2021. The increase over the fourth quarter of 2021 was primarily attributable to higher wealth management fees of \$2.1 million that were partially offset by lower mortgage banking revenues of \$0.9 million. The increase in wealth management fees was attributable to higher insurance commission revenues. Lower loan production and a slightly lower gain on sale margin drove the decline in mortgage banking revenues. Compared to the first quarter of 2021, the decline was due to lower mortgage banking revenues attributable to lower loan production (primarily refinancing activity) and a lower gain on sale margin.

Noninterest income represented 51.1% of operating revenues (net interest income plus noninterest income) for the first quarter of 2022 compared to 50.0% for the fourth quarter of 2021 and 54.9% for the first quarter of 2021.

The table below reflects the major components of noninterest income to help facilitate a better understanding of the period over period comparison.

<i>(Dollars in Thousands)</i>	Three Months Ended		
	March 31, 2022	December 31, 2021	March 31, 2021
Deposit Fees	\$ 5,191	\$ 5,300	\$ 4,271
Bank Card Fees	3,763	3,872	3,618
Wealth Management Fees	6,070	3,922	3,090
Mortgage Banking Revenues	8,946	9,800	17,125
Other	1,848	1,778	1,722
Total Noninterest Income	\$ 25,818	\$ 24,672	\$ 29,826

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

Deposit Fees. Deposit fees for the first quarter of 2022 totaled \$5.2 million, a decrease of \$0.1 million, or 2.1%, from the fourth quarter of 2021 and an increase of \$0.9 million, or 21.5%, over the first quarter of 2021. The decline from the fourth quarter of 2021 reflects two less days of processing. The increase over the first quarter of 2021 reflected higher account maintenance fees attributable to the third quarter 2021 conversion of the remaining free checking accounts to monthly maintenance fee account types.

Bank Card Fees. Bank card fees for the first quarter of 2022 totaled \$3.8 million, a decrease of \$0.1 million, or 2.8%, from the fourth quarter of 2021 and an increase of \$0.2 million, or 4.0%, over the first quarter of 2021. The decline from the fourth quarter of 2021 reflects two less days of processing. The increase over the first quarter of 2021 was primarily attributable to growth in checking accounts.

Wealth Management Fees. Wealth management fees, which include both trust fees (i.e., managed accounts and trusts/estates), retail brokerage fees (i.e., investment, insurance products, and retirement accounts), and insurance commission revenues, totaled \$6.1 million for the first quarter of 2022, an increase of \$2.1 million or 54.8%, over the fourth quarter of 2021 and an increase of \$3.0 million, or 96.5%, over the first quarter of 2021. Insurance commission revenues was the primary driver of the increase over both prior periods. Higher retail brokerage fees also contributed to the increase over the first quarter of 2021. At March 31, 2022, total assets under management were approximately \$2.329 billion compared to \$2.324 billion at December 31, 2021 and \$2.088 billion at March 31, 2021.

Mortgage Banking Revenues. Mortgage banking revenues totaled \$8.9 million for the first quarter of 2022, a decrease of \$0.9 million, or 8.7%, from the fourth quarter of 2021 and a decrease of \$8.2 million, or 47.8% from the first quarter of 2021. The decrease from the fourth quarter of 2021 reflected lower loan production and a slightly lower gain on sale margin. Compared to the first quarter of 2021, the decline was due to lower loan production (largely refinancing activity), and a lower gain on sale margin. We provide a detailed overview of our mortgage banking operation, including a detailed break-down of mortgage banking revenues, mortgage servicing activity, and warehouse funding within Note 4 - Mortgage Banking Activities in the Notes to Consolidated Financial Statements. Production volume totaled \$247 million for the first quarter of 2022, \$294 million for the fourth quarter of 2021, and \$463 million for the first quarter of 2021. Refinancing activity represented 21% of loan production for the first quarter of 2022, 24% for the fourth quarter of 2021, and 40% for the first quarter of 2021. CCHL contributed approximately \$0.4 million to CCBG consolidated earnings in the first quarter of 2022 compared to \$0.5 million in the fourth quarter of 2021, and \$1.6 million in the first quarter of 2021.

Noninterest Expense

Noninterest expense for the first quarter of 2022 totaled \$39.2 million compared to \$40.2 million for the fourth quarter of 2021 and \$40.5 million for the first quarter of 2021. The decrease from the fourth quarter of 2021 was primarily attributable to lower other expense of \$1.2 million which included a \$1.6 million decrease in pension expense (reflected in miscellaneous expense). Salary expense increased \$0.1 million and reflected higher variable commission expense (higher insurance of \$0.7 million partially offset by lower mortgage banking of \$0.6 million). Compared to the first quarter of 2021, the decrease was primarily attributable to lower salary expense of \$1.8 million, primarily lower variable commission expense (lower mortgage banking of \$2.6 million partially offset by higher insurance of \$0.8 million). Associate benefits expense increased by \$0.6 million and reflected higher insurance expense attributable to utilization of self-insurance reserves in 2021. Pension expense declined by \$1.0 million, but was substantially offset by higher expenses for other real estate and other miscellaneous. The decrease in pension expense in 2022 generally reflected a higher discount rate used in 2022 for determining plan liabilities and strong asset returns in 2021.

The table below reflects the major components of noninterest expense to help facilitate a better understanding of the year over year comparison.

The table below reflects the major components of noninterest expense.

<i>(Dollars in Thousands)</i>	Three Months Ended		
	March 31, 2022	December 31, 2021	March 31, 2021
Salaries	\$ 20,664	\$ 20,587	\$ 22,447
Associate Benefits	4,192	4,196	3,617
Total Compensation	24,856	24,783	26,064
Premises	2,759	2,671	2,759
Equipment	3,334	3,289	3,208
Total Occupancy	6,093	5,960	5,967
Legal Fees	349	280	558
Professional Fees	1,332	1,438	1,330
Processing Services	1,637	1,455	1,545
Advertising	773	658	749
Telephone	728	736	755
Insurance - Other	510	541	501
Other Real Estate Owned, net	25	26	(118)
Pension Settlement	209	572	-
Miscellaneous	2,721	3,758	3,125
Total Other	8,284	9,464	8,445
Total Noninterest Expense	\$ 39,233	\$ 40,207	\$ 40,476

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

Compensation. Compensation expense totaled \$24.9 million for the first quarter of 2022, an increase of \$0.1 million, or less than 1.0%, over the fourth quarter of 2021 and a decrease of \$1.2 million, or 4.6%, from the first quarter of 2021. Compared to the fourth quarter of 2021, the \$0.1 million increase in salary expense was primarily attributable to higher commission expense of \$0.7 million related to higher insurance revenues that was partially offset by lower commission expense of \$0.6 million related to lower mortgage banking revenues. Compared to the first quarter of 2021, the decrease reflected lower salary expense of \$1.8 million partially offset by higher associate benefit expense of \$0.6 million. The decline in salary expense reflected lower commission expense of \$2.6 million related to mortgage banking revenues partially offset by higher commission expense of \$0.9 million related to insurance revenues. The increase in associate benefits expense was attributable to higher associate insurance expense – for the first quarter of 2021 we did not recognize expense due to the utilization of reserves related to our self-insured plan.

Occupancy. Occupancy expense (including premises and equipment) totaled \$6.1 million for the first quarter of 2022, an increase of \$0.1 million or 2.2% over the fourth quarter of 2021 and an increase of \$0.1 million, or 2.1%, over the first quarter of 2021. The increase over both prior periods was primarily related to software additions related to certain risk management and strategic initiatives.

Other. Other noninterest expense totaled \$8.3 million for the first quarter of 2022, a decrease of \$1.2 million, or 12.5%, from the fourth quarter of 2021 and a decrease of \$0.2 million, or 1.9%, from the first quarter of 2021. The decrease from the fourth quarter of 2021 was primarily attributable to lower miscellaneous expense (pension expense of \$1.6 million partially offset by a higher level of other loss expense of \$0.2 million). Compared to the first quarter of 2021, the decrease was primarily driven by lower miscellaneous expense (pension expense of \$0.9 million partially offset by higher other losses of \$0.2 million, higher MSR amortization of \$0.1 million, hiring expense of \$0.1 million, and a \$0.3 million favorable MSR valuation reserve adjustment in the first quarter of 2021). The lower level of pension expense in 2022 generally reflected a higher discount rate in 2022 for determining plan liabilities and strong asset returns in 2021.

Our operating efficiency ratio (expressed as noninterest expense as a percent of the sum of taxable-equivalent net interest income plus noninterest income) was 77.55% for the first quarter of 2022 compared to 81.29% for the fourth quarter of 2021 and 74.36% for the first quarter of 2021.

Income Taxes

We realized income tax expense of \$2.2 million (effective rate of 20%) for the first quarter of 2022 compared to \$2.0 million (effective rate of 22%) for the fourth quarter of 2021 and \$2.8 million (effective rate of 19%) for the first quarter of 2021. Tax expense for the fourth quarter of 2021 was unfavorably impacted by discrete tax expense of \$0.1 million. Absent discrete items, we expect our annual effective tax rate to approximate 19%-20% in 2022.

FINANCIAL CONDITION

Average earning assets totaled \$3.939 billion for the first quarter of 2022, an increase of \$147.5 million, or 3.9%, over the fourth quarter of 2021, and an increase of \$440.9 million, or 12.6%, over the first quarter of 2021. The increase over the fourth quarter of 2021 was primarily attributable to seasonal growth in our public fund deposits. The increase compared to the first quarter of 2021 was primarily driven by higher deposit balances (see below – *Deposits*).

Investment Securities

Average investments increased \$68.1 million, or 6.9%, over the fourth quarter of 2021 and increased \$526.5 million, or 98.8%, over the first quarter of 2021. Our investment portfolio represented 26.9% of our average earning assets for the first quarter of 2022 compared to 26.1% for the fourth quarter of 2021, and 15.2% for the first quarter of 2021. During the first quarter of 2022, we initiated buy programs to add to our investment portfolio as part of our overall Statement of Financial Condition management, which were completed by the end of the first quarter 2022. For the remainder of 2022, we will continue to monitor our overall liquidity position and, dependent on market conditions, look for opportunities to reinvest proceeds and/or purchase additional securities that align with our overall investment strategy.

The investment portfolio is a significant component of our operations and, as such, it functions as a key element of liquidity and asset/liability management. Two types of classifications are approved for investment securities which are Available-for-Sale (“AFS”) and Held-to-Maturity (“HTM”). During the first quarter of 2022, we purchased securities under both the AFS and HTM designations. At March 31, 2022, \$624.4 million, or 54.6%, of our investment portfolio was classified as AFS, and \$518.7 million, or 45.3%, classified as HTM. The average maturity of our total portfolio at March 31, 2022 was 3.63 years compared to 3.63 years and 2.78 years at December 31, 2021 and March 31, 2021, 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 March 31, 2022, there were 673 positions (combined AFS and HTM) with unrealized losses totaling \$49.9 million. Of these 673 positions, 501 of these positions carry the full faith and credit of the U.S. Government (US Treasuries, SBA securities, and GNMA pools) and are 0% risk-weighted assets for regulatory purposes. There were 52 U.S. government agency securities issued by U.S. government sponsored entities and carry the implicit guarantee of the U.S. Government. We believe the long history of no credit losses on government securities indicates that the expectation of nonpayment of the amortized cost basis is zero. The remaining 120 positions (municipal securities, corporate bonds, and asset backed securities) have a credit component. At March 31, 2022, all CMO, MBS, SBA, US Agencies, and Treasury bonds held were AAA rated. Corporate debt securities had an allowance for credit losses totaling \$21,000 at March 31, 2022 and municipal securities had an allowance for credit losses totaling \$15,000.

Loans HFI

Average loans held for investment ("HFI") increased \$15.3 million, or 0.8%, over the fourth quarter of 2021 and decreased \$80.8 million, or 4.0%, from the first quarter of 2021. Excluding SBA PPP loans, average loans HFI increased \$18.8 million compared to the fourth quarter of 2021, and increased \$115.9 million compared to the first quarter of 2021. Compared to the fourth quarter of 2021, the increase in average loans (excluding SBA PPP loans) reflected growth in commercial loans (primarily institutional), residential loans, HELOCs, and consumer loans (indirect auto). Compared to the first quarter of 2021, we realized growth in commercial loans, construction loans, residential mortgages, and consumer loans (indirect auto). New loan production strengthened in the latter part of the first quarter of 2022 resulting in period end loan growth of \$54 million over the fourth quarter of 2021. Period-end increases were realized in most loan categories with the largest growth in commercial loans (primarily institutional) and consumer loans (indirect auto).

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 adjustments as necessary.

Credit Quality

Overall credit quality is strong and continues to improve. Nonperforming assets (nonaccrual loans and other real estate) totaled \$2.7 million at March 31, 2022 compared to \$4.3 million at December 31, 2021 and \$5.5 million at March 31, 2021. At March 31, 2022, nonperforming assets as a percentage of total assets totaled 0.06% compared to 0.10% at December 31, 2021 and 0.14% at March 31, 2021. Nonaccrual loans totaled \$2.7 million at March 31, 2022, a \$1.6 million decrease from December 31, 2021 and a \$2.8 million decrease from March 31, 2021. The \$4.4 million increase in classified loans over the fourth quarter of 2021, reflects one loan relationship that is in the loan workout process and has been reserved for at March 31, 2022.

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.

At March 31, 2022, the allowance for credit losses for HFI loans totaled \$20.8 million compared to \$21.6 million at December 31, 2021 and \$22.0 million at March 31, 2021. Activity within the allowance is detailed in Note 3 to the consolidated financial statements. At March 31, 2022, the allowance represented 1.05% of HFI loans and provided coverage of 761% of nonperforming loans compared to 1.12% and 500%, respectively, at December 31, 2021, and 1.07% and 411%, respectively, at March 31, 2021.

At March 31, 2022, the allowance for credit losses for unfunded commitments totaled \$3.0 million compared to \$2.9 million at December 31, 2021 and \$3.0 million at March 31, 2021. The allowance for unfunded commitments is recorded in other liabilities.

Deposits

Average total deposits were \$3.714 billion for the first quarter of 2022, an increase of \$164.9 million, or 4.6%, over the fourth quarter of 2021 and \$474.6 million, or 14.6%, over the first quarter of 2021. Growth over the fourth quarter of 2021 was primarily attributable to an increase in seasonal public fund deposits. Compared to the first quarter 2021, strong growth occurred in our noninterest bearing deposits, NOW accounts, and savings account balances. Over the past few years, we have experienced strong core deposit growth, in addition to growth related to multiple government stimulus programs in response to the Covid-19 pandemic, such as those under the CARES Act and the American Rescue Plan Act. Given these increases, the potential exists for our deposit levels to be volatile into 2022 due to the uncertain timing of the outflows of the stimulus related balances, in addition to the frequency and degree to which the Federal Open Market Committee (FOMC) raises the overnight funds rate. It is anticipated that current liquidity levels will remain robust due to our strong overnight funds sold position. The Bank continues to strategically consider ways to safely deploy a portion of this liquidity.

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

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

The statement of financial condition is subject to testing for interest rate shock possibilities to indicate the inherent interest rate risk. We prepare a current base case and several alternative interest rate simulations (-100,+100, +200, +300, and +400 basis points (bp)), at least once per quarter, and report the analysis to ALCO, our Market Risk Oversight Committee (“MROC”), our Enterprise Risk Oversight Committee (“EROC”) and the Board of Directors. (The -200bp rate scenario was not modeled starting in the second half of 2019 due to the low interest rate environment below 2.00%). We augment our interest rate shock analysis with alternative interest rate scenarios on a quarterly basis that may include ramps, parallel shifts, and a flattening or steepening of the yield curve (non-parallel shift). In addition, more frequent forecasts may be produced when interest rates are particularly uncertain or when other business conditions so dictate.

Our goal is to structure the statement of financial condition 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 attempt to achieve this goal by balancing, within policy limits, the volume of floating-rate liabilities with a similar volume of floating-rate assets, by keeping the average maturity of fixed-rate asset and liability contracts reasonably matched, by managing the mix of our core deposits, and by adjusting our rates to market conditions on a continuing basis.

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%
March 31, 2022	27.0%	20.1%	13.2%	6.4%	-7.4%
December 31, 2021	36.6%	27.2%	17.8%	8.7%	-6.2%

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%
March 31, 2022	46.8%	35.3%	23.9%	12.8%	-9.9%
December 31, 2021	55.0%	40.5%	26.1%	12.2%	-11.1%

The Net Interest Income (“NII”) 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. These metrics became less favorable in rising rate scenarios compared to the prior quarter as slightly longer duration assets were purchased. The percent change in NII became less favorable in the down rate scenario as the NII base increased due to higher rates and now has more room to fall. All scenarios are within policy.

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 by discounting the cash flows to estimate the present value of assets and liabilities. The difference between these discounted values of the assets and liabilities is the economic value of equity, which in theory approximates the fair value of our net assets.

ESTIMATED CHANGES IN ECONOMIC VALUE OF EQUITY ⁽¹⁾

Changes in Interest Rates	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp
Policy Limit	-30.0%	-25.0%	-20.0%	-15.0%	-15.0%
March 31, 2022	20.2%	16.2%	11.5%	6.3%	-14.7%
December 31, 2021	31.5%	24.6%	16.5%	8.2%	-19.0%
EVE Ratio (policy minimum 5.0%)	18.9%	18.0%	16.9%	15.9%	12.3%

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

At March 31, 2022, the economic value of equity was favorable in all rising rate environments and unfavorable in a falling rate environment. EVE metrics became less favorable in a rising rate environment due to longer duration investments purchased in the investment portfolio, and became more favorable in the rates down scenario as our nonmaturity deposits became more valuable as rates rose. EVE is currently in compliance with policy in all rate scenarios.

As the interest rate environment and the dynamics of the economy continue to change, additional simulations will be analyzed to address not only the changing rate environment, but also the change in mix of our financial assets and liabilities, measured over multiple years, to help assess the risk to the Company.

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 March 31, 2022, we had the ability to generate \$1.477 billion in additional liquidity through all of our available resources (this excludes \$790 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 March 31, 2022, 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 primarily consists of debt issued by the U.S. Treasury, U.S. governmental and federal agencies, municipal governments, corporate bonds, and asset-backed securities. The weighted average life of the portfolio was approximately 3.63 years at March 31, 2022, and the available for sale portfolio had a net unrealized pre-tax loss of \$31.5 million.

Our average overnight funds position (defined deposits with banks plus Fed funds sold less Fed funds purchased) was \$873.1 million in the first quarter of 2022 compared to an average net overnight funds sold position of \$789.1 million in the fourth quarter of 2021 and \$814.6 million in the first quarter of 2021. The increase over the fourth quarter of 2021 was primarily due to growth in our seasonal deposits. The increase compared to the first quarter 2021 was driven by strong core deposit growth, in addition to pandemic related stimulus programs.

We expect our capital expenditures will be approximately \$8.0 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

Average short term borrowings totaled \$32.4 million for the first quarter of 2022 compared to \$46.4 million for the fourth quarter of 2021 and \$67.0 million for the first quarter of 2021. The variance over both prior periods was primarily attributable to the fluctuation of residential mortgage warehouse borrowings at CCHL. Additional detail on these borrowings is provided in Note 4 – Mortgage Banking Activities in the Consolidated Financial Statements.

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 continue to evaluate the impact of the expected discontinuation of LIBOR 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 in the Selected Quarterly Financial Data table on page 32. At March 31, 2022, our regulatory capital ratios exceeded the threshold to be designated as “well-capitalized” under the Basel III capital standards.

Our capital ratios are presented in the Selected Quarterly Financial Data table on page 32. At March 31, 2022, our regulatory capital ratios exceeded the threshold to be designated as “well-capitalized” under the Basel III capital standards.

Shareowners’ equity was \$372.1 million at March 31, 2022 compared to \$383.2 million at December 31, 2021 and \$324.4 million at March 31, 2021. During the first quarter of 2022, shareowners’ equity was positively impacted by net income of \$8.5 million, a \$0.2 million decrease in the accumulated other comprehensive loss for our pension plan, a \$1.4 million increase in the fair value of the interest rate swap related to subordinated debt, net adjustments totaling \$0.5 million related to transactions under our stock compensation plans, and stock compensation accretion of \$0.2 million. Shareowners’ equity was reduced by common stock dividends of \$2.7 million (\$0.16 per share) and a \$19.1 million increase in the unrealized loss on investment securities.

At March 31, 2022, our common stock had a book value of \$21.94 per diluted share compared to \$22.63 at December 31, 2021 and \$19.22 at March 31, 2021. Book value is impacted by the net after-tax unrealized gains and losses on AFS investment securities. At March 31, 2022, the net loss was \$23.6 million compared to a net loss of \$4.5 million at December 31, 2021 and a \$1.2 million net gain at March 31, 2021. 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 March 31, 2022, the net pension liability reflected in other comprehensive loss was \$13.0 million compared to \$13.2 million at December 31, 2021 and \$47.1 million at March 31, 2021. 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 2021 Form 10-K “Critical Accounting Policies” and include the weighted average discount rate used to measure the present value of the pension liability, the weighted average expected long-term rate of return on pension plan assets, and the assumed rate of annual compensation increases, all of which will vary when re-measured. The discount rate assumption used to calculate the pension liability is subject to long-term corporate bond rates at December 31st. The estimated impact to the pension liability based on a 25-basis point increase or decrease in long-term corporate bond rates used to discount the pension obligation would decrease or increase the pension liability by approximately \$4.6 million (after-tax) using the balances from the December 31, 2021 measurement date.

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 March 31, 2022, we had \$763.9 million in commitments to extend credit and \$5.0 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 \$3.0 million at March 31, 2022.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2021 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 2021 Form 10-K.

TABLE I
AVERAGE BALANCES & INTEREST RATES

(Dollars in Thousands)	Three Months Ended								
	March 31, 2022			December 31, 2021			March 31, 2021		
	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Assets:									
Loans Held for Sale	\$ 43,004	\$ 397	3.75%	\$ 62,809	\$ 522	3.29%	\$ 106,242	\$ 970	3.70%
Loans Held for Investment ⁽¹⁾⁽²⁾	1,963,578	21,811	4.50	1,948,324	22,296	4.54	2,044,363	22,483	4.46
Taxable Securities	1,056,736	2,889	1.10	987,700	2,493	1.00	528,842	1,863	1.41
Tax-Exempt Securities ⁽²⁾	2,409	10	1.60	3,380	17	2.07	3,844	25	2.61
Federal Funds Sold and Interest Bearing Deposits	873,097	409	0.19	789,100	300	0.15	814,638	213	0.11
Total Earning Assets	3,938,824	25,516	2.63%	3,791,313	25,628	2.68%	3,497,929	25,554	2.96%
Cash & Due From Banks	74,253			73,752			68,978		
Allowance For Credit Losses	(21,655)			(22,127)			(24,128)		
Other Assets	275,353			284,999			278,742		
TOTAL ASSETS	\$ 4,266,775			\$ 4,127,937			\$ 3,821,521		
Liabilities:									
NOW Accounts	\$ 1,079,906	\$ 86	0.03%	\$ 963,778	\$ 72	0.03%	\$ 985,517	\$ 76	0.03%
Money Market Accounts	285,406	33	0.05	289,335	34	0.05	269,829	33	0.05
Savings Accounts	599,359	72	0.05	573,563	71	0.05	492,252	60	0.05
Other Time Deposits	97,054	33	0.14	101,037	36	0.14	102,089	39	0.15
Total Interest Bearing Deposits	2,061,725	224	0.04	1,927,713	213	0.04	1,849,687	208	0.05
Short-Term Borrowings	32,353	192	2.40	46,355	307	2.63	67,033	412	2.49
Subordinated Notes Payable	52,887	317	2.40	52,887	306	2.26	52,887	307	2.32
Other Long-Term Borrowings	833	9	4.49	1,414	12	3.50	2,736	21	3.18
Total Interest Bearing Liabilities	2,147,798	742	0.14%	2,028,369	838	0.16%	1,972,343	948	0.19%
Noninterest Bearing Deposits	1,652,337			1,621,432			1,389,821		
Other Liabilities	72,166			114,657			111,050		
TOTAL LIABILITIES	3,872,301			3,764,458			3,473,214		
Temporary Equity	10,518			13,339			21,977		
TOTAL SHAREOWNERS' EQUITY	383,956			350,140			326,330		
TOTAL LIABILITIES, TEMPORARY AND SHAREOWNERS' EQUITY	\$ 4,266,775			\$ 4,127,937			\$ 3,821,521		
Interest Rate Spread			2.49%			2.52%			2.77%
Net Interest Income		\$ 24,774			\$ 24,790			\$ 24,606	
Net Interest Margin ⁽³⁾			2.55%			2.60%			2.85%

⁽¹⁾ Average Balances include net loan fees, discounts and premiums and nonaccrual loans. Interest income includes loan fees of \$0.2 million, \$0.4 million and \$1.2 million for the three months ended March 31, 2022, December 31, 2021 and March 31, 2021, respectively.

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

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2021.

Item 4. CONTROLS AND PROCEDURES

At March 31, 2022, 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 March 31, 2022, 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 2021 Form 10-K, as updated in our subsequent quarterly reports. The risks described in our 2021 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
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosure
Not Applicable.

Item 5. Other Information
None.

Item 6. Exhibits

(A) Exhibits

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

- 101.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

- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

CAPITAL CITY BANK GROUP, INC.
(Registrant)

/s/ J. Kimbrough Davis

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

Date: May 4, 2022

**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: May 4, 2022

**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: May 4, 2022

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 March 31, 2022, 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: May 4, 2022

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 March 31, 2022, 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: May 4, 2022

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.