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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2023

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	**59-2273542**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
217 North Monroe Street, Tallahassee, Florida	**32301**
(Address of principal executive office)	(Zip Code)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐	Smaller reporting company ☐
			Emerging growth company ☐

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

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

At October 26, 2023, 16,958,056 shares of the Registrant's Common Stock, $.01 par value, were outstanding.

CAPITAL CITY BANK GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2023
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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/A for the year ended December 31, 2022, filed on December 22, 2023 (the “2022 Form 10-K/A”): (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;
- adverse developments in the financial services industry generally, such as bank failures and any related impact on depositor behavior;
- the effects of changes in the level of checking or savings account deposits and the competition for deposits on our funding costs, net interest margin and ability to replace maturing deposits and advances, as necessary;
- inflation, interest rate, market and monetary fluctuations;
- 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 effects of actions taken by governmental agencies to stabilize the recent volatility in the financial system and the effectiveness of such actions;
- changes in monetary and fiscal policies of the U.S. Government;
- 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 our liquidity position;
- 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 loan segments, 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;
- the effect of corporate restructuring, acquisitions or dispositions, including the actual restructuring and other related charges and the failure to achieve the expected gains, revenue growth or expense savings from such corporate restructuring, acquisitions or dispositions;
- the effects of natural disasters, harsh weather conditions (including hurricanes), widespread health emergencies (including pandemics, such as the COVID-19 pandemic), military conflict, acts of war, terrorism, civil unrest or other geopolitical events;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- the impact of the restatement of our previously issued financial statements as of and for the year ended December 31, 2022, the three months ended March 31, 2022 and 2023, the three and six months ended June 30, 2022 and 2023, and the three and nine months ended September 30, 2022;
- any inability to implement and maintain effective internal control over financial reporting or inability to remediate our existing material weaknesses in our internal controls deemed ineffective;
- 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;
- the outcomes of litigation or regulatory proceedings;
- negative publicity and the impact on our reputation;
- changes in consumer spending and saving habits;
- growth and profitability of our noninterest income;
- the limited trading activity of our common stock;
- the concentration of ownership of our common stock;
- anti-takeover provisions under federal and state law as well as our Articles of Incorporation and our Bylaws;
- other risks described from time to time in our filings with the Securities and Exchange Commission; and
- our ability to manage the risks involved in the foregoing.

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

PART I. FINANCIAL INFORMATION
Item 1.

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

(Dollars in Thousands, Except Par Value)	**(Unaudited) September 30, 2023**	**December 31, 2022**
ASSETS		
Cash and Due From Banks	$ 72,379	$ 72,114
Federal Funds Sold and Interest Bearing Deposits	95,119	528,536
Total Cash and Cash Equivalents	167,498	600,650
Investment Securities, Available for Sale, at fair value (amortized cost of $ 375,476 and $455,232)	334,052	413,294
Investment Securities, Held to Maturity (fair value of $582,648 and $612,701)	632,076	660,744
Equity Securities	3,585	10
Total Investment Securities	969,713	1,074,048
Loans Held For Sale, at fair value	34,013	26,909
Loans Held for Investment	2,705,181	2,547,685
Allowance for Credit Losses	(29,083)	(25,068)
Loans Held for Investment, Net	2,676,098	2,522,617
Premises and Equipment, Net	81,677	82,138
Goodwill and Other Intangibles	92,973	93,093
Other Real Estate Owned	1	431
Other Assets	116,314	119,337
Total Assets	$ 4,138,287	$ 4,519,223
LIABILITIES		
Deposits:		
Noninterest Bearing Deposits	$ 1,472,165	$ 1,653,620
Interest Bearing Deposits	2,068,280	2,285,697
Total Deposits	3,540,445	3,939,317
Short-Term Borrowings	41,696	56,793
Subordinated Notes Payable	52,887	52,887
Other Long-Term Borrowings	364	513
Other Liabilities	75,585	73,675
Total Liabilities	3,710,977	4,123,185
Temporary Equity	7,604	8,757
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; 16,957,753 and 16,986,785 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	170	- 170
Additional Paid-In Capital	36,182	37,331
Retained Earnings	418,030	387,009
Accumulated Other Comprehensive Loss, net of tax	(34,676)	(37,229)
Total Shareowners' Equity	419,706	387,281
Total Liabilities, Temporary Equity, and Shareowners' Equity	$ 4,138,287	$ 4,519,223

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

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

(Dollars in Thousands, Except Per Share Data)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
INTEREST INCOME				
Loans, including Fees	$ 39,344	$ 27,839	$ 111,845	$ 74,536
Investment Securities:				
Taxable	4,550	4,360	14,265	11,083
Tax Exempt	11	12	35	25
Funds Sold	1,848	3,231	8,741	5,048
Total Interest Income	45,753	35,442	134,886	90,692
INTEREST EXPENSE				
Deposits	5,214	1,052	11,710	1,542
Short-Term Borrowings	630	536	1,542	1,071
Subordinated Notes Payable	625	443	1,800	1,130
Other Long-Term Borrowings	4	6	15	23
Total Interest Expense	6,473	2,037	15,067	3,766
NET INTEREST INCOME	39,280	33,405	119,819	86,926
Provision for Credit Losses	2,393	2,154	7,689	3,878
Net Interest Income After Provision For Credit Losses	36,887	31,251	112,130	83,048
NONINTEREST INCOME				
Deposit Fees	5,456	5,947	16,021	16,585
Bank Card Fees	3,684	3,860	11,205	11,657
Wealth Management Fees	3,984	3,937	12,061	14,410
Mortgage Banking Revenues	1,839	2,895	8,072	11,807
Other	1,765	1,870	7,093	5,426
Total Noninterest Income	16,728	18,509	54,452	59,885
NONINTEREST EXPENSE				
Compensation	23,003	22,967	69,965	68,487
Occupancy, Net	6,980	6,153	20,562	18,321
Other	9,122	8,579	26,539	25,564
Total Noninterest Expense	39,105	37,699	117,066	112,372
INCOME BEFORE INCOME TAXES	14,510	12,061	49,516	30,561
Income Tax Expense	3,004	2,493	10,130	5,898
NET INCOME	11,506	9,568	39,386	24,663
Loss (Income) Attributable to Noncontrolling Interests	1,149	37	1,153	(860)
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	**$ 12,655**	**$ 9,605**	**$ 40,539**	**$ 23,803**
BASIC NET INCOME PER SHARE	**$ 0.75**	**$ 0.57**	**$ 2.38**	**$ 1.40**
DILUTED NET INCOME PER SHARE	**$ 0.74**	**$ 0.57**	**$ 2.38**	**$ 1.40**
Average Common Basic Shares Outstanding	16,985	16,960	17,001	16,947
Average Common Diluted Shares Outstanding	17,025	16,996	17,031	16,973

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	**2023**	**2022**	**2023**	**2022**
NET INCOME ATTRIBUTABLE TO COMMON SHAREOWNERS	$ 12,655	$ 9,605	$ 40,539	$ 23,803
Other comprehensive (loss) income, before tax:				
Investment Securities:				
Change in net unrealized gain/loss on securities available for sale to held to maturity	(3,405)	(2,618)	516	(38,778)
Unrealized losses on securities transferred from available for sale to held to maturity	-	(9,384)	-	(9,384)
Amortization of unrealized losses on securities transferred from available for sale to held to maturity	887	586	2,628	586
Derivative:				
Change in net unrealized gain on effective cash flow derivative	770	1,407	553	4,403
Benefit Plans:				
Pension plan settlement	-	102	(217)	480
Total Benefit Plans	-	102	(217)	480
Other comprehensive (loss) income, before tax	(1,748)	(9,907)	3,480	(42,693)
Deferred tax (benefit) expense related to other comprehensive income	(444)	(2,469)	927	(10,704)
Other comprehensive (loss) income, net of tax	(1,304)	(7,438)	2,553	(31,989)
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 11,351	$ 2,167	$ 43,092	$ (8,186)

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

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

(Dollars In Thousands, Except Share Data)	Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income, Net of Taxes	Total
Balance, July 1, 2023	16,991,634	$ 170	$ 36,853	$ 408,771	$ (33,372)	$ 412,422
Net Income Attributable to Common Shareowners	-	-	-	12,655	-	12,655
Other Comprehensive Loss, net of tax	-	-	-	-	(1,304)	(1,304)
Cash Dividends ($0.2000 per share)	-	-	-	(3,396)	-	(3,396)
Repurchase of Common Stock	(36,411)	-	(1,099)	-	-	(1,099)
Stock Based Compensation	-	-	346	-	-	346
Stock Compensation Plan Transactions, net	2,530	-	82	-	-	82
Balance, September 30, 2023	16,957,753	$ 170	$ 36,182	$ 418,030	$ (34,676)	$ 419,706
Balance, July 1, 2022	16,959,280	$ 170	$ 35,738	$ 373,562	$ (40,765)	$ 368,705
Net Income Attributable to Common Shareowners	-	-	-	9,605	-	9,605
Other Comprehensive Loss, net of tax	-	-	-	-	(7,438)	(7,438)
Cash Dividends ($0.1700 per share)	-	-	-	(2,883)	-	(2,883)
Stock Based Compensation	-	-	415	-	-	415
Stock Compensation Plan Transactions, net	2,532	-	81	-	-	81
Balance, September 30, 2022	16,961,812	$ 170	$ 36,234	$ 380,284	$ (48,203)	$ 368,485
Balance, January 1, 2023	16,986,785	$ 170	$ 37,331	$ 387,009	$ (37,229)	$ 387,281
Net Income Attributable to Common Shareowners	-	-	-	40,539	-	40,539
Other Comprehensive Income, net of tax	-	-	-	-	2,553	2,553
Cash Dividends ($0.5600 per share)	-	-	-	(9,518)	-	(9,518)
Repurchase of Common Stock	(102,147)	-	(3,121)	-	-	(3,121)
Stock Based Compensation	-	-	1,110	-	-	1,110
Stock Compensation Plan Transactions, net	73,115	-	862	-	-	862
Balance, September 30, 2023	16,957,753	$ 170	$ 36,182	$ 418,030	$ (34,676)	$ 419,706
Balance, January 1, 2022	16,892,060	$ 169	$ 34,423	$ 364,788	$ (16,214)	$ 383,166
Net Income Attributable to Common Shareowners	-	-	-	23,803	-	23,803
Other Comprehensive Loss, net of tax	-	-	-	-	(31,989)	(31,989)
Cash Dividends ($0.4900 per share)	-	-	-	(8,307)	-	(8,307)
Stock Based Compensation	-	-	904	-	-	904
Stock Compensation Plan Transactions, net	69,752	1	907	-	-	908
Balance, September 30, 2022	16,961,812	$ 170	$ 36,234	$ 380,284	$ (48,203)	$ 368,485

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

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

(Dollars in Thousands)	Nine Months Ended September 30, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income Attributable to Common Shareowners	$ 40,539	$ 23,803
Adjustments to Reconcile Net Income to		
Cash Provided by Operating Activities:		
Provision for Credit Losses	7,689	3,878
Depreciation	5,920	5,689
Amortization of Premiums, Discounts and Fees, net	3,216	6,618
Amortization of Intangible Asset	120	120
Pension Plan Settlement (Gain) Charge	(291)	480
Originations of Loans Held-for-Sale	(222,575)	(772,089)
Proceeds From Sales of Loans Held-for-Sale	223,543	813,267
Mortgage Banking Revenues	(8,072)	(11,807)
Net Additions for Capitalized Mortgage Servicing Rights	(392)	570
Stock Compensation	1,110	904
Net Tax Benefit from Stock-Based Compensation	-	(19)
Deferred Income Taxes	(2,464)	(12,854)
Net Change in Operating Leases	(12)	(83)
Net Gain on Sales and Write-Downs of Other Real Estate Owned	(1,915)	(136)
Net Decrease in Other Assets	8,207	3,696
Net Increase in Other Liabilities	1,069	12,839
Net Cash Provided By Operating Activities	55,692	74,876
CASH FLOWS FROM INVESTING ACTIVITIES		
Securities Held to Maturity:		
Purchases	-	(219,865)
Proceeds from Payments, Maturities, and Calls	28,159	40,096
Securities Available for Sale:		
Purchases	(9,399)	(41,880)
Proceeds from Sale of Securities	30,420	3,365
Proceeds from Payments, Maturities, and Calls	53,045	64,301
Purchases of Loans Held for Investment	(295,360)	(329,481)
Net Decrease (Increase) in Loans Held for Investment	132,105	(113,116)
Proceeds From Sales of Other Real Estate Owned	3,840	1,683
Purchases of Premises and Equipment	(5,459)	(4,013)
Noncontrolling Interest Contributions	-	2,867
Net Cash Used In Investing Activities	(62,649)	(596,043)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Decrease) Increase in Deposits	(398,872)	46,516
Net (Decrease) Increase in Short-Term Borrowings	(15,097)	17,592
Repayment of Other Long-Term Borrowings	(149)	(200)
Dividends Paid	(9,518)	(8,307)
Payments to Repurchase Common Stock	(3,121)	-
Proceeds from Issuance of Common Stock Under Purchase Plans	562	577
Net Cash (Used In) Provided by Financing Activities	(426,195)	56,178
NET DECREASE IN CASH AND CASH EQUIVALENTS	(433,152)	(464,989)
Cash and Cash Equivalents at Beginning of Period	600,650	1,035,354
Cash and Cash Equivalents at End of Period	$ 167,498	$ 570,365
Supplemental Cash Flow Disclosures:		
Interest Paid	$ 15,026	$ 3,588
Income Taxes Paid	$ 7,395	$ 6,410
Noncash Investing and Financing Activities:		
Loans Transferred to Other Real Estate Owned	$ 1,495	$ 1,543

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.

On March 1, 2020, CCB completed its acquisition of 51% of the membership interests in Brand Mortgage Group, LLC, which is now operated as Capital City Home Loans, LLC ("CCHL"). CCHL was consolidated into CCBG's financial statements effective upon the date of the acquisition. The terms of the transaction included a buyout call/put option for CCB to purchase the remaining 49% of the membership interests in CCHL (the "49% Interest") that are held by BMGBMG, LLC ("BMG"). The option requires 12 months advance notice to the other party, and under the terms of the option, January 1, 2025 is the earliest date the transfer of the 49% Interest may be completed. On December 20, 2023, BMG notified CCB that BMG will exercise its put option and the transfer of the 49% Interest will become effective on January 1, 2025.

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, 2022 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/A for the year ended December 31, 2022.

Accounting Standards Updates

Adoption of New Accounting Standard, On January 1, 2023, the Company adopted Accounting Standards Update ("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 in Accounting Standards Codification ("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."

Proposed Accounting Standards, *ASU 2023-01, "Leases (Topic 842)*: Common Control Arrangements." ASU 2023-01 requires entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. ASU 2023-01 also provides certain practical expedients applicable to private companies and not-for-profit organizations. ASU 2023-01 will be effective for the Company on January 1, 2024, though early adoption is permitted. The Company is evaluating the effect that ASU 2023-01 will have on its consolidated financial statements and related disclosures.

ASU No. 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." ASU 2023-02 is intended to improve the accounting and disclosures for investments in tax credit structures. ASU 2023-02 allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. Previously, this method was only available for qualifying tax equity investments in low-income housing tax credit structures. ASU 2023-02 will be effective for the Company on January 1, 2024, though early adoption is permitted. The Company is evaluating the effect that ASU 2023-02 will have on its consolidated financial statements and related disclosures.

ASU No. 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative." ASU 2023-06 is intended to clarify or improve disclosure and presentation requirements of a variety of topics, which will allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements and align the requirements in the FASB accounting standard codification with the SEC's regulations. The Company is currently evaluating the provisions of the amendments and the impact on its future consolidated statements.

NOTE 2 – INVESTMENT SECURITIES

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

	Available for Sale				
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2023					
U.S. Government Treasury	$ 22,036	$ -	$ 1,727	$ -	$ 20,309
U.S. Government Agency	160,275	15	11,328	-	148,962
States and Political Subdivisions	46,479	-	6,272	(12)	40,195
Mortgage-Backed Securities [1]	74,556	-	13,954	-	60,602
Corporate Debt Securities	63,871	-	8,115	(31)	55,725
Other Securities [2]	8,259	-	-	-	8,259
Total	$ 375,476	$ 15	$ 41,396	$ (43)	$ 334,052
December 31, 2022					
U.S. Government Treasury	$ 23,977	$ 1	$ 1,928	$ -	$ 22,050
U.S. Government Agency	198,888	27	12,863	-	186,052
States and Political Subdivisions	47,197	-	6,855	(13)	40,329
Mortgage-Backed Securities [1]	80,829	2	11,426	-	69,405
Corporate Debt Securities	97,119	19	8,874	(28)	88,236
Other Securities [2]	7,222	-	-	-	7,222
Total	$ 455,232	$ 49	$ 41,946	$ (41)	$ 413,294

	Held to Maturity			
(Dollars in Thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2023				
U.S. Government Treasury	$ 457,602	$ -	$ 24,452	$ 433,150
Mortgage-Backed Securities [1]	174,474	-	24,976	149,498
Total	$ 632,076	$ -	$ 49,428	$ 582,648
December 31, 2022				
U.S. Government Treasury	$ 457,374	$ -	$ 25,641	$ 431,733
Mortgage-Backed Securities [1]	203,370	8	22,410	180,968
Total	$ 660,744	$ 8	$ 48,051	$ 612,701

[1] *Comprised of residential mortgage-backed securities*

[2] *Includes Federal Home Loan Bank and Federal Reserve Bank stock, recorded at cost of $3.2 million and $5.1 million, respectively, at September 30, 2023 and $2.1 million and $5.1 million, respectively, at December 31, 2022.*

At September 30, 2023 and December 31, 2022, the investment portfolio had $3.6 million and $0.01 million, respectively in equity securities. These securities do not have a readily determinable fair value and were not credit impaired.

Securities with an amortized cost of $463.6 million and $656.1 million at September 30, 2023 and December 31, 2022, 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.

During the third quarter of 2022, the Company transferred certain securities from the AFS to HTM classification. Transfers are made at fair value on the date of the transfer. The 33 securities had an amortized cost basis and fair value of $168.4 million and $159.0 million, respectively at the time of transfer. The net unamortized, unrealized loss on the transferred securities included in accumulated other comprehensive loss in the accompanying statement of financial condition at September 30, 2023 totaled $5.3 million. This amount will continue to be amortized out of accumulated other comprehensive loss over the remaining life of the underlying securities as an adjustment of the yield on those securities.

Investment Sales. There were $30.4 million in sales of investment securities for the three and nine months ended September 30, 2023. There were no significant sales of investment securities for the three months ended September 30, 2022 and $3.4 million in sales for the nine months ended September 30, 2022.

Maturity Distribution. At September 30, 2023, 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 ("MBS") and certain amortizing U.S. government agency securities are shown separately because they are not due at a certain maturity date.

	Available for Sale		**Held to Maturity**	
(Dollars in Thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 26,628	$ 25,874	$ -	$ -
Due after one year through five years	132,264	119,087	457,602	433,150
Due after five year through ten years	45,924	37,331	-	-
Mortgage-Backed Securities	74,556	60,602	174,474	149,498
U.S. Government Agency	87,845	82,899	-	-
Other Securities	8,259	8,259	-	-
Total	$ 375,476	$ 334,052	$ 632,076	$ 582,648

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:

	Less Than 12 Months		Greater Than 12 Months		Total	
(Dollars in Thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2023						
Available for Sale						
U.S. Government Treasury	$ -	$ -	$ 19,318	$ 1,727	$ 19,318	$ 1,727
U.S. Government Agency	11,833	89	134,243	11,239	146,076	11,328
States and Political Subdivisions	835	26	37,981	6,246	38,816	6,272
Mortgage-Backed Securities	91	1	60,492	13,953	60,583	13,954
Corporate Debt Securities	-	-	55,756	8,115	55,756	8,115
Total	$ 12,759	$ 116	$ 307,790	$ 41,280	$ 320,549	$ 41,396
Held to Maturity						
U.S. Government Treasury	-	-	433,150	24,452	433,150	24,452
Mortgage-Backed Securities	998	38	148,500	24,938	149,498	24,976
Total	$ 998	$ 38	$ 581,650	$ 49,390	$ 582,648	$ 49,428
December 31, 2022						
Available for Sale						
U.S. Government Treasury	$ 983	$ -	$ 19,189	$ 1,928	$ 20,172	$ 1,928
U.S. Government Agency	63,112	2,572	113,004	10,291	176,116	12,863
States and Political Subdivisions	1,425	2	38,760	6,853	40,185	6,855
Mortgage-Backed Securities	6,594	959	60,458	10,467	67,052	11,426
Corporate Debt Securities	26,959	878	58,601	7,996	85,560	8,874
Total	$ 99,073	$ 4,411	$ 290,012	$ 37,535	$ 389,085	$ 41,946
Held to Maturity						
U.S. Government Treasury	177,552	11,018	254,181	14,623	431,733	25,641
Mortgage-Backed Securities	88,723	6,814	91,462	15,596	180,185	22,410
Total	$ 266,275	$ 17,832	$ 345,643	$ 30,219	$ 611,918	$ 48,051

At September 30, 2023, there were 894 positions (combined AFS and HTM) with unrealized losses totaling $ 90.8 million. 86 of these positions are U.S. Treasury bonds and carry the full faith and credit of the U.S. Government. 705 are U.S. government agency securities issued by U.S. government sponsored entities. We believe the long history of no credit losses on government securities indicates that the expectation of nonpayment of the amortized cost basis is effectively zero. The remaining 103 positions (municipal securities and corporate bonds) have a credit component. At September 30, 2023, all collateralized mortgage obligation securities ("CMO"), MBS, Small Business Administration securities ("SBA"), U.S. Agency, and U.S. Treasury bonds held were AAA rated. At September 30, 2023, corporate debt securities had an allowance for credit losses of $31,000 and municipal securities had an allowance of $12,000.

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 effectively 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:

(Dollars in Thousands)	**September 30, 2023**	**December 31, 2022**
Commercial, Financial and Agricultural	$ 221,704	$ 247,362
Real Estate – Construction	197,526	234,519
Real Estate – Commercial Mortgage	828,234	782,557
Real Estate – Residential(1)	967,913	749,513
Real Estate – Home Equity	203,606	208,217
Consumer(2)	286,198	325,517
Loans Held For Investment, Net of Unearned Income	$ 2,705,181	$ 2,547,685

(1) *Includes loans in process balance of $2.3 million and $6.1 million at both September 30, 2023 and December 31, 2022.*
(2) *Includes overdraft balances of $1.1 million at September 30, 2023 and December 31, 2022, respectively.*

Net deferred loan costs, which include premiums on purchased loans, included in loans were $7.2 million at September 30, 2023 and $5.1 million at December 31, 2022.

Accrued interest receivable on loans which is excluded from amortized cost totaled $9.7 million at September 30, 2023 and $8.0 million at December 31, 2022, 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 $293.1 million and $267.0 million for the nine months ended September 30, 2023 and September 30, 2022, 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 2022 Form 10-K/A.

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

(Dollars in Thousands)	**Commercial, Financial, Agricultural**	**Real Estate Construction**	**Real Estate Commercial Mortgage**	**Real Estate Residential**	**Real Estate Home Equity**	**Consumer**	**Total**
Three Months Ended September 30, 2023							
Beginning Balance	$ 1,446	$ 2,848	$ 5,453	$ 13,388	$ 1,783	$ 3,325	$ 28,243
Provision for Credit Losses	(59)	(536)	84	1,356	(71)	1,219	1,993
Charge-Offs	(76)	-	-	-	-	(1,999)	(2,075)
Recoveries	28	-	17	30	53	794	922
Net (Charge-Offs) Recoveries	(48)	-	17	30	53	(1,205)	(1,153)
Ending Balance	$ 1,339	$ 2,312	$ 5,554	$ 14,774	$ 1,765	$ 3,339	$ 29,083
Nine Months Ended September 30, 2023							
Beginning Balance	$ 1,506	$ 2,654	$ 4,815	$ 10,741	$ 1,864	$ 3,488	$ 25,068
Provision for Credit Losses	(67)	(344)	823	3,814	(269)	3,218	7,175
Charge-Offs	(294)	-	(120)	-	(39)	(6,252)	(6,705)
Recoveries	194	2	36	219	209	2,885	3,545
Net (Charge-Offs) Recoveries	(100)	2	(84)	219	170	(3,367)	(3,160)
Ending Balance	$ 1,339	$ 2,312	$ 5,554	$ 14,774	$ 1,765	$ 3,339	$ 29,083
Three Months Ended September 30, 2022							
Beginning Balance	$ 1,641	$ 3,138	$ 5,052	$ 5,827	$ 1,760	$ 4,045	$ 21,463
Provision for Credit Losses	(136)	(22)	(120)	1,388	127	749	1,986
Charge-Offs	(2)	-	(1)	-	-	(1,759)	(1,762)
Recoveries	58	2	8	44	22	926	1,060
Net Charge-Offs	56	2	7	44	22	(833)	(702)
Ending Balance	$ 1,561	$ 3,118	$ 4,939	$ 7,259	$ 1,909	$ 3,961	$ 22,747
Nine Months Ended September 30, 2022							
Beginning Balance	$ 2,191	$ 3,302	$ 5,810	$ 4,129	$ 2,296	$ 3,878	$ 21,606
Provision for Credit Losses	267	(194)	(697)	2,944	(501)	1,940	3,759
Charge-Offs	(1,179)	-	(267)	-	(33)	(4,354)	(5,833)
Recoveries	282	10	93	186	147	2,497	3,215
Net Charge-Offs	(897)	10	(174)	186	114	(1,857)	(2,618)
Ending Balance	$ 1,561	$ 3,118	$ 4,939	$ 7,259	$ 1,909	$ 3,961	$ 22,747

For the nine months ended September 30, 2023, the allowance for HFI loans increased by $4.0 million and reflected a provision expense of $7.2 million and net loan charge-offs of $3.2 million. The increase was primarily driven by incremental reserves needed for loan growth and a higher loss rate for the residential real estate portfolio due to slower prepayment speeds. For the nine months ended September 30, 2022, the allowance increased by $1.1 million and reflected a provision expense of $3.8 million and net loan charge-offs of $2.6 million. The increase was driven by incremental reserves needed for loan growth, and to a lesser extent, a higher projected rate of unemployment and its potential effect on rates of default. Unemployment forecast scenarios were utilized to estimate probability of default and are 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.

(Dollars in Thousands)	**30-59 DPD**	**60-89 DPD**	**90 + DPD**	**Total Past Due**	**Total Current**	**Nonaccrual Loans**	**Total Loans**
September 30, 2023							
Commercial, Financial and Agricultural	$ 306	$ 106	$ -	$ 412	$ 221,236	$ 56	$ 221,704
Real Estate – Construction	-	-	-	-	197,251	275	197,526
Real Estate – Commercial Mortgage	393	44	-	437	826,888	909	828,234
Real Estate – Residential	331	117	-	448	965,171	2,294	967,913
Real Estate – Home Equity	420	27	-	447	202,692	467	203,606
Consumer	3,040	793	-	3,833	281,672	693	286,198
Total	$ 4,490	$ 1,087	$ -	$ 5,577	$ 2,694,910	$ 4,694	$ 2,705,181
December 31, 2022							
Commercial, Financial and Agricultural	$ 109	$ 126	$ -	$ 235	$ 247,086	$ 41	$ 247,362
Real Estate – Construction	359	-	-	359	234,143	17	234,519
Real Estate – Commercial Mortgage	158	149	-	307	781,605	645	782,557
Real Estate – Residential	845	530	-	1,375	747,899	239	749,513
Real Estate – Home Equity	-	35	-	35	207,411	771	208,217
Consumer	3,666	1,852	-	5,518	319,415	584	325,517
Total	$ 5,137	$ 2,692	$ -	$ 7,829	$ 2,537,559	$ 2,297	$ 2,547,685

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

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

	September 30, 2023			**December 31, 2022**		
(Dollars in Thousands)	**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	$ -	$ 56	$ -	$ -	$ 41	$ -
Real Estate – Construction	-	275	-	-	17	-
Real Estate – Commercial Mortgage	780	129	-	389	256	-
Real Estate – Residential	1,084	1,210	-	-	239	-
Real Estate – Home Equity	-	467	-	-	771	-
Consumer	-	693	-	-	584	-
Total Nonaccrual Loans	$ 1,864	$ 2,830	$ -	$ 389	$ 1,908	$ -

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

	September 30, 2023		December 31, 2022	
(Dollars in Thousands)	Real Estate Secured	Non Real Estate Secured	Real Estate Secured	Non Real Estate Secured
Commercial, Financial and Agricultural	$ -	$ -	$ -	$ -
Real Estate – Construction	275	-	-	-
Real Estate – Commercial Mortgage	781	-	389	-
Real Estate – Residential	1,084	-	160	-
Real Estate – Home Equity	-	-	130	-
Consumer	-	-	21	-
Total Collateral Dependent Loans	$ 2,140	$ -	$ 700	$ -

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

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

Residential Real Estate Loans In Process of Foreclosure . At September 30, 2023 and December 31, 2022, the Company had $0.4 million and $0.6 million, respectively, in 1-4 family residential real estate loans for which formal foreclosure proceedings were in process.

For the nine-month period ended September 30, 2023, the Company did not modify any loans made to borrowers experiencing financial difficulty.

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 September 30, 2023 and current period gross write-offs for the nine months ended September 30, 2023 by years of origination and internally assigned credit risk ratings (refer to Credit Risk Management section for detail on risk rating system).

	Term Loans by Origination Year						**Revolving**	
(Dollars in Thousands)	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Loans**	**Total**
Commercial, Financial, Agriculture:								
Pass	$ 40,571	$ 72,609	$ 32,101	$ 12,418	$ 8,920	$ 9,055	$ 44,290	$ 219,964
Special Mention	182	461	405	11	13	8	76	1,156
Substandard	-	106	108	82	27	150	111	584
Total	$ 40,753	$ 73,176	$ 32,614	$ 12,511	$ 8,960	$ 9,213	$ 44,477	$ 221,704
Current-Period Gross Writeoffs	$ 6	$ 149	$ 48	$ 31	$ 12	$ 10	$ 38	$ 294
Real Estate - Construction:								
Pass	$ 76,755	$ 88,831	$ 22,609	$ 1,214	$ 189	$ -	$ 5,482	$ 195,080
Special Mention	568	-	625	214	-	-	-	1,407
Substandard	-	-	378	661	-	-	-	1,039
Total	$ 77,323	$ 88,831	$ 23,612	$ 2,089	$ 189	$ -	$ 5,482	$ 197,526
Real Estate - Commercial Mortgage:								
Pass	$ 93,098	$ 277,464	$ 154,743	$ 108,076	$ 44,874	$ 115,068	$ 16,059	$ 809,382
Special Mention	3,299	316	-	233	1,373	1,014	-	6,235
Substandard	-	1,250	6,781	1,651	614	1,627	694	12,617
Total	$ 96,397	$ 279,030	$ 161,524	$ 109,960	$ 46,861	$ 117,709	$ 16,753	$ 828,234
Current-Period Gross Writeoffs	$ -	$ -	$ -	$ -	$ -	$ 120	$ -	$ 120
Real Estate - Residential:								
Pass	$ 294,155	$ 434,902	$ 86,357	$ 39,468	$ 26,126	$ 71,667	$ 8,031	$ 960,706
Special Mention	269	90	225	510	-	542	-	1,636
Substandard	790	106	204	479	918	3,074	-	5,571
Total	$ 295,214	$ 435,098	$ 86,786	$ 40,457	$ 27,044	$ 75,283	$ 8,031	$ 967,913
Real Estate - Home Equity:								
Performing	$ 71	$ 145	$ 130	$ 11	$ 388	$ 997	$ 201,397	$ 203,139
Nonperforming	-	-	-	-	-	-	467	467
Total	$ 71	$ 145	$ 130	$ 11	$ 388	$ 997	$ 202,257	$ 203,606
Current-Period Gross Writeoffs	$ -	$ -	$ -	$ -	$ -	$ -	$ 39	$ 39
Consumer:								
Performing	$ 57,755	$ 99,327	$ 79,230	$ 24,375	$ 12,417	$ 6,387	$ 6,014	$ 285,505
Nonperforming	69	226	202	193	-	3	-	693
Total	$ 57,824	$ 99,553	$ 79,432	$ 24,568	$ 12,417	$ 6,390	$ 6,014	$ 286,198
Current-Period Gross Writeoffs	$ 2,322	$ 2,199	$ 1,075	$ 228	$ 200	$ 94	$ 134	$ 6,252

NOTE 4 – MORTGAGE BANKING ACTIVITIES

The Company's mortgage banking activities 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.

	September 30, 2023		December 31, 2022	
(Dollars in Thousands)	Unpaid Principal Balance/Notional	Fair Value	Unpaid Principal Balance/Notional	Fair Value
Residential Mortgage Loans Held for Sale	$ 35,899	$ 34,013	$ 26,274	$ 26,909
Residential Mortgage Loan Commitments ("IRLCs") (1)	50,726	859	36,535	819
Forward Sales Contracts(1)	28,500	180	15,500	187
		$ 35,052		$ 27,915

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

At September 30, 2023, the Company had no residential mortgage loans held for sale 30-89 days past due and $0.6 million of loans were on nonaccrual status. At December 31, 2022, the Company had $ 0.6 million of residential mortgage loans held for sale 30-89 days past due and $0.1 million of loans were on nonaccrual status.

Mortgage banking revenue was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2023	2022	2023	2022
Net realized gains on sales of mortgage loans	$ 1,350	$ 1,478	$ 4,843	$ 5,716
Net change in unrealized gain on mortgage loans held for sale	(1,223)	(1,205)	(1,700)	(1,600)
Net change in the fair value of mortgage loan commitments (IRLCs)	(412)	439	39	116
Net change in the fair value of forward sales contracts	80	655	(5)	616
Pair-Offs on net settlement of forward sales contracts	359	637	454	4,846
Mortgage servicing rights additions	184	126	471	449
Net origination fees	1,501	765	3,970	1,664
Total mortgage banking revenues	$ 1,839	$ 2,895	$ 8,072	$ 11,807

Residential Mortgage Servicing

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

The following represents a summary of mortgage servicing rights.

(Dollars in Thousands)		September 30, 2023		December 31, 2022
Number of residential mortgage loans serviced for others		411		1,769
Outstanding principal balance of residential mortgage loans serviced for others	$	97,479	$	410,740
Weighted average interest rate		5.38%		3.62%
Remaining contractual term (in months)		306		298

Conforming conventional loans serviced by the Company are sold to Federal National Mortgage Association ("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 the Government National Mortgage Association ("GNMA"), whereby the Company is insured against loss by the Federal Housing Administration or partially guaranteed against loss by the Veterans Administration. At September 30, 2023, the servicing portfolio balance consisted of the following loan types: FNMA (9%), GNMA (1%), and private investor (90%). FNMA and private investor loans are structured as actual/actual payment remittance.

The Company had no delinquent residential mortgage loans in GNMA pools serviced by the Company at September 30, 2023 and $0.3 million at December 31, 2022, 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 and nine months ended September 30, 2023, the Company repurchased $ 0.8 million and $2.2 million, respectively, in delinquent residential loans that were in GNMA pools. For the three and nine months ended September 30, 2022, the Company repurchased $ 0.3 million and $ 1.3 million, respectively, in delinquent residential loans from the GNMA pools. When delinquent residential loans are repurchased, the Company has the intention to modify their terms and include the loans in new GNMA pools.

Activity in the capitalized mortgage servicing rights was as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in Thousands)		2023		2022		2023		2022
Beginning balance	$	565	$	3,415	$	2,599	$	3,774
Additions due to loans sold with servicing retained		184		126		471		449
Deletions and amortization		(45)		(337)		(79)		(1,019)
Sale of servicing rights [1]		-		-		(2,287)		-
Ending balance	$	704	$	3,204	$	704	$	3,204

[1] The Company sold an MSR portfolio with an unpaid principal balance of $334 million for a sales price of $4.0 million, recognizing a $1.38 million gain on sale, recorded in other noninterest income on the Consolidated Statement of Income.

The Company did not record any permanent impairment losses on mortgage servicing rights for the three months ended September 30, 2023 or 2022.

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

	September 30, 2023				December 31, 2022			
		Minimum		Maximum		Minimum		Maximum
Discount rates		9.50%		12.00%		9.50%		12.00%
Annual prepayment speeds		10.58%		16.83%		12.33%		20.23%
Cost of servicing (per loan)	$	85	$	95	$	85	$	95

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 13.81% at September 30, 2023 and 13.42% at December 31, 2022.

Warehouse Line Borrowings

The Company has the following warehouse lines of credit and master repurchase agreements with various financial institutions at September 30, 2023.

(Dollars in Thousands)		**Amounts Outstanding**
$50 million master repurchase agreement without defined expiration. Interest is at the SOFR rate plus 2.00% to 3.00%, with a floor rate of 3.25%. A cash pledge deposit of $0.5 million is required by the lender.	$	10,504
$60 million warehouse line of credit agreement expiring in December 2023. Interest is at the SOFR plus 2.25%, to 3.25%.		8,282
Total Warehouse Borrowings	$	18,786

Warehouse line borrowings are classified as short-term borrowings. At December 31, 2022, warehouse line borrowings totaled $ 50.2 million. At September 30, 2023, 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 September 30, 2023.

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 September 30, 2023 and December 31, 2022 was $38.6 million and $22.9 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 September 30, 2023 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 CME Term SOFR (secured overnight financing rate).

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.

(Dollars in Thousands)	**Statement of Financial Condition Location**		**Notional Amount**		**Fair Value**	**Weighted Average Maturity (Years)**
September 30, 2023						
Interest rate swaps related to subordinated debt	Other Assets	$	30,000	$	6,748	6.8
December 31, 2022						
Interest rate swaps related to subordinated debt	Other Assets	$	30,000	$	6,195	7.5

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 and nine months ended September 30, 2023.

(Dollars in Thousands)	**Category**		**Amount of (Loss) Gain Recognized in AOCI**		**Amount of Gain (Loss) Reclassified from AOCI to Income**
Three months ended September 30, 2023	Interest expense	$	574	$	375
Three months ended September 30, 2022	Interest expense		1,050		113
Nine months ended September 30, 2023	Interest expense	$	413	$	1,016
Nine months ended September 30, 2022	Interest expense		3,287		112

The Company estimates there will be approximately $ 1.5 million reclassified as a decrease to interest expense within the next 12 months.

The Company had a collateral liability of $ 7.0 million and $5.8 million at September 30, 2023 and December 31, 2022, 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 42 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 September 30, 2023, the operating lease ROU assets and liabilities were $ 23.8 million and $24.2 million, respectively. At December 31, 2022, ROU assets and liabilities were $ 22.3 million and $22.7 million, respectively. The Company does not have any finance leases or any significant lessor agreements.

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

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
(Dollars in Thousands)		**2023**		**2022**		**2023**		**2022**
Operating lease expense	$	710	$	427	$	2,114	$	1,202
Short-term lease expense		167		158		438		495
Total lease expense	$	877	$	585	$	2,552	$	1,697
Other information:								
Cash paid for amounts included in the measurement of lease liabilities:								
Operating cash flows from operating leases	$	720	$	439	$	2,131	$	1,303
Right-of-use assets obtained in exchange for new operating lease liabilities		55		2,406		3,048		3,598
Weighted average remaining lease term — operating leases (in years)		18.4		22.0		18.4		22.0
Weighted average discount rate — operating leases		3.3%		2.2%		3.3%		2.2%

The table below summarizes the maturity of remaining lease liabilities:

(Dollars in Thousands)	September 30, 2023
2023	$ 955
2024	2,723
2025	2,487
2026	2,336
2027	2,246
2028 and thereafter	21,045
Total	$ 31,792
Less: Interest	(7,613)
Present Value of Lease liability	$ 24,179

At September 30, 2023, the Company had one additional operating lease obligation for a banking office that has not yet commenced.

A related party is the lessor in an operating lease with the Company. The Company's minimum payment is $0.1 million annually through 2052, for an aggregate remaining obligation of $ 2.3 million at September 30, 2023.

NOTE 7 - EMPLOYEE BENEFIT PLANS

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2023	2022	2023	2022
Service Cost	$ 872	$ 1,572	$ 2,616	$ 4,717
Interest Cost	1,458	1,166	4,374	3,499
Expected Return on Plan Assets	(1,701)	(2,675)	(5,104)	(8,026)
Prior Service Cost Amortization	1	4	4	11
Net Loss Amortization	234	428	701	1,285
Pension Settlement Charge	-	102	-	480
Net Periodic Benefit Cost	$ 864	$ 597	$ 2,591	$ 1,966
Discount Rate	5.63%	3.11%	5.63%	3.11%
Long-term Rate of Return on Assets	6.75%	6.75%	6.75%	6.75%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	2023	2022	2023	2022
Service Cost	$ 4	$ 8	$ 13	$ 24
Interest Cost	120	79	381	237
Prior Service Cost Amortization	38	69	114	207
Net Loss Amortization	(111)	180	(420)	540
Pension Settlement Gain	-	-	(291)	-
Net Periodic Benefit Cost	$ 51	$ 336	$ (203)	$ 1,008
Discount Rate	5.33%	2.80%	5.41%	2.80%

During the month of June 2023, lump sum payments made under the SERP triggered settlement accounting and remeasurement of the plan at June 30, 2023. In accordance with applicable accounting guidance for retirement benefit plans, the Company recorded a settlement gain of $0.3 million in June 2023. No settlement gain or loss was recorded during the third quarter of 2023.

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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

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

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

	September 30, 2023			December 31, 2022		
(Dollars in Thousands)	**Fixed**	**Variable**	**Total**	**Fixed**	**Variable**	**Total**
Commitments to Extend Credit [1]	$ 212,312	$ 562,402	$ 774,714	$ 243,614	$ 531,873	$ 775,487
Standby Letters of Credit	6,796	-	6,796	5,619	-	5,619
Total	$ 219,108	$ 562,402	$ 781,510	$ 249,233	$ 531,873	$ 781,106

[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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in Thousands)	**2023**	**2022**	**2023**	**2022**
Beginning Balance	$ 3,120	$ 2,853	$ 2,989	$ 2,897
Provision for Credit Losses	382	159	513	115
Ending Balance	$ 3,502	$ 3,012	$ 3,502	$ 3,012

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 a commitment of up to $ 1.0 million in a bank tech venture capital fund focused on finding and funding technology solutions for community banks and commitments of up to $ 15 million for two solar tax credit equity fund investments. For the nine months ended September 30, 2023, the Company had contributed $ 0.2 million of the bank tech commitment and $ 6.7 million of the solar fund commitments. At December 31, 2022, the Company had contributed $ 0.2 million of the bank tech commitment and $ 1.0 million of one of the solar fund commitments.

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. Conversion ratio payments and ongoing fixed quarterly charges are reflected in earnings in the period incurred. 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 $ 0.3 million.

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.

Equity Securities. Investment securities classified as equity securities are measured at fair value of the investment with changes in fair value recorded in earnings.

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 September 30, 2023 and at December 31, 2022, there was a $ 0.1 million payable.

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

(Dollars in Thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
September 30, 2023				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	$ 20,309	$ -	$ -	$ 20,309
U.S. Government Agency	-	148,962	-	148,962
States and Political Subdivisions	-	40,195	-	40,195
Mortgage-Backed Securities	-	60,602	-	60,602
Corporate Debt Securities	-	55,725	-	55,725
Equity Securities	-	508	-	508
Loans Held for Sale	-	34,013	-	34,013
Interest Rate Swap Derivative	-	6,748	-	6,748
Mortgage Banking Hedge Derivative	-	180	-	180
Mortgage Banking IRLC Derivative	-	-	859	859
December 31, 2022				
ASSETS:				
Securities Available for Sale:				
U.S. Government Treasury	$ 22,050	$ -	$ -	$ 22,050
U.S. Government Agency	-	186,052	-	186,052
States and Political Subdivisions	-	40,329	-	40,329
Mortgage-Backed Securities	-	69,405	-	69,405
Corporate Debt Securities	-	88,236	-	88,236
Loans Held for Sale	-	26,909	-	26,909
Interest Rate Swap Derivative	-	6,195	-	6,195
Mortgage Banking Hedge Derivative	-	187	-	187
Mortgage Banking IRLC Derivative	-	-	819	819

Mortgage Banking Activities. The Company had Level 3 issuances and transfers related to mortgage banking activities of $11.1 million and $16.3 million, respectively, for the nine months ended September 30, 2023, and $11.4 million and $23.4 million, respectively, for the nine months ended September 30, 2022. 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 $2.1 million with no valuation allowance at September 30, 2023 and a carrying value of $0.7 million and a $0.1 million valuation allowance at December 31, 2022.

Other Real Estate Owned. During the first nine months of 2023, 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 each of September 30, 2023 and December 31, 2022, there was no valuation allowance for loan servicing rights.

Assets and Liabilities Disclosed at Fair Value

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

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

Equity Securities. Investment securities classified as equity securities that do not have readily determinable fair values are measured at cost and remeasured to fair value when impaired or upon observable transaction prices.

Other Equity Securities. Investment securities classified as other equity securities that do not have readily determinable fair values, are measured at cost, remeasured to fair value when impaired or upon observable transaction prices and accounted for under the equity method of accounting and reflected in other assets.

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 not recorded at fair value consisted of the following:

	September 30, 2023			
(Dollars in Thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$ 72,379	$ 72,379	$ -	$ -
Short-Term Investments	95,119	95,119	-	-
Investment Securities, Held to Maturity	632,076	433,150	149,498	-
Equity Securities(1)	3,077	-	3,077	-
Other Equity Securities(2)	2,848	-	2,848	-
Mortgage Servicing Rights	704	-	-	1,182
Loans, Net of Allowance for Credit Losses	2,676,098	-	-	2,472,305
LIABILITIES:				
Deposits	$ 3,540,445	$ -	$ 3,081,702	$ -
Short-Term Borrowings	41,696	-	41,696	-
Subordinated Notes Payable	52,887	-	44,910	-
Long-Term Borrowings	364	-	362	-

	December 31, 2022			
(Dollars in Thousands)	Carrying Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
ASSETS:				
Cash	$ 72,114	$ 72,114	$ -	$ -
Short-Term Investments	528,536	528,536	-	-
Investment Securities, Held to Maturity	660,774	431,733	180,968	-
Equity Securities(1)	10	-	10	-
Other Equity Securities(2)	2,848	-	2,848	-
Mortgage Servicing Rights	2,599	-	-	4,491
Loans, Net of Allowance for Credit Losses	2,522,617	-	-	2,377,229
LIABILITIES:				
Deposits	$ 3,939,317	$ -	$ 3,310,383	$ -
Short-Term Borrowings	56,793	-	56,793	-
Subordinated Notes Payable	52,887	-	45,763	-
Long-Term Borrowings	513	-	513	-

(1) Not readily marketable securities.
(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.

(Dollars in Thousands)	Securities Available for Sale	Interest Rate Swap	Retirement Plans	Accumulated Other Comprehensive (Loss) Income
Balance as of January 1, 2023	$ (37,349)	$ 4,625	$ (4,505)	$ (37,229)
Other comprehensive income (loss) during the period	2,357	413	(217)	2,553
Balance as of September 30, 2023	$ (34,992)	$ 5,038	$ (4,722)	$ (34,676)
Balance as of January 1, 2022	$ (4,588)	$ 1,530	$ (13,156)	$ (16,214)
Other comprehensive (loss) income during the period	(35,634)	3,287	358	(31,989)
Balance as of September 30, 2022	$ (40,222)	$ 4,817	$ (12,798)	$ (48,203)

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 2023 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 of this quarterly report on Form 10-Q as well as the Introductory Note and *Item 1A. Risk Factors* of our 2022 Form 10-K/A, as updated in our subsequent quarterly reports filed on Form 10-Q/A, 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 62 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 2022 Form 10-K/A.

NON-GAAP FINANCIAL MEASURES (UNAUDITED)

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.

		2023			2022	
(Dollars in Thousands, except per share data)		Third	Second	First	Fourth	Third
Shareowners' Equity (GAAP)		$ 419,706	$ 412,422	$ 403,260	$ 387,281	$ 368,485
Less: Goodwill and Other Intangibles (GAAP)		92,973	93,013	93,053	93,093	93,133
Tangible Shareowners' Equity (non-GAAP)	A	326,733	319,409	310,207	294,188	275,352
Total Assets (GAAP)		4,138,287	4,391,206	4,401,762	4,519,223	4,327,991
Less: Goodwill and Other Intangibles (GAAP)		92,973	93,013	93,053	93,093	93,133
Tangible Assets (non-GAAP)	B	$ 4,045,314	$ 4,298,193	$ 4,308,709	$ 4,426,130	$ 4,234,858
Tangible Common Equity Ratio (non-GAAP)	**A/B**	**8.08%**	**7.43%**	**7.20%**	**6.65%**	**6.50%**
Actual Diluted Shares Outstanding (GAAP)	C	16,997,886	17,025,023	17,049,913	17,039,401	16,998,177
Tangible Book Value per Diluted Share (non-GAAP)	**A/C**	**19.22**	**$ 18.76**	**$ 18.19**	**$ 17.27**	**$ 16.20**

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	2023			2022	
(Dollars in Thousands, Except Per Share Data)	Third	Second	First	Fourth	Third
Summary of Operations:					
Interest Income	$ 45,753	$ 45,205	$ 43,926	$ 41,218	$ 35,442
Interest Expense	6,473	5,068	3,526	3,122	2,037
Net Interest Income	39,280	40,137	40,400	38,096	33,405
Provision for Credit Losses	2,393	2,197	3,099	3,616	2,154
Net Interest Income After Provision for Credit Losses	36,887	37,940	37,301	34,480	31,251
Noninterest Income	16,728	19,967	17,758	15,296	18,509
Noninterest Expense	39,105	40,285	37,675	39,262	37,699
Income Before Income Taxes	14,510	17,622	17,384	10,514	12,061
Income Tax Expense	3,004	3,417	3,710	1,900	2,493
(Income) Loss Attributable to NCI	1,149	(31)	35	995	37
Net Income Attributable to CCBG	12,655	14,174	13,709	9,609	9,605
Net Interest Income (FTE)[(1)]	39,367	40,224	40,500	38,185	33,488
Per Common Share:					
Net Income Basic	$ 0.75	$ 0.83	$ 0.81	$ 0.56	$ 0.57
Net Income Diluted	0.74	0.83	0.80	0.56	0.57
Cash Dividends Declared	0.20	0.18	0.18	0.17	0.17
Diluted Book Value	24.69	24.21	23.65	22.73	21.68
Diluted Tangible Book Value [(2)]	19.22	18.76	18.19	17.27	16.20
Market Price:					
High	33.44	34.16	36.86	36.23	33.93
Low	28.64	28.03	28.18	31.14	27.41
Close	29.83	30.64	29.31	32.50	31.11
Selected Average Balances:					
Investment Securities	$ 1,005,003	$ 1,043,858	$ 1,064,212	$ 1,081,092	$ 1,120,728
Loans Held for Investment	2,672,653	2,657,693	2,582,395	2,439,379	2,264,075
Earning Assets	3,876,980	3,974,803	4,062,688	4,032,733	4,009,951
Total Assets	4,218,855	4,320,601	4,411,865	4,381,825	4,357,678
Deposits	3,596,816	3,719,564	3,817,314	3,803,042	3,769,864
Shareowners' Equity	427,580	418,757	404,067	380,570	379,305
Common Equivalent Average Shares:					
Basic	16,985	17,002	17,016	16,963	16,960
Diluted	17,025	17,035	17,045	17,016	16,996
Performance Ratios:					
Return on Average Assets (annualized)	1.19 %	1.32 %	1.26 %	0.87 %	0.87 %
Return on Average Equity (annualized)	11.74	13.58	13.76	10.02	10.05
Net Interest Margin (FTE)	4.03	4.06	4.04	3.76	3.32
Noninterest Income as % of Operating Revenue	29.87	33.22	30.53	28.65	35.65
Efficiency Ratio	69.88	66.93	64.67	73.41	72.51
Asset Quality:					
Allowance for Credit Losses ("ACL")	$ 29,083	$ 28,243	$ 26,808	$ 25,068	$ 22,747
Nonperforming Assets ("NPAs")	4,695	6,624	4,602	2,728	2,422
ACL to Loans HFI	1.08 %	1.05 %	1.01 %	0.98 %	0.96 %
NPAs to Total Assets	0.11	0.15	0.10	0.06	0.06
NPAs to Loans HFI plus OREO	0.17	0.25	0.17	0.11	0.10
ACL to Non-Performing Loans	619.58	426.44	584.18	1,091.33	944.36
Net Charge-Offs to Average Loans HFI	0.17	0.07	0.24	0.21	0.12
Capital Ratios:					
Tier 1 Capital	15.11 %	14.56 %	14.23 %	14.27 %	14.59 %
Total Capital	16.30	15.68	15.29	15.30	15.58
Common Equity Tier 1	13.26	12.73	12.40	12.38	12.62
Leverage	9.98	9.54	9.09	8.91	8.80
Tangible Common Equity[(2)]	8.08	7.43	7.20	6.65	6.50

[(1)]*Fully Tax Equivalent*

[(2)]*Non-GAAP financial measure. See non-GAAP reconciliation on page 33.*

FINANCIAL OVERVIEW

Results of Operations

Performance Summary. Net income attributable to common shareowners totaled $12.7 million, or $0.74 per diluted share, for the third quarter of 2023 compared to $14.2 million, or $0.83 per diluted share, for the second quarter of 2023, and $9.6 million, or $0.57 per diluted share, for the third quarter of 2022. For the first nine months of 2023, net income attributable to common shareowners totaled $40.5 million, or $2.38 per diluted share, compared to net income of $23.8 million, or $1.40 per diluted share, for the same period of 2022.

Net Interest Income. Tax-equivalent net interest income for the third quarter of 2023 totaled $39.4 million, compared to $40.2 million for the second quarter of 2023, and $33.5 million for the third quarter of 2022. Compared to the second quarter of 2023, the decrease reflected higher deposit interest expense and a lower level of interest income from overnight funds, partially offset by higher loan interest due to loan growth and higher interest rates. For the first nine months of 2023, tax-equivalent net interest income totaled $120.1 million compared to $87.2 million for the same period of 2022. The increases over both prior year periods were driven by strong loan growth and higher interest rates across a majority of our earning assets.

Provision and Allowance for Credit Losses. We recorded a provision for credit losses of $2.4 million for the third quarter of 2023 compared to $2.2 million for the second quarter of 2023 and $2.2 million for the third quarter of 2022. The increase in the provision compared to the second quarter of 2023 was primarily attributable to loan growth and an increase in net loan charge-offs. For the first nine months of 2023, we recorded a provision for credit losses of $7.7 million compared to $3.9 million for the same period of 2022. The higher level of provision in 2023 was primarily driven by loan growth and, also reflected the favorable impact in 2022 of the release of reserves held for pandemic related losses that did not materialize to the extent projected. At September 30, 2023, the allowance represented 1.08% of loans held for investment ("HFI") compared to 1.05% at June 30, 2023, and 0.98% at December 31, 2022.

Noninterest Income. Noninterest income for the third quarter of 2023 totaled $16.7 million compared to $20.0 million for the second quarter of 2023 and $18.5 million for the third quarter of 2022. The $3.3 million decrease from the second quarter of 2023 reflected a decrease in other income of $1.6 million (we realized a $1.4 million gain on sale of mortgage servicing rights in the second quarter of 2023), mortgage banking revenues of $1.5 million, wealth management fees of $0.2 million and bank card fees of $0.1 million, partially offset by an increase in deposit fees of $0.1 million. For the first nine months of 2023, noninterest income totaled $54.5 million compared to $59.9 million for the same period of 2022 with the $5.4 million decrease primarily attributable to lower mortgage banking revenues of $3.7 million, wealth management fees of $2.4 million, deposit fees of $0.6 million, and bank card fees of $0.4 million, partially offset by a $1.7 million increase in other income.

Noninterest Expense. Noninterest expense for the third quarter of 2023 totaled $39.1 million compared to $40.3 million for the second quarter of 2023 and $37.7 million for the third quarter of 2022. Compared to the second quarter of 2023, the $1.2 million decrease was due to a $0.9 million decrease in other expense which reflected a $0.8 million non-recurring expense in the second quarter of 2023 related to a consulting engagement. For the first nine months of 2023, noninterest expense totaled $117.1 million compared to $112.4 million for the same period of 2022 with the $4.7 million increase attributable to increases in occupancy expense of $2.2 million, compensation expense of $1.5 million, and other expense of $1.0 million. The increase in occupancy expense reflected the addition of banking offices in 2022, higher insurance premiums, and investment in network and security upgrades. The increase in compensation expense was primarily driven by higher salary expense due to the addition of staffing in new banking offices added in 2022. The increase in other expense was driven by higher pension plan expense (non-service related component), the aforementioned non-recurring consulting expense, and increases in FDIC insurance fees, partially offset by lower OREO expense of $1.8 million related to a gain from the sale of a banking office.

Financial Condition

Earning Assets. Average earning assets totaled $3.877 billion for the third quarter of 2023, a decrease of $97.8 million, or 2.5%, from the second quarter of 2023, and a decrease of $155.8 million, or 3.9%, from the fourth quarter of 2022. The decrease from both prior periods was attributable to lower deposit balances. The mix of earning assets continues to improve as overnight funds are being utilized to fund loan growth.

Loans. Average loans "HFI" increased $15.0 million, or 0.6%, over the second quarter of 2023 and $233.3 million, or 9.6%, over the fourth quarter of 2022. Period end loans increased $21.7 million, or 0.81%, over the second quarter of 2023 and $157.5 million, or 6.2%, over the fourth quarter of 2022. Compared to both prior periods, the loan growth was primarily in the residential real estate category and was partially offset by lower indirect auto and construction loan balances.

Credit Quality. Credit quality metrics remained strong for the quarter. Nonperforming assets (nonaccrual loans and other real estate) totaled $4.7 million at September 30, 2023 compared to $6.6 million at June 30, 2023 and $2.7 million at December 31, 2022. At September 30, 2023, nonperforming assets as a percent of total assets equaled 0.11%, compared to 0.15% at June 30, 2023 and 0.06% at December 31, 2022. Nonaccrual loans totaled $4.7 million at September 30, 2023, a $1.9 million decrease from June 30, 2023 and a $2.4 million increase over December 31, 2022. Further, classified loans totaled $21.8 million at September 30, 2023, a $6.8 million increase over June 30, 2023 and a $2.5 million increase over December 31, 2022.

Deposits. Average total deposits were $3.597 billion for the third quarter of 2023, a decrease of $122.7 million, or 3.3%, from the second quarter of 2023 and a decrease of $206.2 million, or 5.4%, from the fourth quarter of 2022. Compared to both prior periods, the decreases were primarily attributable to lower noninterest bearing, savings, and NOW balances, primarily offset by higher money market balances. Compared to the second quarter of 2023, the decrease in NOW account balances was primarily due to the seasonal reduction in public fund balances held by our institutional and municipal clients.

Capital. At September 30, 2023, we were well-capitalized with a total risk-based capital ratio of 16.30% and a tangible common equity ratio (a non-GAAP financial measure) of 8.08% compared to 15.68% and 7.43%, respectively, at June 30, 2023 and 15.30% and 6.65%, respectively, at December 31, 2022. At September 30, 2023, all of our regulatory capital ratios exceeded the threshold to be well-capitalized under the Basel III capital standards.

RESULTS OF OPERATIONS

The following table provides a condensed summary of our results of operations - a discussion of the various components are discussed in further detail below.

	Three Months Ended			Nine Months Ended	
(Dollars in Thousands, except per share data)	**September 30, 2023**	**June 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Interest Income	$ 45,753	$ 45,205	$ 35,442	$ 134,886	$ 90,692
Taxable Equivalent Adjustments	87	87	83	274	237
Total Interest Income (FTE)	45,840	45,292	35,525	135,160	90,929
Interest Expense	6,473	5,068	2,037	15,067	3,766
Net Interest Income (FTE)	39,367	40,224	33,488	120,093	87,163
Provision for Credit Losses	2,393	2,197	2,154	7,689	3,878
Taxable Equivalent Adjustments	87	87	83	274	237
Net Interest Income After Provision for Credit Losses	36,887	37,940	31,251	112,130	83,048
Noninterest Income	16,728	19,967	18,509	54,452	59,885
Noninterest Expense	39,105	40,285	37,699	117,066	112,372
Income Before Income Taxes	14,510	17,622	12,061	49,516	30,561
Income Tax Expense	3,004	3,417	2,493	10,130	5,898
Pre-Tax (Income) Loss Attributable to Noncontrolling Interest	1,149	(31)	37	1,153	(860)
Net Income Attributable to Common Shareowners	$ 12,655	$ 14,174	$ 9,605	$ 40,539	$ 23,803
Basic Net Income Per Share	$ 0.75	$ 0.83	$ 0.57	$ 2.38	$ 1.40
Diluted Net Income Per Share	$ 0.74	$ 0.83	$ 0.57	$ 2.38	$ 1.40

Net Interest Income

Net interest income represents our single largest source of earnings and is equal to interest income and fees generated by earning assets less interest expense paid on interest bearing liabilities. This information is provided on a "taxable equivalent" basis to reflect the tax-exempt status of income earned on certain loans and state and local government debt obligations. We provide an analysis of our net interest income including average yields and rates in Table I on page 45.

Tax-equivalent net interest income for the third quarter of 2023 totaled $39.4 million, compared to $40.2 million for the second quarter of 2023, and $33.5 million for the third quarter of 2022. Compared to the second quarter of 2023, the decrease reflected higher deposit interest expense and a lower level of interest income from overnight funds, partially offset by higher loan interest due to loan growth and higher interest rates. For the first nine months of 2023, tax-equivalent net interest income totaled $120.1 million compared to $87.2 million for the same period of 2022. The increases over both prior year periods were driven by strong loan growth and higher interest rates across a majority of our earning assets.

Our net interest margin for the third quarter of 2023 was 4.03%, a decrease of three basis points from the second quarter of 2023 and an increase of 71 basis points over the third quarter of 2022. For the month of September 2023, our net interest margin was 4.10%. For the first nine months of 2023, our net interest margin was 4.04%, an increase of 111 basis points over the same period of 2022. The increase compared to all prior periods reflected a combination of higher interest rates and loan growth, partially offset by a higher cost of deposits. For the third quarter of 2023, our cost of funds was 66 basis points, an increase of 15 basis points over the second quarter of 2023 and an increase of 46 basis points over the third quarter of 2022. Our total cost of deposits (including noninterest bearing accounts) was 58 basis points, 43 basis points, and 11 basis points, respectively, for the same periods.

Provision for Credit Losses

We recorded a provision for credit losses of $2.4 million for the third quarter of 2023 compared to $2.2 million for the second quarter of 2023 and $2.2 million for the third quarter of 2022. The increase in the provision compared to the second quarter of 2023 was primarily attributable to loan growth and an increase in net loan charge-offs. For the first nine months of 2023, we recorded a provision for credit losses of $7.7 million compared to $3.9 million for the same period of 2022. The higher level of provision in 2023 was primarily driven by loan growth and also reflected the favorable impact in 2022 of the release of reserves held for pandemic-related losses that did not materialize to the extent projected. We discuss the allowance for credit losses further below. For more information on charge-offs and recoveries, see Note 3 – Loans Held for Investment and Allowance for Credit Losses.

Noninterest Income

Noninterest income for the third quarter of 2023 totaled $16.7 million compared to $20.0 million for the second quarter of 2023 and $18.5 million for the third quarter of 2022. The $3.3 million decrease from the second quarter of 2023 reflected a decrease in other income of $1.6 million, mortgage banking revenues of $1.5 million, wealth management fees of $0.2 million and bank card fees of $0.1 million, partially offset by an increase in deposit fees of $0.1 million. The decrease in other income was attributable to a $1.4 million gain from the sale of mortgage servicing rights realized in the second quarter of 2023. The decrease in mortgage banking revenues was attributable to market driven lower gain on sale margins and a lower volume of mandatory delivery loan sales which provide a higher gain on sale percentage.

Compared to the third quarter of 2022, the $1.8 million decrease in noninterest income reflected decreases in mortgage banking revenues of $1.0 million, deposit fees of $0.5 million, bank card fees of $0.2 million, and other income of $0.1 million. For the first nine months of 2023, noninterest income totaled $54.5 million compared to $59.9 million for the same period of 2022 with the $5.4 million decrease primarily attributable to lower mortgage banking revenues of $3.7 million, wealth management fees of $2.4 million, deposit fees of $0.6 million, and bank card fees of $0.4 million, partially offset by a $1.7 million increase in other income. Compared to both prior year periods, the decrease in mortgage banking revenues was driven by lower production volume in 2023 reflective of the rapid increase in interest rates, lower market driven gain on sale margins, and a lower level of mandatory delivery loan sales. The decrease in deposit fees from both prior year periods was primarily attributable to a higher earnings credit rate for commercial deposit accounts and lower service charge fees. For the nine-month period, the decrease in wealth management fees was attributable to lower insurance commissions which reflected the sale of large policies in 2022. Further, the increase in other income was primarily due to a $1.4 million gain from the sale of mortgage servicing rights and a $0.5 million increase in miscellaneous income.

Noninterest income represented 29.87% of operating revenues (net interest income plus noninterest income) in the third quarter of 2023 compared to 33.22% in the second quarter of 2023 and 35.65% in the third quarter of 2022. For the first nine months of 2023, noninterest income represented 31.25% of operating revenues compared to 40.79% for the same period of 2022.

The table below reflects the major components of noninterest income.

(Dollars in Thousands)	Three Months Ended September 30, 2023	June 30, 2023	September 30, 2022	Nine Months Ended September 30, 2023	September 30, 2022
Deposit Fees	$ 5,456	$ 5,326	$ 5,947	$ 16,021	$ 16,585
Bank Card Fees	3,684	3,795	3,860	11,205	11,657
Wealth Management Fees	3,984	4,149	3,937	12,061	14,410
Mortgage Banking Revenues	1,839	3,363	2,895	8,072	11,807
Other	1,765	3,334	1,870	7,093	5,426
Total Noninterest Income	$ 16,728	$ 19,967	$ 18,509	$ 54,452	$ 59,885

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

Deposit Fees. Deposit fees for the third quarter of 2023 totaled $5.5 million, an increase of $0.2 million, or 2.5%, over the second quarter of 2023, and a decrease of $0.5 million, or 8.3%, from the third quarter of 2022. For the first nine months of 2023, deposit fees totaled $16.0 million, a decrease of $0.6 million, or 3.4%, from the same period of 2022. Compared to the second quarter of 2023, the increase reflected higher overdraft fees. The decrease from both prior year periods was primarily attributable to a higher earnings credit rate for commercial deposit accounts and lower service charge fees.

Bank Card Fees. Bank card fees for the third quarter of 2023 totaled $3.7 million, a decrease of $0.1 million, or 2.9%, from the second quarter of 2023, and a decrease of $0.2 million, or 4.6%, from the third quarter of 2022. For the first nine months of 2023, bank card fees totaled $11.2 million, a decrease of $0.5 million, or 3.9%, from the same period of 2022. Compared to all prior periods, the decline reflected lower debit card usage related to lower consumer spending.

Wealth Management Fees. Wealth management fees include trust fees through Capital City Trust (i.e., managed accounts and trusts/estates), retail brokerage fees through Capital City Investments (i.e., investment, insurance products, and retirement accounts), and financial advisory fees through Capital City Strategic Wealth (i.e., including the sale of life insurance, risk management and asset protection services). Wealth management fees for the third quarter of 2023 totaled $4.0 million, a decrease of $0.2 million, or 4.0% from the second quarter of 2023, and comparable to the third quarter of 2022. For the first nine months of 2023, wealth management fees totaled $12.1 million, a decrease of $2.3 million, or 16.3%, from the same period of 2022, attributable to lower insurance commissions which reflected the sale of large policies in 2022. At September 30, 2023, total assets under management were approximately $2.420 billion compared to $2.462 billion at June 30, 2023 and $2.273 billion at December 31, 2022.

Mortgage Banking Revenues. Mortgage banking revenues totaled $1.8 million for the third quarter of 2023, a decrease of $1.5 million, or 45.3%, from the second quarter of 2023 and a decrease of $1.1 million, or 36.5%, from the third quarter of 2022. For the first nine months of 2023, revenues totaled $8.1 million compared to $11.8 million for the same period of 2022. Compared to the second quarter of 2023, the decrease was attributable to market driven lower gain on sale margins and a lower volume of mandatory delivery loan sales which provide a higher gain on sale percentage. Compared to both prior year periods, the decrease was driven by lower production volume in 2023 reflective of the rapid increase in interest rates, lower market driven gain on sale margins, and a lower level of mandatory delivery loan sales. 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.

Other. Other income totaled $1.8 million for the third quarter of 2023, a decrease of $1.6 million, or 47.1%, from the second quarter of 2023 and a decrease of $0.1 million, or 5.6%, from the third quarter of 2022. For the first nine months of 2023, other income totaled $7.1 million compared to $5.4 million for the same period of 2022. Compared to the second quarter of 2023, the decrease was attributable to a $1.4 million gain from the sale of mortgage servicing rights realized in the second quarter of 2023. For the nine-month period, the increase was primarily due to a $1.4 million gain from the sale of mortgage servicing rights and a $0.5 million increase in miscellaneous income.

Noninterest Expense

Noninterest expense for the third quarter of 2023 totaled $39.1 million compared to $40.3 million for the second quarter of 2023 and $37.7 million for the third quarter of 2022. Compared to the second quarter of 2023, the $1.2 million decrease was primarily due to a $0.8 million non-recurring expense in the second quarter of 2023 related to a consulting engagement to assist in negotiating a multi-year contract for the outsourcing of our core processing system.

Compared to the third quarter of 2022, the $1.4 million increase in noninterest expense was primarily due to increases in other expense of $0.5 million and occupancy expense of $0.8 million. The increase in other expense was largely driven by a $0.7 million increase in pension plan expense (non-service-related component) and the increase in occupancy reflected the addition of four new banking offices in mid-to-late 2022 and higher property/equipment insurance premiums. For the first nine months of 2023, noninterest expense totaled $117.1 million compared to $112.4 million for the same period of 2022 with the $4.7 million increase attributable to increases in occupancy expense of $2.2 million, compensation expense of $1.5 million, and other expense of $1.0 million. The increase in occupancy expense reflected the addition of banking offices in 2022, higher insurance premiums, and investment in network and security upgrades. The unfavorable variance in compensation expense reflected a $3.0 million increase in salary expense (primarily, the addition of staffing in our new markets and annual merit) that was partially offset by a $1.5 million decrease in associate benefit expense. The variance in associate benefit expense was primarily due to a $2.2 million decrease in pension plan expense (service cost) that was partially offset by increases in associate insurance expense of $0.5 million and stock-based compensation of $0.1 million. The increase in other expense was primarily due to a $1.6 million increase in pension plan expense (non-service related component), the aforementioned consulting engagement expense of $0.8 million, and a $0.6 million increase in FDIC insurance expense, partially offset by lower OREO expense of $1.8 million related to a gain from the sale of a banking office.

The table below reflects the major components of noninterest expense.

	Three Months Ended			Nine Months Ended	
(Dollars in Thousands)	**September 30, 2023**	**June 30, 2023**	**September 30, 2022**	**September 30, 2023**	**September 30, 2022**
Salaries	$ 19,459	$ 20,044	$ 18,604	$ 59,020	$ 56,010
Associate Benefits	3,544	3,394	4,363	10,945	12,477
Total Compensation	23,003	23,438	22,967	69,965	68,487
Premises	3,217	3,170	2,784	9,632	8,278
Equipment	3,763	3,650	3,369	10,930	10,043
Total Occupancy	6,980	6,820	6,153	20,562	18,321
Legal Fees	366	419	357	1,147	1,022
Professional Fees	1,254	2,039	1,258	4,617	3,996
Processing Services	1,874	1,872	1,777	5,488	5,166
Advertising	756	959	726	2,590	2,479
Telephone	658	679	730	2,044	2,162
Insurance – Other	703	872	656	2,406	1,760
Other Real Estate Owned, net	9	(28)	(92)	(1,846)	(96)
Pension - Other	32	6	(761)	45	(2,283)
Pension Settlement (Gain) Charge	-	(291)	102	(291)	480
Miscellaneous	3,470	3,500	3,826	10,339	10,878
Total Other	9,122	10,027	8,579	26,539	25,564
Total Noninterest Expense	$ 39,105	$ 40,285	$ 37,699	$ 117,066	$ 112,372

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

Compensation. Compensation expense totaled $23.0 million for the third quarter of 2023 compared to $23.4 million for the second quarter of 2023 and $23.0 million for the third quarter of 2022. The $0.4 million decrease from the second quarter of 2023 reflected a $0.6 million decrease in salary expense partially offset by a $0.2 million increase in associate benefit expense. The decrease in salary expense was primarily attributable to higher realized loan cost (which are accounted for as a credit offset to salary expense) and lower payroll taxes. The increase in associate benefit expense was due to higher stock based compensation expense. For the first nine months of 2023, compensation expense totaled $70.0 million compared to $68.5 million for the same period of 2022 with the $1.5 million increase attributable to an increase in salary expense of $3.0 million (primarily the addition of staffing in our new markets and annual merit) that was partially offset by a $1.5 million decrease in associate benefit expense, primarily pension plan expense (service cost) due to an increased level of retirements in 2022. Compared to the third quarter of 2022, the same factors above drove the variances in salary and associate benefit expense.

Occupancy. Occupancy expense totaled $7.0 million for the third quarter of 2023 compared to $6.8 million for the second quarter of 2023 and $6.2 million for the third quarter of 2022. For the first nine months of 2023, occupancy expense totaled $20.6 million compared to $18.3 million for the same period of 2022. The addition of four new banking offices since mid to late 2022, higher property and equipment insurance premiums, and investment in network and security upgrades drove the increase for both prior year comparisons.

Other. Other expense totaled $9.1 million for the third quarter of 2023 compared to $10.0 million for the second quarter of 2023 and $8.6 million for the third quarter of 2022. For the first nine months of 2023, other expense totaled $26.5 million compared to $25.6 million for the same period of 2022. Compared to the second quarter of 2023, the $0.9 million decrease was primarily due to a $0.8 million non-recurring expense in the second quarter of 2023 related to a consulting engagement to assist in negotiating a multi-year contract for the outsourcing of our core processing system. For the nine month period, the $1.0 million increase was primarily attributable to the aforementioned $0.8 million non-recurring consulting expense and increases in pension plan expense (non-service-related component) of $1.6 million, and FDIC insurance fees of $0.6 million, partially offset by lower OREO expense of $1.7 million related to a $1.8 million gain from the sale of a banking office in the first quarter of 2023. Compared to the third quarter of 2022, the same factors above drove the variance, excluding the $0.8 million non-recurring consulting expense.

Our operating efficiency ratio (expressed as noninterest expense as a percentage of the sum of taxable-equivalent net interest income plus noninterest income) was 69.88% for the third quarter of 2023 compared to 66.93% for the second quarter of 2023 and 72.51% for the third quarter of 2022. The increase for the third quarter reflected a lower level of profitability from our mortgage banking operation. For the first nine months of 2023, this ratio was 67.07% compared to 76.42% for the same period of 2022.

Income Taxes

We realized income tax expense of $3.0 million (effective rate of 20.7%) for the third quarter of 2023 compared to $3.4 million (effective rate of 19.4%) for the second quarter of 2023 and $2.5 million (effective rate of 20.7%) for the third quarter of 2022. For the first nine months of 2023, we realized income tax expense of $10.1 million (effective rate of 20.5%) compared to $5.9 million (effective rate of 19.3%) for the same period of 2022. The increase in our effective tax rate for the third quarter of 2023 was primarily due to a lower level of pre-tax income from Capital City Home Loans ("CCHL") in relation to our consolidated income as the non-controlling interest adjustment for CCHL is accounted for as a permanent tax adjustment. Further, the second quarter of 2023 effective rate reflected a higher level of tax benefit accrued from an investment in a solar tax credit equity fund. Absent discrete items or unexpected variance in the timing of the tax benefit accrued from our solar tax credit equity fund investment, we expect our annual effective tax rate to approximate 20-21% for 2023.

FINANCIAL CONDITION

Average earning assets totaled $3.877 billion for the third quarter of 2023, a decrease of $97.8 million, or 2.5%, from the second quarter of 2023, and a decrease of $155.8 million, or 3.9%, from the fourth quarter of 2022. The decrease from both prior periods was attributable to lower deposit balances (see below – *Deposits*). The mix of earning assets continues to improve as overnight funds are being utilized to fund loan growth.

Investment Securities

Average investments decreased $38.9 million, or 3.7%, from the second quarter of 2023 and decreased $76.1 million, or 7.0%, from the fourth quarter of 2022. Our investment portfolio represented 25.9% of our average earning assets for the third quarter of 2023 compared to 26.3% for the second quarter of 2023 and 26.8% for the fourth quarter of 2022. For the remainder of 2023, we will continue to monitor our overall liquidity position and allow cash flow from the investment portfolio to run-off to overnight funds.

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"). At September 30, 2023, $325.8 million, or 33.6%, of our investment portfolio was classified as AFS, and $632.1 million, or 65.2%, classified as HTM. The average maturity of our total portfolio at September 30, 2023 was 2.90 years compared to 3.07 years at June 30, 2023 and 3.57 years at December 31, 2022. The duration of our investment portfolio at September 30, 2023 was 2.61 years. Additional information on unrealized gains/losses in the AFS and HTM portfolios is provided in Note 2 – Investment Securities.

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

At September 30, 2023, there were 894 positions (combined AFS and HTM) with unrealized losses totaling $90.8 million. 86 of these positions are U.S. Treasuries and carry the full faith and credit of the U.S. Government. 705 were U.S. government agency securities issued by U.S. government sponsored entities. The remaining 103 positions (municipal securities and corporate bonds) have a credit component. At September 30, 2023, corporate debt securities had an allowance for credit losses of $31,000 and municipal securities had an allowance of $12,000. At September 30, 2023, all CMO, MBS, SBA, U.S. Agency, and U.S. Treasury bonds held were AAA rated.

Loans HFI

Average loans HFI increased $15.0 million, or 0.6%, over the second quarter of 2023 and $233.3 million, or 9.6%, over the fourth quarter of 2022. Period end loans increased $21.7 million, or 0.8%, over the second quarter of 2023 and $157.5 million, or 6.2%, over the fourth quarter of 2022. Compared to both prior periods, the loan growth was primarily in the residential real estate category and was partially offset by lower indirect auto and construction loan balances.

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

Credit quality metrics remained strong for the quarter. Nonperforming assets (nonaccrual loans and other real estate) totaled $4.7 million at September 30, 2023 compared to $6.6 million at June 30, 2023 and $2.7 million at December 31, 2022. At September 30, 2023, nonperforming assets as a percent of total assets equaled 0.11%, compared to 0.15% at June 30, 2023 and 0.06% at December 31, 2022. Nonaccrual loans totaled $4.7 million at September 30, 2023, a $1.9 million decrease from June 30, 2023 and a $2.4 million increase over December 31, 2022. Further, classified loans totaled $21.8 million at September 30, 2023, a $6.8 million increase over June 30, 2023 and a $2.5 million increase over December 31, 2022. The increase in the current period was primarily attributable to the downgrade of one hotel loan that is performing as agreed on scheduled payments.

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 September 30, 2023, the allowance for credit losses for HFI loans totaled $29.1 million compared to $28.2 million at June 30, 2023 and $25.1 million at December 31, 2022. Activity within the allowance is provided in Note 3 – Loans Held for Investment and Allowance for Credit Losses in the Consolidated Financial Statements. The increase in the allowance over both prior periods was driven primarily by loan growth. Further, the increase from December 31, 2022 reflected a higher loss rate for the residential real estate portfolio due to slower prepayment speeds. At September 30, 2023, the allowance represented 1.08% of HFI loans compared to 1.05% at June 30, 2023, and 0.98% at December 31, 2022.

At September 30, 2023, the allowance for credit losses for unfunded commitments totaled $3.5 million compared to $3.1 million at June 30, 2023 and $3.0 million at December 31, 2022. The allowance for unfunded commitments is recorded in other liabilities.

Deposits

Average total deposits were $3.597 billion for the third quarter of 2023, a decrease of $122.7 million, or 3.3%, from the second quarter of 2023 and a decrease of $206.2 million, or 5.4%, from the fourth quarter of 2022. Compared to both prior periods, the decreases were primarily attributable to lower noninterest bearing, savings, and NOW balances, partially offset by higher money market balances. Compared to the second quarter of 2023, the decrease in NOW account balances was primarily due to the seasonal reduction in public fund balances held by our institutional and municipal clients.

At September 30, 2023, total deposits were $3.540 billion, a decrease of $248.4 million, or 6.6%, from June 30, 2023 and a decrease of $398.9 million, or 10.1%, from December 31, 2022. Our public fund deposit balances declined $205 million and $245 million from June 30, 2023 and December 31, 2022, respectively, and reflected the seasonal decline in those balances which will begin to increase in the fourth quarter as municipal tax receipts are received. In addition, the decrease from June 30, 2023 reflected a short-term deposit of $103 million (in the NOW category) made late in June by a municipal client that was subsequently moved in mid-July. The remaining portion of the decrease reflected continued client spend of stimulus savings and clients seeking higher yielding investment products outside the Bank, a portion of which have moved to our wealth division. Additionally, compared to both prior periods, we realized a remix of deposit balances of $32 million and $99 million, respectively, as noninterest bearing accounts migrated into interest bearing accounts (primarily NOW and money market accounts).

Business deposit transaction accounts classified as repurchase agreements averaged $25.4 million for the third quarter of 2023, an increase of $7.5 million over the second quarter of 2023 and $16.9 million over the fourth quarter of 2022. At September 30, 2023, repurchase agreement balances were $22.9 million compared to $22.6 million at June 30, 2023 and $6.6 million at December 31, 2022.

We continue to closely monitor our cost of deposits and deposit mix as we manage through the current rising rate environment.

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 (-400, -300, -200, -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. 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	-200 bp	-300 bp	-400 bp
Policy Limit	-15.0%	-12.5%	-10.0%	-7.5%	-7.5%	-10.0%	-12.5%	-15.0%
September 30, 2023	3.2%	2.3%	1.4%	0.7%	-1.3%	-3.8%	-7.7%	-12.5%
June 30, 2023	4.1%	3.0%	1.9%	1.0%	-1.5%	-4.4%	-9.6%	-15.3%

Percentage Change (24-month shock)	+400 bp	+300 bp	+200 bp	+100 bp	-100 bp	-200 bp	-300 bp	-400 bp
Policy Limit	-17.5%	-15.0%	-12.5%	-10.0%	-10.0%	-12.5%	-15.0%	-17.5%
September 30, 2023	30.6%	25.6%	20.4%	15.9%	5.2%	-2.3%	-12.0%	-22.0%
June 30, 2023	28.4%	23.5%	18.4%	13.9%	3.4%	-4.4%	-15.1%	-25.6%

The Net Interest Income ("NII") at Risk position indicates that in the short-term (over the next 12 months), all rising rate environments will positively impact the net interest margin of the Company, while declining rate environments will have a negative impact on the net interest margin. Compared to the second quarter of 2023, these metrics became less favorable in the rising rate scenarios primarily due to loan growth, which reduced our level of overnight funds and made us slightly less asset sensitive. The converse applies in the down rate scenarios where the metrics became more favorable due to loan growth which increased asset duration and therefore protection against falling rates. The percent change over the 24-month shock is outside of policy in the rates down 400 bps scenario due to our limited ability to lower our deposit rates relative to the decline in market rate.

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	-200 bp	-300 bp	-400 bp
Policy Limit	-30.0%	-25.0%	-20.0%	-15.0%	-15.0%	-20.0%	-25.0%	-30.0%
September 30, 2023	9.2%	7.7%	5.6%	3.3%	-5.2%	-12.9%	-21.2%	-31.7%
June 30, 2023	10.7%	9.1%	6.7%	3.9%	-7.1%	-18.0%	-30.2%	-32.6%
EVE Ratio (policy minimum 5.0%)	20.9%	20.2%	19.4%	18.6%	16.4%	14.7%	13.1%	11.2%

(1) The down 400 bp rate scenario was added in the fourth quarter of 2022.

At September 30, 2023, the economic value of equity was favorable in all rising rate environments and unfavorable in the falling rate environments. Compared to the second quarter of 2023, EVE metrics were slightly less favorable in the rising rate environment and more favorable in falling rate environments. EVE is currently in compliance with policy in all rate scenarios as the EVE ratio in each rate scenario exceeds 5.0%.

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 September 30, 2023, we had the ability to generate approximately $1.587 billion (excludes overnight funds position of $95 million) in additional liquidity through various sources including various federal funds purchased lines, Federal Home Loan Bank borrowings, the Federal Reserve Discount Window, and brokered deposits. We recognize the importance of maintaining liquidity and have developed a Contingent Liquidity Plan, which addresses various liquidity stress levels and our response and action based on the level of severity. We periodically test our credit facilities for access to the funds, but also understand that as the severity of the liquidity level increases that certain credit facilities may no longer be available. We conduct a liquidity stress test on a quarterly basis based on events that could potentially occur at the Bank and report results to ALCO, our Market Risk Oversight Committee, Risk Oversight Committee, and the Board of Directors. At September 30, 2023, we believe the liquidity available to us was sufficient to meet our on-going needs and execute our business strategy.

We also view our investment portfolio as a liquidity source and have the option to pledge securities in our portfolio as collateral for borrowings or deposits, and/or to sell selected securities. Additional information on our investment portfolio is provided within Note 2 – *Investment Securities*.

The Bank maintained an average net overnight funds (deposits with banks plus FED funds sold less FED funds purchased) sold position of $136.6 million in the third quarter of 2023 compared to $218.9 million in the second quarter of 2023 and $469.4 million in the fourth quarter of 2022. The declining overnight funds position reflected growth in average loans and lower average deposit balances.

We expect our capital expenditures will be approximately $8.0 million over the next 12 months, which will primarily consist of construction of new offices, 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 $49.7 million for the third quarter of 2023 compared to $35.7 million for the second quarter of 2023 and $50.8 million for the fourth quarter of 2022. The variance compared to both prior periods was primarily attributable to an increase in short-term repurchase agreements and the fluctuation in CCHL's warehouse line. Additional detail on these warehouse 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 CME Term SOFR (secured overnight financing rate) 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 interest rate based on three-month CME Term SOFR 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.

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 (three-month CME Term SOFR 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 34. At September 30, 2023, our regulatory capital ratios exceeded the threshold to be designated as "well-capitalized" under the Basel III capital standards.

Shareowners' equity was $419.7 million at September 30, 2023 compared to $412.4 million at June 30, 2023 and $387.3 million at December 31, 2022. For the first nine months of 2023, shareowners' equity was positively impacted by net income attributable to common shareowners of $40.5 million, a $2.4 million decrease in the unrealized loss on investment securities, the issuance of stock of $2.2 million, stock compensation accretion of $1.0 million, and a $0.4 million increase in the fair value of the interest rate swap related to subordinated debt. Shareowners' equity was reduced by common stock dividends of $9.5 million ($0.56 per share), the repurchase of stock of $3.1 million (102,147 shares), and net adjustments totaling $1.5 million related to transactions under our stock compensation plans.

At September 30, 2023, our total risk-based capital ratio was 16.30% compared to 15.68% at June 30, 2023 and 15.30% at December 31, 2022. Our common equity tier 1 capital ratio was 13.26%, 12.73%, and 12.38%, respectively, on these dates. Our leverage ratio was 9.98%, 9.54%, and 8.91%, respectively, on these dates. At September 30, 2023, all our regulatory capital ratios exceeded the threshold to be designated as "well-capitalized" under the Basel III capital standards. Further, our tangible common equity ratio was 8.08% at September 30, 2023 compared to 7.43% and 6.65% at June 30, 2023 and December 31, 2022, respectively. If our unrealized held-to-maturity securities losses of $33.1 million (after-tax) were recognized in accumulated other comprehensive loss, our adjusted tangible capital ratio would be 7.26%.

Our tangible capital ratio is also impacted by the recording of our unfunded pension liability through other comprehensive income in accordance with ASC Topic 715. At September 30, 2023, the net pension liability reflected in other comprehensive loss was $4.7 million compared to $4.7 million at June 30, 2023 and $4.5 million at December 31, 2022. 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 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. These assumptions and sensitivities are discussed in our 2022 Form 10-K/A "Critical Accounting Policies and Estimates".

OFF-BALANCE SHEET ARRANGEMENTS

We are a party to financial instruments with off-balance sheet risks in the normal course of business to meet the financing needs of our clients.

At September 30, 2023, we had $774.7 million in commitments to extend credit and $6.8 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 $3.5 million at September 30, 2023.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in our 2022 Form 10-K/A. 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) goodwill, (iii) pension assumptions, 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 2022 Form 10-K/A.

TABLE I

AVERAGE BALANCES & INTEREST RATES (UNAUDITED)

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2023			2022			2023			2022		
(Dollars in Thousands)	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Assets:												
Loans Held for Sale	$ 62,768	$ 971	6.14%	$ 55,164	$ 486	3.49%	$ 57,438	$ 2,416	5.62%	$ 50,387	$ 1,594	4.23%
Loans Held for Investment[(1)(2)]	2,672,653	38,455	5.71	2,264,075	27,432	4.81	2,637,911	109,688	5.56	2,105,211	73,168	4.65
Taxable Securities	1,002,547	4,549	1.80	1,117,789	4,359	1.55	1,034,825	14,265	1.84	1,105,822	11,082	1.34
Tax-Exempt Securities[(2)]	2,456	17	2.66	2,939	17	2.30	2,649	50	2.49	2,614	37	1.90
Federal Funds Sold and Interest Bearing Deposits	136,556	1,848	5.37	569,984	3,231	2.25	237,987	8,741	4.91	710,559	5,048	0.95
Total Earning Assets	3,876,980	45,840	4.69%	4,009,951	35,525	3.52%	3,970,810	135,160	4.55%	3,974,593	90,929	3.06%
Cash & Due From Banks	75,941			79,527			75,483			77,856		
Allowance For Credit Losses	(29,172)			(21,509)			(27,581)			(21,382)		
Other Assets	295,106			289,709			297,688			284,546		
TOTAL ASSETS	$ 4,218,855			$ 4,357,678			$ 4,316,400			$ 4,315,613		
Liabilities:												
Noninterest Bearing Deposits	1,474,574			1,726,918			1,538,268			1,700,800		
NOW Accounts	$ 1,125,171	$ 3,489	1.23%	$ 1,016,475	$ 868	0.34%	$ 1,184,453	$ 8,679	0.98%	$ 1,042,958	$ 1,074	0.14%
Money Market Accounts	322,623	1,294	1.59	288,758	71	0.10	293,089	2,249	1.03	286,804	140	0.07
Savings Accounts	579,245	200	0.14	643,640	80	0.05	603,643	396	0.09	623,986	229	0.05
Other Time Deposits	95,203	231	0.96	94,073	33	0.14	90,970	386	0.57	95,408	99	0.14
Total Interest Bearing Deposits	2,122,242	5,214	0.97	2,042,946	1,052	0.20	2,172,155	11,710	0.72	2,049,156	1,542	0.10
Total Deposits	3,596,816	5,214	0.58	3,769,864	1,052	0.11	3,710,423	11,710	0.42	3,749,956	1,542	0.05
Repurchase Agreements	25,356	190	2.98	11,665	5	0.18	17,588	314	2.39	7,971	6	0.11
Other Short-Term Borrowings	24,306	440	7.17	35,014	531	6.01	26,586	1,228	6.17	29,020	1,065	4.90
Subordinated Notes Payable	52,887	625	4.62	52,887	443	3.28	52,887	1,800	4.49	52,887	1,130	2.82
Other Long-Term Borrowings	387	4	4.73	580	6	4.74	433	15	4.78	710	23	4.58
Total Interest Bearing Liabilities	2,225,178	6,473	1.15%	2,143,092	2,037	0.38%	2,269,649	15,067	0.89%	2,139,744	3,766	0.24%
Other Liabilities	83,099			98,501			82,877			86,055		
TOTAL LIABILITIES	3,782,851			3,968,511			3,890,794			3,926,599		
Temporary Equity	8,424			9,862			8,719			10,156		
TOTAL SHAREOWNERS' EQUITY	427,580			379,305			416,887			378,858		
TOTAL LIABILITIES, TEMPORARY AND SHAREOWNERS' EQUITY	$ 4,218,855			$ 4,357,678			$ 4,316,400			$ 4,315,613		
Interest Rate Spread			3.54%			3.14%			3.66%			2.82%
Net Interest Income		$ 39,367			$ 33,488			$ 120,093			$ 87,163	
Net Interest Margin[(3)]			4.03%			3.32%			4.04%			2.93%

[(1)]Average Balances include net loan fees, discounts and premiums and nonaccrual loans. Interest income includes loans fees of $0.1 million and less than $0.1 million for the three month periods ended September 30, 2023 and 2022, respectively, and $0.1 million and $0.6 million for the nine month periods ended September 30, 2023 and 2022, respectively.

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

[(3)]Taxable equivalent net interest income divided by average earning assets.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Market Risk and Interest Rate Sensitivity” in Management’s Discussion and Analysis of Financial Condition and Results of Operations, above, which is incorporated herein by reference. Management has determined that no additional disclosures are necessary to assess changes in information about market risk that have occurred since December 31, 2022.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

At September 30, 2023, 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 ineffective as of September 30, 2023 due to the identification of the material weakness discussed below.

Previously Reported Material Weakness in Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. As reported in our 2022 Form 10-K/A, we did not maintain effective internal control as of December 31, 2022 as a result of a material weakness in our internal control over financial reporting for the review of certain inter-company mortgage sales and servicing. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company’s annual interim financial statements will not be prevented or detected on a timely basis. Refer to our 2022 Form 10-K/A for a description of our material weakness.

Ongoing Remediation Efforts to Address Material Weakness

Our material weakness was not remediated as of September 30, 2023. Since identifying the material weakness described above, management, with oversight from the Audit Committee and input from the Board of Directors, has devoted substantial resources to the ongoing implementation of remediation efforts. These remediation efforts, summarized below, which either have already been implemented or are continuing to be implemented, are intended to address both the identified material weakness and to enhance the Company’s overall internal control over financial reporting and disclosure controls and procedures.

Certain internal control and procedural enhancements and remedial actions are in the process of completion, including:

- Enhance the precision level for the review of existing accounts subject to elimination and confirmation of proper elimination in consolidation;
- Enhance the procedures for identifying new inter-company accounts and activities subject to elimination in consolidation;
- Increase the granularity of general ledger mapping for inter-company accounts subject to elimination in consolidation; and
- Enhance financial close checklist and pre-close meeting agenda to ensure proper and timely identification of inter-company activities subject to elimination.

Management believes the foregoing effects will effectively remediate the material weakness described above. As the Company continues to evaluate and improve its internal control over financial reporting and disclosure controls and procedures, management may determine to take additional measures to improve controls and determine to modify the remediation plan described above. The Company is working to remediate the material weakness as efficiently and effectively as possible. Procedures to implement the remediation plan have required significant amounts of time, allocation of internal resources and external costs, and remaining remediation efforts will continue to place significant demands on financial and operational resources until this plan is completed.

The material weakness described above cannot be considered remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are designed and operating effectively. Accordingly, management will continue to monitor and evaluate the effectiveness of our internal control over financial reporting in the activities affected by the material weakness described above.

Changes in Internal Control

Except as identified above with respect to remediation of the material weakness, during the quarter ended on September 30, 2023, 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 2022 Form 10-K/A, as updated in our subsequent quarterly reports. The risks described in our 2022 Form 10-K/A and our subsequent quarterly reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased under our share repurchase program (1)	Maximum Number of shares remaining for purchase under our share repurchase program
July 1, 2023 to July 31, 2023	-	-	-	507,312
August 1, 2023 to August 31, 2023	10,697	30.18	10,697	496,615
September 1, 2023 to September 30, 2023	25,714	30.17	25,714	470,901
Total	36,411	$30.17	36,411	470,901

(1) This amount represents the number of shares that were repurchased during the third quarter of 2023 through the Capital City Bank Group, Inc. Share Repurchase Program (the “Program”), which was approved on January 31, 2019 for a five-year period, under which we were authorized to repurchase up to 750,000 shares of our common stock. The Program is flexible and shares are acquired from the public markets and other sources using free cash flow. No shares are repurchased outside of the Program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not Applicable.

Item 5. Other Information

(c) Rule 10b5-1 Trading Plans

During the three months ended September 30, 2023, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act or any “non-Rule 10b5-1 trading arrangement” as defined in Item 408(c) of Regulation S-K.

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 Jeptha E. Larkin, 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 Jeptha E. Larkin, 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/ Jeptha E. Larkin
Jeptha E. Larkin
Executive Vice President and Chief Financial Officer
(Mr. Larkin is the Principal Financial Officer and has
been duly authorized to sign on behalf of the Registrant)

Date: December 22, 2023

Exhibit 31.1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Date: December 22, 2023

Exhibit 31.2

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

I, Jeptha E. Larkin, 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/ Jeptha E. Larkin
Jeptha E. Larkin
Executive Vice President and
Chief Financial Officer

Date: December 22, 2023

Exhibit 32.1

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, William G. Smith, Jr., Chairman, President, and Chief Executive Officer of Capital City Bank Group, Inc., hereby certify that to my knowledge (1) this Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2023, 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: December 22, 2023

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, Jeptha E. Larkin, Executive Vice President and Chief Financial Officer of Capital City Bank Group, Inc., hereby certify that to my knowledge (1) this Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2023, 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/ Jeptha E. Larkin

Jeptha E. Larkin
Executive Vice President and
Chief Financial Officer

Date: December 22, 2023

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.